

## **“Banks in trouble should be taken over and resolved”**

**Rescuing Banks and keeping management is aberrant and dangerous, according to James Galbraith in an interview with the NachDenkSeiten. He doesn't see the crisis being over anytime soon. Speculation continues. It's not only possible to close the casino, it's necessary. Albrecht Müller and Roger Strassburg.**

NDS: Prof. Galbraith, you recently exchanged blows with Hans-Olaf Henkel. Remarks by Henkel prompted William Black to write an open letter to the Bank of America, criticizing Henkel's remarks as being racist, and demanding that the B of A sever its relationship with Mr. Henkel.

Henkel isn't alone in Germany with his world view. The vast majority of the German mainstream media, political establishment and economists adhere to supply-side economics, and strongly oppose government intervention in the economy – in particular taxation, regulation and social welfare. Most recently, the German foreign minister, Guido Westerwelle, has been heavily criticizing the long-term unemployed, accusing them (wrongly) of being unwilling to work, equating their “effortless prosperity” with “late Roman decadence”. He went on to claim (incorrectly) that many working people with families in the low-wage sector would make more money if they were to stop working and just collect welfare payments instead, in effect stigmatizing the long-term unemployed and low-wage workers against them. Westerwelle maintains that those who work should make more than those who don't, yet rejects minimum wages as socialism (“East Germany pure, but without the wall”), making it clear that the intention is to lower welfare payments to the unemployed and toughen up sanctions on those who are deemed unwilling to work. Germany currently has 3.6 million registered unemployed workers and 600,000 open positions.

NDS: What was your reaction to the recent exchange with Mr. Henkel? Did you ever hear if the Bank of America reacted to William Black's letter?

**Galbraith: So far as I know there has been no response yet.**

NDS: How would you respond to the German foreign minister's remarks about the unemployed and their supposed “effortless prosperity” and “late Roman decadence”?

**Galbraith: Surely the Foreign Minister was speaking of the bankers, not the unemployed?**

NDS: Germany has vastly improved its competitiveness on the global market, in large part due to many years of wage stagnation and reduced social costs, a strategy that the current German government and most German economists believe should be continued going forward. How do you view this strategy?

**Galbraith: It's a strategy to impoverish German workers for the benefit of German capital. What else could it be?**

NDS: Various economists outside of Germany have criticized German economic policy – in particular the focus on exports – as having contributed to the recent fiscal crises in Greece, Spain, Ireland, Portugal and Italy. What is your view on that problem? What should we do?

**Galbraith: Yes, of course. The system is interdependent. As Germany runs surpluses other countries must be running both external and internal deficits. Moreover, the other countries cannot resolve their deficits, no matter what they do, unless Germany resolves its surpluses.**

NDS: What's your take on the role played by Goldman Sachs in the Greek crisis? What about corruption?

**Galbraith: Goldman Sachs appears to have been in complicity with the previous government in Greece to subvert the European system. The lack of a reaction to exposure suggests that the operation was a complete success.**

NDS: We maintain that the financial industry has control over policy. We have the impression that the same is true in the U.S. Are we wrong about that?

**Galbraith: No. You are not wrong.**

NDS: Is it realistic from your point of view that the financial industry uses its immense financial prowess to decisively influence important decisions in Germany directly through lobbying or indirectly via propaganda?

**Galbraith: Yes, entirely realistic.**

NDS: An indication: The chief economist of the ECB, Issing, becomes an advisor at Goldman Sachs. Then the German Chancellor appoints him to chair a commission charged with developing new regulations for the financial markets – all the while he's still advising Goldman. Is that normal?

**Galbraith: Alas, it is entirely normal. Deplorable. But normal.**

NDS: A while back, you criticized the U.S. government's rescue of financial institutions. You proposed letting insolvent banks go bankrupt, guaranteeing their deposits and taking them into receivership – similar to what the FDIC does with smaller banks. Is that still your position? Do you think that Germany should have handled the IKB and Hypo Real Estate in this way?

**Galbraith: Yes, it remains my position. Banks in trouble should be taken over and resolved. This is not a political position. It is the ordinary and correct practice of the American government, under past administrations of both parties. Leaving failed institutions open and under their existing management is aberrant practice and dangerous behavior, no matter how large they are.**

NDS: What do you believe needs to be done in order to prevent a similar crisis in the future? Is it possible to close the global financial casino? What would you do specifically?

Galbraith: The crisis is ongoing and will remain so for a long time. Many of the precrisis activities – including normal commercial and residential lending – have not returned, though some speculative practices have. It is not only possible but necessary to close the casino. A full answer would take too much space but I commend the attached speech by Senator Ted Kaufman of Delaware: <http://tiny.cc/BYFRq>

NDS: Do you see demands for a conversion of the financial economy as being sensible? What is the maximum amount that the financial sector should contribute to the output of national economies such as the U.S. and Germany? It was around 8% in the U.S. Isn't that too high?

**Galbraith: The financial sector need not be larger than it was, say, twenty years ago. That is an arbitrary judgment but nothing in the evidence contradicts it.**

NDS: When, in your opinion, did the triumph of the neoliberal (neo-orthodox) movement begin?

In Chile in 1973? Then Reagan and Thatcher?

**Galbraith: October 6, 1979. This is the day Paul Volcker moved the Federal Reserve to monetarism in the United States.**

NDS: How would you explain, from an American standpoint, the contribution of social democrats / socialists like Schröder and Blair to this conservative revolution?

**Galbraith: The social-democrats yielded to pressure from the right, and then devoted themselves to dismantling the inheritance of their forebears.**

NDS: How would you describe experience with minimum wages?

**Galbraith: Minimum wages work well. They do not generate unemployment and in fact succeed in spurring productivity growth, as the Scandinavian experience established over decades. They are opposed by the politically reactionary and technologically regressive elements of the business community, but generally not by advanced and competitive businesses.**

NDS: Turning to U.S. politics: Voter confidence in President Obama has been dropped dramatically since he took office. What, in your opinion, has caused this?

**Galbraith: Obama faces powerful obstacles but he has also failed to mobilize his base of support, and opted in economic policy (including financial reform) for centrist measures insufficient to deliver favorable economic results so far. At the same time, don't make too much of this. Obama retains even now a considerable base of support in the country.**

NDS: What's your opinion of Timothy Geithner? Paul Volcker? Would it be desirable for Volcker to have more influence on economic policy?

**Galbraith: I try to avoid commenting on public officials in personal terms. I have strongly criticized the Treasury department's soft approach to financial reform and to the banking crisis. Chairman Volcker is playing an important and constructive role at present, but so far there little ground for confidence that he will prevail.**

NDS: How do you see the Tea Party movement affecting U.S. politics? What about the Oath Keepers? Do you see these groups as posing a danger to American democracy?

**Galbraith: The Tea Party is partly an expression of frustration and outrage by ordinary people affected by economic crisis, and partly an artificial movement created by the larger right-wing forces for their own purposes. As a force for distraction, it has been quite effective so far, though it lacks any substantial electoral presence and in my view will not be allowed to develop one. (A Tea Party candidate for governor here in Texas received only about 20 percent of the vote in the Republican Party.) In the final analysis, the Tea Party is a tool, it will be used by the Republican leadership while useful and then discarded.**

*Albrecht Müller and Roger Strassburg conducted this interview.*