A Glass-Steagall for Europe: Outlaw Currency Speculation

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Feb. 2—Imagine the scene: A bank director invites a gang of bandits in, and gives them the keys and security codes to the bank's branches—which the bandits proceed to rob. The bank director then demands that the customers on the receiving end not only accept the losses and pay damages to the bank, but also pay for the bandits' expenses, while he himself continues to give them tips on how to bet on the likely insolvency of those customers and, in expectation of their premature death, how to make a profit on their life insurance.

Those who invited hedge funds into Germany in 2004, and who are now passively watching those same funds speculate not only against Greece, but on the collapse of the euro, while demanding that the taxpayers cover the losses, and that the citizens tighten their belts, have a striking similarity to that bank director. Germany has truly fallen prey to the bandits.

In order to prevent a chaotic collapse of the euro, with catastrophic consequences for the real economy and living standards, governments in Europe must immediately implement a Glass-Steagall standard, i.e., set up a strict firewall between commercial banks and investment banks. Speculation by financial holding companies, hedge funds, private equity funds, etc., must be totally separated from the savings and lending activities of commercial banks. Should financial institutions engaged in high-risk operations make the wrong bets, they will have to face the music themselves. Taxpayers should no longer be expected to cover the debts of professional gamblers.

Should it prove impossible to establish fixed exchange rates in the short term, we will have to penalize currency speculation immediately. It is unacceptable to have "all-star" managers of the largest hedge funds decide, over a private dinner in Manhattan, to speculate on a collapse of the euro down to a 1:1 parity with the dollar, which would slash, by a quarter or a third, the economic wealth of those people who have the misfortune of living in the Eurozone.

The Federal government is urgently called upon to protect the German people from harm—as their oath of office states—by introducing the Glass-Steagall standard and by prohibiting currency speculation. If Chancellor Merkel, who has apparently noticed for the first time that the euro is in a difficult situation, is really concerned with ensuring a sustainable budget, this is the problem to be eradicated.

Organized Crime

According to the *Wall Street Journal*, some of the largest hedge funds got together on Feb. 8 for a private dinner in a townhouse in Manhattan and agreed to carry out a speculative attack on the euro. As the euro is likely

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Greece is now being told it must foot the bill for a massive hedge fund attack on its economy, by imposing draconian austerity. But the population is not taking it lying down, as can be seen in this mass protest against cuts in wages and benefits.

to drop down to parity with the dollar, it's a good opportunity "to make a lot of money," Hans Hufschmid is quoted as saying. Hufschmid is a former director of Salomon Brothers, who now runs the hedge fund GlobeOp Financial Services SA.

The host of the "idea dinner" was the investment and brokerage firm Monness, Crespi, Hardt & Co. The founder of Greenlight Capital, David Einhorn, was apparently also present, as was the manager of SAC Capital, Aaron Cowen, who views "all possible outcomes relating to the Greek debt crisis as negative for the euro." Soros Fund Management and Brigade Capital were also represented.

This meeting coincided, the *Financial Times Deutschland* reported, with the rapid rise of net short positions on the euro on futures markets. The same week saw a rise in the number of contracts at the Chicago Mercantile Exchange betting on the fall of the euro, which reached the record of 60,000, according to a report by Morgan Stanley. Three days after the dinner, the value of the euro dropped to $1.36—down from $1.51 in December.

Worldwide transactions reached new heights in January, with 820,000 contracts per day, for a nominal value of $108 billion—an increase of 78% as compared to the year before. There was an increasingly visible tendency among the market participants to bet on a weakening of the euro.

Targetting Greece

At the same time, hedge funds exacerbated the Greek debt crisis by using the credit default swaps (CDS) market to attack the country. According to Greek press reports, the Greek secret service, the EYP, is now investigating the matter. In the meantime, many funds secured their gains and got out of the Greek CDS, to focus on other countries, beginning with Spain.

The Greek population is now supposed to foot the bill. The European Union, the European Central Bank, and the German government (none other than Mr. "True Sale International" Jörg Asmussen—think back to the bandit story) are pressuring the Greek government to put through a draconian austerity package. Harsh cuts in health care and pensions are planned, as well as wage cuts of up to EU300 in the public sector, an increase in the value added tax (VAT) and the gasoline tax, and higher prices for electricity, water, gas, and transportation. Some 40,000 jobs are to be cut in the public sector; the labor market and social security system will be hard hit, and hospitals are supposed to reduce their costs by 30%! At the same time, German banks are refusing to extend more credit. No wonder the Greek population is angry with the EU and Germany, and that some have called for boycotting German goods.

