Cheminade on French TV

Only a Glass-Steagall Policy Will Succeed

by Christine Bierre

Feb. 19 (PARIS)—On Feb. 12, the very day that the French National Assembly started its first reading of a bill for a very mild separation of banking activities, Jacques Cheminade, the LaRouche co-thinker who has become the reference point in France for a Glass-Steagall policy of strict separation between investment and commercial banks, was one of seven guests participating in Frédéric Taddeï's popular national TV talk show, "This Evening or Never."

Six out of the seven participants were favorable to some form of banking separation. Defending the government's version was Valérie Rabault, a parliamentary deputy and vice chairman of the Financial Commission of the National Assembly, close collaborator of Karine Berger, who submitted the government's bill to Parliament. The others were François Lenglet, a financial journalist who heads the French desk of TV channel France 2; Myret Zaki, a Swiss financial journalist; Olivier Berruyer, a risk manager who is part of a network which has recently supported a strict banking separation, but within a monetarist system; Edgar Morin, a philosopher and sociologist. Representing the banking lobby was Marc Touatti, a former analyst with the highly speculative Natexis bank, and with Global Equities, until the end of 2012.

After a brief introduction on the banking separation being proposed now in several European countries, Taddeï shot his first question at Rabault: Why isn't the government proposing a strict separation of banks?

Rabault insisted that the merits of the French government plan are: 1) It makes France the first country to enact a law, while the American Dodd-Frank Act, which purports to forbid proprietary trading (under the "Volcker Rule") is "inapplicable," with its 3,000 pages of regulations; and the British Vickers Commission model of separation of banking activities will only be applied in 2019; and 2) it introduces the principle that no public money will be used to bail out speculative activities; these will be isolated in a subsidiary operating within a universal bank. "The subsidiaries will not be supported; if they get into trouble, too bad for them; the stockholders will bear the brunt."

Swiss analyst Miret Zaki countered, "How will a bank control a subsidiary that operates in London or New York? Take the example of UBS America: Its headquarters in Zurich had no idea of the speculative activities that were going on in its trading rooms in New York or Stanford, nor did the Swiss regulatory authorities." The Swiss government was forced to save these banks, she said, just as the American taxpayer had to foot the bill for the U.S. government bailout of Citigroup's "outside" balance sheets, when those elements went into bankruptcy.

Other panelists pointed out that, as bankers have happily recognized in various interviews, the activities that will be included in the subsidiary represent no more than 0.75% or perhaps 2% of the total transactions of the universal banks!

Touatti, the only panelist hostile to banking separation, shamelessly proclaimed that "if there was no bankruptcy in France during this crisis, it was precisely

Jacques Cheminade on TV Feb. 12: How can we expect reform from those who caused the crisis in the first place?

because the investment banks were attached to commercial banks," giving the example of his former employer, Natexis, which was saved from bankrupty by Banques Populaires.

"What of it?" asked Taddeï, leading into a new round of attacks by participants against the bailout policy. Berruyer noted that "the money of depositors is not there to sponge up the debts of traders. If they do God knows what, they should take their losses." Zaki blasted the bankers' arguments that they fully reimbursed the State for the bailout money, and even enriched it, because of the high interest rates on the loans. "No," said Zaki, "because there was an incredible recessionary shock between 2007-10, and the enormous indebtedness of governments comes from that recessionary shock caused by speculative finance." Lenglet noted that the Irish government, for instance, increased its debt by 30% in order to bail out its banks.

Cheminade: What's Lacking Is Will

But only Cheminade addressed the problem with full authority, by putting on the table the need for a strict Glass-Steagall standard, many years ago, and especially during the 2012 Presidential campaign, in which he was one of nine candidates.

Cheminade denounced those who, from behind the scenes, are blocking any progress on this policy in the country. "I met M. Ramon Fernandez when he was advising M. Sarkozy, and he is still Director of the Treasury," he said. "I told him my view of how the crisis would unfold, and he answered that there was no need to worry, that finances are a zero sum game, and we will always find the needed counterparties; ... the agents of the system are wise enough to self-regulate; ... we have enough shock absorbers in Europe that we can call upon to deal with the crisis." We saw that all that was wrong, said Cheminade.

The real problem, he continued, is "how can we entrust the needed reforms to people who are part of the system, part of the high-level financial hierarchies of France, who saw nothing coming?" He pointed to the traditional ideological problems of French banking, quoting Jean Zay, former minister in the Popular Front government (1936-39), who said, "There is one thing one cannot do in France, and that is to question the power of financiers, who, on the one hand, defend the myth of budget orthodoxy, and on the other, let the banks do whatever they want. There is a total contradiction in that."

Cheminade also addressed the incestuous relations among high-level civil servants, financial powers, and elected officials at all levels. "The problem," he said, "is who are we hiring to analyze a situation and to reform it? The 'experts' of that same world. The Committee on Financial Regulation and Systemic Risk, which was chosen for consultations on the reform, is made up of bankers. Then, these people become 'experts,' judges, advisors to legislators, and even sometimes legislators themselves" (a thinly veiled attack against Rabaul, an economist who, until 2011, headed the Prospective and Market Risk Studies Department of a major universal bank, BPPParibas).

"A whole system is put into place where nobody sees anything coming, and it's considered normal; they have a view from within the system, and people who are coming from outside do what they can.... Karine Berger and Valérie Rabault did what they could, but they were forced to think from within a closed circuit. Karine Berger says, sure we are only placing 0.75-2% of the speculative activities inside the subsidiary, but I am giving you a pair of scissors, so that you can cut and paste more speculative activities into the subsidiary [by parliamentary amendments]. I fear that if we stay within the system, that pair of scissors will become nothing more than a paper cutter or a nail clipper!"

Cheminade recommended that listeners read the Angelides Report of the Bipartisan Commission on Financial Regulation of the U.S. Congress, calling it "the best analysis existing today on the crisis." He also attacked the claim, often made by French Finance Minister Pierre Moscovici, that there are no current legislative efforts to reinstate a full Glass-Steagall separation of banks. Cheminade reported on HR 129 of U.S. Reps. Marcy Kaptur and Walter Jones, currently before the U.S. Congress, as well as the debate on the issue within the Iceland government.

The only solution "is an international agreement to go for a policy of public credit," he concluded. "France must defend it; we had it after the war, in the form of the National Credit Council, a national bank, and without savings or rent, we rebuilt France. Roosevelt did the same thing in the U.S. in his time. We can do it, if we have the will to do so; but what is lacking the most today is the will to do something new." Where perils grow, there also grows that which can save us from those perils, he said. This is the time to do so.