Germans Nervous About Hedge Fund Crisis

by Rainer Apel

A year ago, Franz Müntefering, then national chairman of the German Social Democratic party (SPD), triggered a heated public debate in Germany over the issue of "locusts," as he called hedge and other speculative funds that are "eating up industry." What Müntefering said had been inspired by several weeks of political campaigning by the LaRouche Youth Movement in Germany, for a New Bretton Woods-style monetary system. Getting hedge funds under control was an integral part of that campaign.

Subsequently, at the G-8 Summit in Gleneagles, Britain, in July 2005, Gerhard Schröder, then Chancellor of Germany, proposed "transparency of the hedge funds." Even that very cautious first step towards control of the funds was met with a panicked rejection by the U.S. President and the British Prime Minister. Schröder made their rejection public during the early election campaign in the weeks following the G-8 Summit, and the debate about fund controls continued.

In September, shortly before the election which cost Schröder the chancellorship, his government passed legislation for transparency regulations for all hedge funds that are active in Germany. This legislation is a rather cautious step, making it mandatory for hedge funds to report and document to the financial regulatory board (Bafin), all engagements in firms that exceed 3% of the respective shares. The European standard is 5%. But even the cautious German legislation is making the hedge funds nervous; there has been a continuous screaming and yelling in the German economic press about what it terms the "discrimination" of this legislation. Although the broad public debate on "locusts" has died down, because the new German Chancellor, Angela Merkel, is not interested in the matter, the screaming and yelling has not ceased.

Some political factions want to go beyond mere "transparency" regulations; they call for a ban on hedge funds generally, because of the funds' role in ongoing financial market crises on a global scale. An example of this took place on May 19, during a hearing in the German parliament on a motion by the leftist party amalgamation Linkspartei, that calls for a ban on hedge funds altogether. Linkspartei co-chairman Oskar Lafontaine, a former Finance Minister and former party chairman of the SPD, spoke in that hearing, quoting Jochen Sanio, the chief financial market regulator of Germany. Sanio had warned [several weeks ago—ed.] that "hedge funds are the black holes of the world financial system," and that "it is not a question of if, but when, a hedge fund causes a disaster."

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German institutions are becoming worried enough about portending economic disaster because of unbridled hedge-fund speculation, to break their taboo on quoting LaRouche on the subject. Shown here is a depiction of a locust, used to represent the destructive activity of the hedge funds by the LaRouche Youth Movement, during a campaign event last September. The head is that of then-Chancellor candidate, now Chancellor Angela Merkel. Although she is not the cause of the problem, she has done nothing to solve it.

Lafontaine said that "in 1998, the collapse of LTCM hedge fund threatened the world financial system," adding that "it does not suffice . . . to say that hedge funds can only get regulated in an international framework, if at all. No, we ourselves are urged to take responsibility, and make a contribution, so that there is not an international disaster. . . . What is addressed here, is the principal question of whether we shall sit by idly and watch the financial markets living with such risks. If some day another crisis occurs comparable to the LTCM crisis, and the international financial markets collapse, it is not sufficient to stand there with one's mouth open, but to commit oneself to one's responsibility."

Typical of the political left, however, Lafontaine did not say what he would actually do, as opposed to idly observing what is going on. It would have been a small step from his remarks, to address the LaRouche call for a New Bretton Woods (NBW) banking system, but apparently that was too big a step for Lafontaine—as for many others. To date, not one member of German parliament has stepped forward to initiate a public debate on the global crisis, and on the LaRouche NBW proposal, as members of the Italian parliament have done. On this issue, there is still a lot of cowardice among German elites.

German Media Dares to Cite LaRouche

Things may change soon, though: The crisis on the overblown bubble created by hedge fund market speculation, is no longer manageable. Emergency action is required. More and more hedge funds are biting the dust, and when, on May 16, Edgar Meister, a senior official of the German Central Bank, said that "things cannot be kept together for much longer," it was a clear indication that the situation was getting very serious. On May 18, the Munich-based news daily *Sueddeutsche Zeitung* under the headline, "Put the hedge funds on a leash," had its theme-of-the-day column call for regulation of hedge funds, "before they trigger another LTCM-size disaster, which would threaten the entire financial system of the globe." Banks are saying they have reduced risks, and have the thing under control, but that does not sound very convincing, the article stated, as the interdependency of the financial markets and its players is so dense today, that another LTCM crisis would cause a much bigger disaster than the one in 1998.

Because the "L-word," LaRouche and his constructive proposal for a New Bretton Woods, was avoided, this otherwise interesting *Sueddeutsche* article was toothless, however.

Discussion is already much more advanced in certain circles in Germany. Two news dailies have already broken the taboo of not saying the "L-word." On May 5, the *Frankfurter Allgemeine Zeitung* carried a paid advertisement for the book *The Greenspan Dossier* by Roland Leuschel and Claus Vogt. The ad quoted from the April 27 webcast by LaRouche: "The present financial system has reached its end. This nation and the world are now facing, in the weeks and months ahead, the greatest crisis in modern history; a greater crisis than World War II." Acquainted with LaRouche's assessment and proposals, Leuschel, a longtime former banker at Bruxelles Lambert, some years ago coined the term "salami crash," to describe the unsustainability of the current financial regime.

And on May 1, the German internet daily *Saar-Echo* carried a lead article, titled "Global Financial Collapse in September?" with the introduction: "World financial collapse in September? U.S. opposition politician Lyndon LaRouche explains the current situation in the world financial system, and demands governments must act." The article was based on the same week's *Neue Solidarität* lead article covering LaRouche's April 27 webcast.

Put Millions to Work

Expand Public Health, VA Hospital Systems

by Marcia Merry Baker and Edward Spannaus

Federal agencies have the immediate capacity to assimilate hundreds of thousands of people, if not millions, into useful work today, as happened in the 1930s under President Franklin Roosevelt (see box). This report examines the capacity and capabilities of the U.S. Public Health Service, and the Veterans Affairs agency, and the health-care capabilities of the Community HealthCorps within the AmeriCorps structure, which focusses on health-care needs of people in areas with inadequate medical services.

The revitalization of public health and health-care services must begin with a survey of physical facilities, as provided for in the landmark Hill-Burton Act of 1946, discussed below. The Hill-Burton Act would mandate a broad construction drive for new and upgraded facilities, which would necessarily require the resources of the U.S. Army Corps of Engineers, AmeriCorps, and so forth.

U.S. Public Health Service

The U.S. Public Health Service (PHS) today has a Commissioned Corps of 6,000 officers, detailed to numerous agencies within the Departments of Health and Human Services, Homeland Security, Justice, and elsewhere—both for ongoing operations and emergency situations, such as to the Federal Emergency Management Agency after Hurricane Katrina.

The PHS has its origins in the 1798 law which established a chain of marine hospitals in East Coast port cities. In 1870, this was reorganized into the Marine Hospital Service, which instituted a military organization for its staff, and created a mobile cadre of physicians in uniform who could be deployed as needed. By 1902, the agency had assumed the major responsibility for the control of infectious disease through quarantine and other measures, and it was renamed the Public Health and Marine Hospital Service.

Today, the Public Health Service is one of the seven U.S. uniformed services, and is organized under the Office of the Surgeon General, within the Department of Health and Human Services (HHS). Its uniformed service personnel are pro-