European Financial Blowout

Glass-Steagall Is Now in the Debate

by Our Wiesbaden Bureau

April 30—In what *EIR* sees as a clear reflection that European bankers understand that the current monetary system has reached the end of the road, a number of those bankers have come forward over the past week to declare as much, and discuss the Glass-Steagall option for what otherwise appears to be a hopeless situation.

Many of the bankers and economists now talking about Glass-Steagall are converging on the ideas being circulated by the LaRouche movement, which is active in the European political arena. What they are beginning to realize, as the LaRouche movement has emphasized, is that the European Union, and its euro, are not only bankrupt, but that the bailout/austerity approach that has been taken so far, is going to lead to the social disintegration of the continent, while still doing nothing to solve the real economic problems that exist. While their statements may still pay lip service to the economic gurus who caused the crisis, they are beginning to move toward the exits.

Most startling was a call issued April 26 by George C. Karlweis, a Swiss banker, known as a longtime associate of the Rothschilds, and the man who gave George Soros the set-up money to create his Quantum Fund in 1969. Karlweis was quoted in an April 28 article by UPI editor-at-large Arnaud de Borchgrave, endorsing the policies of Hjalmar Schacht!

The Blowout Crisis

The most obvious manifestation of the worsening bankruptcy continues to be the so-called sovereign debt crisis of Greece, Portugal, and Ireland, and the fact that the bailouts of Greece and Ireland are being used to prop up the bankrupt Inter-Alpha Group banking system. The bond yields of all three nations continue to go through the ceiling. The yield on Greek two-year bonds was higher than 25%, which is unprecedented, while 10-year bonds hit over 15%. Portuguese 10-year bond yields reached 10%, and Irish bonds were also shoved up.

The Lex column of the *Financial Times* on April 28 declared that Greece's condition is unsustainable. By 2013, at this rate, the Greek debt will reach 170% of the country's gross income; by the end of this year, the economy will contract 3%, after having contracted 4.5% in 2010. Annual interest payments on the debt will reach 9% of GDP and absorb no less than 27% of all tax revenue, almost three times the EU average. The *FT* writes that, barring a "huge and politically unacceptable fiscal transfer from the eurozone," a restructuring or default is inevitable.

Desmond Lachman, a former IMF official who now works at the American Enterprise Institute (AEI), told the Italian daily *La Stampa*, "The ECB is desperately trying to postpone a eurozone default." The ECB is exposed for EU375 billion to Portuguese, Irish, Greek, and Spanish banks for which it is holding collateral of junk status. The ECB exposure to Ireland alone is $180 billion: "Irish banks no longer have financial instruments which produce no losses for the ECB," Lachman noted.

Lachman said that the ECB is in "an endless dilemma. They know that those countries are on the verge, but also that German and French banks are highly exposed. The risk is systemic and the attempt is to postpone the catastrophe.... The ECB is desperately attempting to postpone the inevitable default of one or more states in the Eurozone. And a debate on this would be important."

But, within the current terms of the game, there is no solution, and the European bureaucrats, at the behest of the bankrupt banks, will proceed to tighten the austerity screws and bail out the bankers—until the situation explodes, as it must.

The Glass-Steagall Debate

From Italy, to Sweden, Switzerland, France, and the Low Countries, the debate on Glass-Steagall is breaking into the public.

Italy: On April 21, Giacomo Vaciago, former mayor of Piacenza, and now an economics professor at Catholic University in Milan, called for a debate on a Glass-Steagall reform, in an article in the financial daily *Il Sole 24 Ore*. The "too big to fail" problem has not yet been solved, Vaciago wrote. "In 1999, the legislation was abolished, the Glass-Steagall Act—but already in previous years exceptions had been approved—which had clearly separated banking credit and finance, since the 1930s. This Act had been thought of as a defense of customers, to avoid banks securitizing bad loans and putting them in customers' portfolios. [Glass-Steagall] had indirectly ensured stability to the world financial system.

"Should we go back to Glass-Steagall and separate again, radically, the two institutions? Or will 'internal walls' suffice?" Vaciago asks.

Sweden: An editorial written by Social Democratic political editor Svante Saewen on April 23 in *Laenstidningen*, and, on the same day in another regional Social Democratic paper, *Dagbladet*), called for a Glass-Steagall separation of banking activities. The headline was "Split Up the Banks." A picture of Bank of America was the only illustration, with the caption, "The financial crisis is over. But for how long? Bank of America is having problems again."

The editorial then describes the dangers for the Swedish banks in a new anticipated crisis, and concludes: "This cannot continue. Start by splitting up the banks. Separate normal banking activity without which society will not function, from the speculative economy of the financial sector. Then their shareholders could take the blow in the coming crisis, instead of, as now, the taxpayers."

Switzerland: While leading bankers, such as a former board member of UBS, have supported Glass-Steagall in this nation, the contribution of the Swiss banker George C. Karlweiss is particularly noteworthy in showing the mentality of a predator class.

"Everyone is realizing we have gone too far," Karlweis wrote, according to his interlocutor Arnaud De Borchgrave. "The coffers are depleted.... The excessive spending of the past has created a huge overhang, and no one knows how new borrowing can be financed." People who live on their savings "have been fleeced. Their investments yield nothing, chances are they have lost everything. Times ahead do not look pretty," Karlweis stated.

De Borchgrave adds: "After turning their countries into Weimar Republics by printing more and more money, says Karlweis, 'they will all need a currency commissioner like Hjalmar Schacht [Hitler's economics minister-ed.] ... to save them from hyperinflation. Let's just hope they don't turn their regimes into Third Reichs in the meantime.'" Hitler economics without Hitler? That does seem to be what he's proposing.

He concludes with what De Borchgrave describes as a "post-mortem" on the system, saying: "We will need a full reinstatement of the Glass-Steagall Act (repealed in 1999), which made it impossible for a single legal entity to conduct or control all types of financial business."

France: Eric Verhaeghe, a leading official of the French businessmen's association, recently responded to questions from the LaRouche movement in France by saying: "In the absence of Glass-Steagall, big banks can force taxpayers to pay to fix the pots broken by bankers.... A return to the Glass-Steagall law is obviously a fundamental condition for solving this question."

Belgium: Also speaking up for Glass-Steagall were Eric de Keuleneer, an economist at the Solvay Business School of the Free University of Belgium, who was also a member of the advisory board of the Belgian Bank, Finance, and Insurance Commission. De Keuleneer recently gave an interview to *Nouvelle Solidarité,* the newspaper of the French LaRouche movement, in which he expressed his views on why the banking system collapsed, and the need for a Glass-Steagall-type reform.

While de Keuleneer does not subscribe to *EIR*'s views on many points, his full interview, appearing in French on the Solidarité et Progrès website, reflects his understanding of the death of the system, and a directionality toward embracing Glass-Steagall.