Exercise Economics

MERKEL IS NOWHERE NEAR REALITY

Banker Weill Experiences Damascus Road Conversion

by Helga Zepp-LaRouche

July 27—The most spectacular news of the week by far was the conversion of the former "most powerful banker in the world," former Citigroup head Sandy Weill, from the "Saul" of deregulated megaspeculation to the "Paul" of the Glass-Steagall standard, i.e., a two-tier banking system. Thus the ringleader who led the attack on Glass-Steagall in 1999, together with Paul Volcker, Alan Greenspan, and Larry Summers, is following the example of a part of the British establishment, which, at the beginning of July, called for reintroduction of a full two-tier banking system in the tradition of Glass-Steagall.

And—will wonders never cease!—today the *New York Times*, which in the past had emphatically demanded the repeal of the law, joined the *Financial Times* and the *Los An*-

geles Times in endorsing its reinstatement, writing: "Add The New York Times editorial page to the list of the converted.... Having seen the results of this sweeping deregulation, we now think we were wrong to have supported it."

These dramatic developments were the highlight of



Creative Commons/David Shankbone Sandy Weill, former CEO of Citigroup, changed his tune on Glass-Stegall; why can't Chancellor Merkel do the same?

a nationwide intervention, targeted on Washington, by Congressional candidates and activists of Lyndon LaRouche's Political Action Committee, in which thousands of people—Congressmen, Senators, mayors, city council members, county supervisors, trade unions, chambers of commerce, savings associations, and many others—were mobilized for the reintroduction of Glass-Steagall.

The backdrop to this dramatic about-face is obvious: The trans-Atlantic financial system is on the brink of disintegration—first, because it is hopelessly bankrupt; second, because its collapse could only be delayed in the short term by a hyperinflationary flood of money; third, because the biggest financial fraud in history, the manipulation of the Libor

interest rate, exposed the inherent criminality of the banksters; and fourth, because a hearing of the U.S. Congress on drug-money laundering by HSBC bank confirmed the allegations of former UN anti-drug official Antonio Maria Costa and Russia's top anti-drug official Victor Ivanov, that the whole trans-Atlantic fi-

8 Economics EIR August 3, 2012

nancial system would have gone bankrupt long ago without the massive money laundering for the illegal drug trade.

And now Sandy Weill, one who knows whereof he speaks, has pulled the ripcord!

Scramble To 'Save' the Euro

Mario Draghi, head of the European Central Bank, however, is marching in exactly the opposite direction, preparing a "major market intervention," a hyperinflationary "breakout," and announcing that the ECB would "do everything it takes to preserve the euro." This "everything" probably means a return to the unlimited purchase of bonds issued by states in crisis, a program that has been in abeyance for several weeks, plus the possibility of providing the EFSF (European Financial Stability Facility) with a banking license, which would allow it to provide liquidity to states and banks by printing money. In other words, Draghi will open up the money floodgates. Weimar 1923 sends greetings, but this time to all of Europe!

According to media reports, Spanish Finance Minister Luis de Guindos told German Finance Minister Wolfgang Schäuble in no uncertain terms that, in addition to the EU100 billion recently approved by the EU, Spain needs at least another EU300 billion—but not under the terms of a "bailout" and associated conditionalities. In Germany, the Constitutional Court in Karlsruhe has fortunately blocked a decision on the ESM (European Stability Mechanism), a permanent bailout fund that has not yet become law, until Sept. 12.

Nomura Holdings, Inc. has meanwhile informed its customers that Italy and Spain will request outside help "within weeks," but that the ESM (whose constitutionality remains to be determined by the Karlsruhe ruling, along with other pending complaints) in its current form, is not sufficient to stabilize the southern



Simplicissimus

A 1923 cartoon in Weimar Germany shows Johannes Gutenberg stunned by the use to which his printing press is being put. Now European Central Bank head Mario Draghi and others want to do the same thing again—but for all of Europe.

Eurozone. Thus, not only Greece and Spain, but Italy too!

Draghi's promise to save the euro at all costs—thus including hyperinflation, which would destroy everyone's life savings—has met with considerable opposition within the Berlin ruling coalition, and especially from the Bundesbank, whose spokesman called financing by the printing press a "fatal route."

