

A Glass Steagall Act For France

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I want to speak this morning about France’s banking system and financial crisis, as an example of the need for a Glass-Steagall act in France.

First I want to make clear that I don’t want to do an economic analysis, but a political analysis, because I think that the Glass-Steagall act in France and in the world, is a political problem, a matter of political choice, not of an economic system or process.

I want to take up two points this morning.

You see here a chart (**Figure 1**) of the ranking of world banks. Usually what we read in the newspapers is their ranking by market capitalization—i.e., the amount of stocks they have. Underlined in red, we have four Chinese banks, and in green, four U.S. banks. In the list of the ten biggest banks by market capitalization in the world, we have four Chinese and four American banks, so usually we consider that the world banking system is controlled by the U.S. and China, and we have this feeling that the most powerful banking systems in the world are China’s and the U.S.’s. China’s system is new; they want to have a powerful banking system.

But if we change the ranking technique, and use ranking by assets—i.e., the economic holdings of banks (**Figure 2**)—we see that China’s banks are less powerful, and that the first American bank, by assets, in the world, Bank of America, is



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Eric Verhaeghe: France’s shift to a privatized banking system was a political choice, an oligarchic decision. That system is in crisis, and should be replaced with a Glass-Steagall standard.

only the sixth bank on this list. The most powerful banks by assets are underlined in blue: BNP Paribas, whose assets are \$3.3 trillion; after that you have Royal Bank of Scotland (U.K.), with almost \$3 trillion in assets. The third bank is HSBC Holdings (U.K.), the fourth, Crédit Agricole (France), the fifth, Barclay’s bank (U.K.).

You see that among the 21 top banks in the world, you have four British and four French banks. What I want to show with this chart is that we have the illusion

FIGURE 1
France Financial Background: Ranking by Market Capitalization

Rank	Banques	Capitalisation en 10/02/11	Evolution depuis le 10/02/10	Pays
1	ICBC	237.63	-5.88%	Chine
2	China Construction Bank	214.26	+20.21%	Chine
3	HSBC	205.74	+14.03%	Royaume-Uni
4	JP Morgan Chase	187.46	+23.87%	USA
5	Wells Fargo	174.78	+26.40%	USA
6	Bank of America	149.66	+19.44%	USA
7	Citigroup	142.39	+57.19%	USA
8	Bank of China	140.50	-2.33%	Chine
9	Agricultural Bank of China	133.49	/	Chine
10	Banco Santander	105.67	-5.14%	Espagne
11	BNP Paribas	95.95	+19.80%	France
12	Itau Unibanco	93.59	+16.21%	Brésil
13	Goldman Sachs	91.21	+13.21%	USA
14	Commonwealth Bank A	83.78	+20.21%	Canada
15	Royal Bank of Scotland	83.24	+188.22%	Royaume-Uni
16	Royal Bank of Canada	81.34	+13.39%	Canada
17	Mitsubishi UFJ	80.26	+12.34%	Japon
18	UBS	75.10	+66.15%	Suisse
19	Sberbank	74.52	+30.73%	Russie
20	Lloyds Banking	73.75	+47.02%	Royaume-Uni

FIGURE 2

France Financial Background: Ranking by Assets

1	BNP	France	2,964	12/31/09
2	Royal Bank of Scotland	United Kingdom	2,747	12/31/09
3	HSBC Holdings	United Kingdom	2,364	12/31/09
4	Crédit Agricole	France	2,243	12/31/09
5	Barclays	United Kingdom	2,233	12/31/09
6	Bank of America	United States	2,223	12/31/09
7	Mitsubishi UFJ Financial	Japan	2,196	3/31/10
8	Deutsche Bank	Germany	2,162	12/31/09
9	JPMorgan Chase	United States	2,032	12/31/09
10	Citigroup	United States	1,857	12/31/09
11	ICBC	China	1,726*	12/31/09
12	ING Group	Netherlands	1,676	12/31/09
13	Lloyds Banking Group	United Kingdom	1,664	12/31/09
14	Mizuho Financial	Japan	1,637	3/31/10
15	Banco Santander	Spain	1,600	12/31/09
16	Groupe BPCE	France	1,482	12/31/09
17	Société Générale	France	1,475	12/31/09
18	China Construction	China	1,409*	12/31/09
19	UniCredit	Italy	1,338	12/31/09
20	Agricultural Bank	China	1,301**	12/31/09

that today’s financial system is held by China and the U.S., but indeed European banks, French and U.K. banks, are the most powerful in the world. And the reality of the financial system today is that it is held by European banks and finance.