In fact, the media focus on Greece has been completely exaggerated, and deliberately misleading, in order to deflect attention from the fact that the Greek national debt is relatively small. A far bigger problem is the bankruptcy of Great Britain, and the Spanish debt which is connected to that bankruptcy. Jim Rogers, a former business partner of George Soros, described

the pound sterling as a "hopeless case" in the *Guardian*—a weak currency that has already lost value against virtually every currency except the Zimbabwean dollar. The *Daily Telegraph* had already indicated weeks ago that Great Britain is in a much worse situation than Greece.

The Dollar Carry Trade

But anyone who thinks that the relative rise of the dollar against the euro and the pound is due to the strength of the dollar, is way off mark. Federal Reserve chairman Ben Bernanke's decision to keep interest rates at near-zero levels, was motivated by the sorry state of the U.S. economy. Forty-nine of fifty states—with Vermont the sole exception—are bankrupt, and real unemployment is not at the official level of 10%, but rather at 30%! Foreclosures continue in the millions, tent cities are spreading, and the population is increasingly angry with a President who has not kept a single promise, and a Congress which they feel has betrayed them.

The low interest rates have generated a massive dollar carry trade, where speculators borrow money in the U.S. at near-zero rates, and then invest it in other markets with higher-yielding assets, for example, in emerging country shares and bonds, or in raw materials. Aside from the fact that this carry trade is done at the expense of the relevant populations, the relative rise of the dollar by 8% since the beginning of the year is prompting investors to begin cancelling their positions in those bonds or raw materials, which threatens to provoke a downward spiral on capital markets.

Bank of China executive vice president Zhu Min thinks that the dollar carry trade represents the greatest risk in 2010, as he stated at the World Economic forum in Davos at the end of January. The combination of short positions in the euro and the unwinding of dollar positions could quickly develop into panic, he said.

Bernanke's insistence on the near-zero interest rate policy in the U.S., as well as the idea of using eurobonds or other such instruments to postpone sovereign defaults in the Eurozone, are fanning the flames of hyperinflation as in Weimar Germany in 1923—but this time, on a worldwide scale. And devaluation is just another—and final—attempt to shift the problem onto the population, by stealing their savings, pensions, and hard-earned income. Here again, we can be sure that the megaspeculators will have long since looked after their interests in the form of tangible assets.

Only One Solution: Glass-Steagall

Whereas Euroskeptics ran the risk, until recently, of being burned at the stake by the free-marketeers, it is no longer possible to quash the debate on the euro as a failed construction. For example, in its Feb. 21 edition, the *Frankfurter Allgemeine Zeitung* [Germany's leading establishment daily], reported on the pro-and-con controversy within its own editorial board, under the title "Should the Euro Be Scrapped?" "Greece would also be better off today without the euro," it writes. "It has now been demonstrated that the introduction of the euro was a grave mistake. What no one wanted to hear from the critics, can now be seen in reality: A monetary union without [economic] policy integration is a bad thing. The main point is that the introduction of the euro took away the possibility of buffering economic difficulties with fluctuating exchange rates."

Now the trend of the gang of bandits is towards a European economic government (why on Earth would finance ministers or heads of government suddenly become wiser collectively, than they are individually?), or else to assign the world government to the IMF, in order to push through a really brutal austerity policy. Have these dilettantes really learned nothing from the mistakes of Brüning?[1]

The only reasonable solution is to immediately implement the Glass-Steagall standard in Europe, and with as many partner countries as possible in the world. The next step must be to make public credit available for industry and agriculture, and to maintain or begin production of real goods. Gambling debts are a problem for those who have produced them, not for us taxpayers. A sustainable budget is one which prevents organized crime (viz., the dinner in Manhattan) from stealing old people's pensions.

A sign of hope is that Chancellor Merkel is finally worried about the euro. In that case, she should fire Asmussen, allow an open debate on the motivations behind the climate change swindle, and let experts explain to her what Germany would look like as an industrial nation with solar and wind energy. She's a physicist, after all, isn't she?

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1. Heinrich Brüning was Chancellor of Germany from March 1930 to May 1932. His brutal austerity measures paved the way for Hitler's rise to power.—ed.