Bipartisan Alliance for Bank Separation Passes First Test

by Claudio Celani

Oct. 27—Readers of the Swiss financial daily *Neue Zürcher Zeitung* received a motive to cancel their subscriptions on Oct. 18, when the two leaders of what the *NZZ* calls "the Unholy Alliance"—Social-Democratic (SP) representative Corrado Pardini and vice-president of the Swiss People's Party (SVP) Christoph Blocher, had their first public television appearance together. Contrary to the black propaganda spread by the bank lobby through the *NZZ*, the two political leaders reiterated their call for a strict bank-separation reform after the Glass-Steagall model.

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Corrado Pardini

On Sept. 9, the lower chamber of the parliament (National Council) voted up three motions for the reform filed by the SP, the SVP, and the Green Party. The convergence of the leftist SP with the conservative SVP, which, until then, were on opposite fronts on almost all political issues, shocked the financial oligarchy. Following the vote, the SP and the SVP drafted two new identical motions, in which they called on the government to draft a text for a banking reform. In the attempt to curb support for the move, the *NZZ* and other media spread the disinformation that in the new motion, the SP and SVP had backtracked on their original proposal, and were now pushing only for a "ringfencing" type of false bank-separation.

The motive for the black propaganda is to be found in the strategic significance of a Glass-Steagall reform in Switzerland. The two Swiss megabanks, UBS and Credit Suisse, have been declared "too-big-to-fail," which means that a failure of either of them would rock the global financial system. A Glass-Steagall reform in Switzerland, or even a declared government intention to proceed with such a reform, would mean that the London- and Wall Street-based financial trading activities of the two banks would be legally separated from the commercial activities; the financial side would be hung out to dry, without government guarantees and central bank money, while the commercial part would be protected.

A failure of the latter would not harm the Swiss economy, as financial activity counts for only 8% of GDP. However, the global impact would be large, as other countries would be forced to decide whether to protect their economies as well, and implement a similar reform, or let themselves be exposed to the chain-reaction effects of the collapse of the gambling side of the banking system.

Thus, the announced presence of both Pardini and Blocher on the popular "Arena" talk show of Swiss national television RF1, on Oct. 18, raised the question as to whether the new bipartisan alliance would hold, or whether it had already struck a foul compromise with the banks.

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Christoph Blocher

Although the issue of bank separation was raised only in the last part of the discussion, both Blocher and Pardini stood by the two identical, but separate, motions which call for separating "banks with proprietary trading" from "deposit and wealth-management banks"; both expressed confidence that they would find an agreement on a second issue, capital ratio to unweighted risk.

The Opposition: Out of Touch

Their opponents, Free Democratic Party (FDP) National Council faction leader Gabi Huber, and Pirmin Bischof, Christian Democratic People's Party (CVP) member of the Council of the Cantons (Upper House), came out as stupid and dogmatic, and often out of touch with reality, in contrast to the self-assured Pardini-Blocher duo.

Switzerland needs banks, Pardini said, but it needs banks that are useful for the community, which give credit, take deposits, finance home mortgages, and manage wealth. Those banks should be separated from the other banks, which engage in financial trading; the former should be protected, whereas the latter should not. If they go bust, they will not endanger the community.

Blocher made the same argument, while putting the accent on ending what he called the "Americanization" of Swiss banking, meaning the enormous growth of financial trading, by UBS and Credit Suisse.

Both rebuffed their opponents who praised the "stability" of the two Swiss mega-banks, and insisted on the central issue: There is no other nation in the world where two banks have five times greater assets than the national GDP. This is a systemic risk, and must be eliminated.

The discussion proved two things: 1) Opponents of Glass-Steagall have no effective arguments; 2) Although SP and SVP have a majority in the National Council and among voters, they do not have the majority in the Upper House, necessary for a legislative act. However, they have another option, a national referendum, a frequently used legislative instrument in Switzerland. The only problem is the timing: to collect the 100,000 signatures, and get the referendum organized, usually takes many months, sometimes even a couple of years.

Follow the Best Swiss Tradition

Observers agree on the fact that SVP and SP have a good chance to win a referendum; however, the bank lobby will massively deploy its propaganda machine in the effort to scare the population. Thus, the pro-Glass-Steagall faction must upgrade its own campaign, and raise the level of the debate in order to make clear that what's at stake is the future of the national economy.

The initial step in the right direction was made by author and journalist Gian Trepp, a member of the SP team that negotiated the alliance with the SVP. On Oct. 16, Trepp called on Swiss leaders to stick to the Swiss anti-oligarchical tradition in history as the basis for a Glass-Steagall-like banking reform. Trepp was responding to an article in the *NZZ* by Cantonal Bank Federation head Urs Mueller, who had called for more regulation of banks which are active internationally (basically, UBS and Credit Suisse), and less for cantonal banks, which are active nationally. Banks must be reformed "from the standpoint of a bank-separation system. Uncontrolled risks of UBS and Credit Suisse must be separated geographically and structurally," Trepp wrote on his blog. Mueller's scheme, instead, would offer cantonal banks the possibility of turning into speculative banks.

The root of Professor Mueller's error is in his defective view of what he calls "traditional, liberal Swiss regulation," Trepp said. The "liberal" revolution of 1848, when the Swiss cantons chose to create a "closer union" and a central federal government, is only one element of the Swiss national identity. Two other dates are important: 1291 and 1918.

For the non-Swiss, a short compendium:

The Swiss nation was born in 1291, when three Cantons joined to found a federal state, gaining back the freedom that had originally been given them by Emperor Friedrich II Hohenstaufen, and eventually stolen by the Hapsburg king. The Federal Charter, or Bundesbrief, of 1291, which contains the basis for a constitutional state, is today considered, along with the later Rütli Oath, and with the legend of Wilhelm Tell as celebrated by Friedrich Schiller, to represent the founding ideas of the Swiss nation.[1] The coming together of three cantons which had been in a cruel war among themselves was a Westphalia-like process, long before the Treaty of Westphalia (1648). The warring parties recognized that a solution could exist only when the former enemy became the partner.

In 1918, in the end-phase of World War I, and in the aftermath of the deadly influenza epidemic that decimated the population, Switzerland was swept by a general strike. The strike was eventually suppressed, but it forced the government to introduce labor and civil rights concessions, such as universal voting rights, the 48-hour work week, and labor union rights.

"The 1291-1848-1918 Accord [*Dreiklang*] lays the basis to define the term 'National Economic Interest' in the 21st Century, and with that, also the basis for the urgent reform of the Swiss banking system," Trepp wrote.

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1. A translation of Schiller's play is available on the Schiller Institute website.