A survey of those figures: Today the total assets of French banks is about \$8 trillion; the British banks’ assets are about \$9 trillion; and the U.S. banks’ assets, \$6 trillion.

So we see that France and the U.K. have developed a very powerful financial industry, and that this world-size financial industry is the result of a political program which goes back the ’80s. Today, we don’t have really an international competition between the European financial system, which is very powerful, and the other systems, because European finance has a total amount of assets which is very, very, very important.

On this chart (Figure 3), I attempt a comparison of our “too big to fail” banks and the size of the assets of the country. We see that BNP Paribas’s balance sheet is equal to \$3.3 trillion, and the French GDP is equal to \$2.260 trillion. So the size of the balance sheet of BNP Paribas is bigger

than the size of the assets of the French Domestic Product. Same thing if you take this figure: U.K. plus French total banking assets are larger than the U.S. GDP. In other words, the size of the French and British banks is more important today, than the annual wealth produced in the United States, and you cannot understand today the power of the financial industry if you don’t remember the importance of the balance sheets of the banks. Today, they are more important than the yearly national production of each country, even that of the United States.

This short survey raises a few questions and I want just to deal with two of them, because I have to be concise.

First, it is important to understand by what historical process France and the United Kingdom developed this world-size financial industry, without true competition today.

The second question is, what is the role of the financial elite, the financial oligarchy, the financial power, in each country, in this revolution, in the birth of this financial power?

I won’t have time to deal today with the important problem of the banking system and the public debt, but if we had time, we would see that public debt is the

FIGURE 3

Comparison: Too Big to Fail

Bank balance sheet	Gross Domestic Product
• BNP Paribas: about 3.000 Bil\$	• France: about 2.600 Bil \$
• Crédit Agricole: 2.250 Bil\$	• European Union: about 16.000 Bil \$
• BPCE: 1.500 Bil\$	• USA: about 14.500 Bil \$
• Société Générale: 1.500 Bil\$	• China: about 5.500 Bil \$
• Bank of America: 2.250 Bil\$	• UK + France banks = US. GDP

result, a natural consequence, of the development of the world financial industry. And we won't deal either with the link between public investment and the banking system. We will only focus on the historical process of the buildup of a financial power, and a historical explanation of the role of the elite.

The European Financial 'Industry'

In France, the history of the financial industry is organized around three moments. Just after the Second World War, we lived a period of superiority of the state; every bank in France was nationalized and a property of the French state. In 1966, the French government proceeded to a relative deregulation, and in 1984, under President François Mitterrand, it decided to give birth to a true industry, repealing older nationalization acts and proceeding to total deregulation of the French banking system.

First, the nationalization act of 1945: Why? Two main reasons: First, the government knew that French bankers had collaborated with the German occupation and decided to punish them through nationalization; the second, and true reason, was that the banking system was totally ruined by the crisis before the war, and by the war itself, and French banks were unable to proceed to the necessary reconstruction effort after the war.

So, in 1945, the government of General de Gaulle decided to pass an act of separation of banks according to their business activities: It's the French Glass-Steagall Act of 1945. And it was a good act, because this system allowed true and efficient reconstruction, totally managed by the French state. At this time, the people who decided on the reconstruction, the public effort, and the public investment, were not the bankers; it was a department of the Finance Ministry. It was a very important department, and it was there that everything was decided on the financing of France at this time, and it was very efficient.

In 1966, there was the first deregulation. An act was passed in France that allowed the banks to develop their activities, a first softening of the separation between the types of activities of the banks, and at this time, the law allowed a new development of the private bank system in France.