Chancellor Angela Merkel and French President François Hollande, the day after Draghi's announcement, said they would do everything to defend the Eurozone. According to *Le Monde*, there is a coordinated plan between the ECB and the EU governments to create an "inexhaustible tap of liquidity" from the ECB, the EFSF, and then the ESM, to supply the needs of states and banks.

This "inexhaustible tap of liquidity" means the imminent national bankruptcy of Germany, which the American agency Egan-Jones Rating—the only rating

August 3, 2012 EIR Economics 9

agency that had foreseen the collapse of Lehman Brothers and the subprime mortgage securities—considers possible because of financial overload, and therefore downgraded Germany's rating to A-.

Austerity Costs Human Lives

What Draghi and the rest of the "save the euro" crowd are proposing means not only the bankruptcy of Germany and the dispossession of the German population, but this policy is already costing human lives. In Greece, for example, the budget is supposed to be cut by EU11.1 billion and, among other things, will set the ceiling on health-care costs at EU1,500 per person per year, which is of course sufficient only for short periods of treatment and little medication. The National Association of Kidney Patients warned, in a dramatic appeal, that "when someone does not have the funds, or has spent all their money or has sold all their property, they will be left to die." Why? So that the speculators can keep on gambling!

Ms. Merkel, Mr. Schäuble, why do you not simply admit that the euro is a failed experiment; that the bailout policy was wrong and has only been used to benefit the banks; and that you should start immediately to govern according to your own oath of office? The only reason not to demand your resignation, is that it was the Red-Green government [Social Democratic Party-Greens] that introduced deregulation in Germany in the first place; the government has never distanced itself from deregulation and is now intervening all the more on behalf of the EU. Don't you see that the continuation of your policy is leading Germany and all of Europe to catastrophe? If even a top Wall Street banker can make a 180° turn, why can't you?

While in the United States, patriotic prosecutors and experts such as Eliot Spitzer and Neil Barofsky are ruthlessly demanding prosecution of Libor fraudsters and money launderers, the German financial oversight authority BaFin does not want "to draw rash conclusions from the scandal over interest-rate manipulation," and does not even know whether this is the biggest financial fraud of all time. Instead, it is waiting for the EU Commission to make the first proposals for a so-called banking union, in September.

Who Knew?

The question then arises: If U.S. Treasury Secretary Tim Geithner knew, no later than 2007, about the interest-rate manipulations, as Congress has just

learned, but did nothing about it, then what did the BaFin know? Especially given the fact that now Deutsche Bank has moved into the crosshairs of the investigation of Libor scandal? In the United States, the regulatory authorities are now themselves the subject of potentially criminal investigations.

It is high time for us in Germany to ask: Who knew the score about the Libor scandal and kept their eyes shut? Whose job would it have been to investigate the role of money laundering in the banking system?

Back in July 1995, the deputy general counsel of the New York Fed, John Moscow, was forced to resign because of a *New York Times* article in which he warned of the disastrous consequences of repeal of the Glass-Steagall Act. He pointed out the catastrophic risks that would result from a conflation of commercial banks, investment banks, and the insurance sector, because there would be no regulatory authority that could control the activities of the financial giants across state borders and internationally, if Glass-Steagall were abolished. It would be difficult to prosecute the "banksters," the predatory bankers who would seek to enrich themselves at every opportunity.

Thus, no one can claim that it was impossible to foresee that the repeal of Glass-Steagall would lead to the same crimes that had already been exposed and punished by the Pecora Commission (1932-34). And anyone here in Germany who defends "universal banks" and claims that the two-tier banking system "is not in our tradition," is simply lying and wants to maintain this criminal system; after all, until the early 1990s, the German banking system was so tightly regulated that high-risk speculation was completely impossible.

Key parts of the Anglo-American establishment have now drawn the conclusion that only a return to Glass-Steagall can prevent their own demise.

We in Germany must draw the conclusions and reject the ESM, which would create a lawless domain that would only invite in the mafias of the world, and also place the two-tier banking system on the agenda.

A two-tier banking system, immediate return to a new deutschemark, and a credit system for the reconstruction <u>program</u> for Southern Europe, the Mediterranean, and Africa: That's the direction we must go. We also need a full mobilization in Germany for this program. There is life after the euro!

This article was translated from German.

10 Economics EIR August 3, 2012