In 1984, the government passed an act—the minister at this time was Pierre Berégovoy, very well known in France because he committed suicide ten years ago, and it is still a mystery [why]. He decided to repeal the act of separation between investment and commercial

banks, our Glass-Steagall Act, and to proceed to total deregulation of the banking system. It was a project of very big financial companies, and the French government decided at this time to create very, very, very, world-size banks and insurance companies, to be a huge competitor in the world markets. It was France's public ambition to have this world-sized financial industry.

At this time, after the adoption of the 1984 act, the French government decided to privatize the financial system, and our public banks. Here you have the list (**Figure 3**): Société Générale in 1986, Banque Nationale de Paris in 1993. It was a period of ten years of privatizations of public banks; and it was at this time that we developed a private banking system in France. Remember that 10 or 20 years ago, French banks were public state banks, and we decided to give those banks to the private sector in order to constitute a world-sized financial system, based on those privatized banks.

The Role of the Elites

How was this possible? It was the role of the elites. I call this the constitution of a financial power, because all those public and political decisions were taken by a French aristocracy. In France we have the tradition of the Nobility of the Robe; this is a nobility of public servants, the tradition of public servants who act like nobility; and they decided to privatize the French banking system and to organize a world-sized private industry.

There is a concentration of French nobility, of republican aristocracy, in the General Finance Inspectorate (the FGI), a department of the Finance Ministry—a concentration of public servants who manage the political economy and the private banking system.

I take two examples of those general inspectors, the public servants who decided to privatize the public banks in France, and to build a French world-sized financial industry.

For example, there is **Jean Yves Haberer**. He was born in 1932; he was formerly with the Ecole Nationale d'Administration; he was financial general inspector; and in 1966, he was the advisor to the Finance Minister, who decided on the act of 1966, the first deregulation act in France. It was he who conceived this act, wrote it, and managed it.

In 1978 he was Treasury Director, involved in the construction of the European Monetary System, and in 1982, he was the chairman of BNP, and you see the

bridge between the public servants who decide on French policy on banking questions, and the private banks of which they became chairmen and decided to operate the financial system in France, after having decided its constitution.

Jean Yves Haberer is well-known in France because he was the chairman of the Crédit Lyonnais at the time of the collapse of Crédit Lyonnais, which cost French citizens EU15 billion.

Another example of this French aristocracy which decided to build this private French banking system, is **Michel Pébereau**. He was born in 1942, was associated with ENA, FGI, advisor to the Finance Minister in 1970, and today chairman of BNP Paribas.

I like Michel Pébereau and Haberer, but these two examples show that the financial aristocracy is born from a state aristocracy, and it is the same aristocracy which decided to privatize public banks and who today manage the privatized banks which were previously public. The same people who pass the act are the ones who benefit from the act.

It is very important to have this idea, because we often have this illusion of “too big to fail,” that the in-

ternational banking and financial system is a sort of natural creation, a sort of inescapable product of human society. In reality, this system is the consequence of political choices managed by people who decided to use the general interest and the general policy to have personal benefits, and to defend their conception of the economy and the society.

In conclusion, I want to say that today we have in France a system of “too big to fail” banks, a world-size system, more powerful than the American banking system, comparable rather to the British system. This system was decided upon 30 years ago. At first it was a public system, a state system, and it became a private system by decision and a political choice, which is an oligarchic choice. Today, we must remember that the financial crisis is the crisis of this system of privatization of public interests, and that this choice was imposed by a minority who have benefitted from this system for 30 years.

I wanted to present this to you, because France is an interesting example of financial development, and it will be an interesting area to test the Glass-Steagall act of modern times.

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The latest run on Italian state bonds and the downgrading of the bonds of Greece and Ireland have signaled the final days of the Trans-Atlantic monetary-financial system. The problem is that cowards on both sides of the Atlantic are accepting the continuing bailout of the Inter-Alpha banks, at the expense of the lives of ordinary people and the existence of nations. There is only one remedy: Glass-Steagall.

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