

Saxony Crisis Is Part Of the Global Meltdown

by Helga Zepp-LaRouche

The global financial crisis brought Saxony into a constitutional crisis, when the state constitution was suspended so that the Saxony Landesbank (state bank) could be sold without the permission of the state parliament.

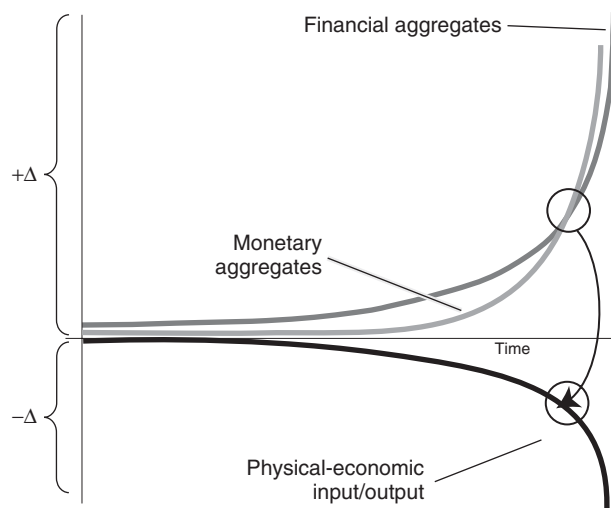
If the Berlin government doesn't immediately erect a protective wall around the real economy and the public banks, an economic and financial catastrophe threatens not only the Free State of Saxony, but the rest of Germany as well. Because the debacle around the Saxony Landesbank and its subsidiaries, Ormond Quay and Georges Quay in Dublin, is part of the breakdown of the global financial system, which is about to disintegrate in a chain reaction.

With a dangerous mixture of overestimation of itself as a global player, greed, and naiveté, the Saxony state government undertook a gigantic risk in association with representatives of the British financial system like Barclays Bank. As a result of this, the government suspended the Saxon constitution on Aug. 25 for two days, in a quasi *Nacht und Nebel* operation, and sold the state bank without the approval of the provincial parliament, to the state bank of Baden-Württemberg—at least for the time being. Because in all the rush, the books of the Saxony state bank remained unaudited, and the Baden-Württemberg Landesbank can give up its new acquisition along with the billions in debt, should new risks turn up. And they will. The resignation of Saxony State Finance Minister Horst Metz and of the entire board of the Saxony Landesbank will not be the last.

The Saxony Landesbank had involved itself in the American mortgage market at the level of at least 65 billion euro through so-called special-purpose entities in Ireland, which had barely 200 million euro of equity at its disposal. As long as the speculative bubble grew ever greater in this market, everything appeared to be going well. But after the so-called subprime mortgage market (with variable interest rates for mortgages for clients with bad credit) began to break down at the end of July, the refinancing of so-called Asset-Backed Commercial Paper also ran into difficulties.

Because of their short maturity, these securities, which are secured by a pool of different assets like credit card debt, accounts receivable, or mortgages, must constantly be renewed. Therefore, they rely on a liquid market. However, this formerly liquid market has dried up over several weeks, as a result of a process of "reverse leverage," which occurred, on one hand, as the result of the collapse of the subprime mortgage market

The Collapse Reaches a Critical Point Of Instability



in the United States, to which a whole array of hedge funds and venture capital funds have fallen victim, and on the other hand, as the result of the end of the yen carry trade. Many banks are now sitting on bad loans, given for leveraged takeovers, which are now worthless paper—or not even that: They exist only electronically, in computers.

When the British Barclay's Bank itself was no longer in a situation to service its short-term obligations, and had to borrow \$3.2 billion from the Bank of England—which had just shortly before declared that it would not participate in any rescue actions—it began to put pressure on the Saxony Landesbank, to inject fresh capital into its fund. Then the Saxony Landesbank suddenly had a liquidity squeeze of 1.5 to 2 billion euro. The head of the [German financial oversight authority] BaFin, Jochen Sanio, gave Saxony Landesbank an ultimatum to solve the crisis by Sunday night, Sept. 26—or it would be closed by Monday morning.

A Constitutional Crisis

According to the Saxony state constitution, the state parliament must be involved in decisions about the state bank. Instead of carrying out this constitutional duty, the Gov. Georg Milbradt, without further ado, set aside the constitution for two days (!), using a clause in state budget regulations, which permits the suspension of the consultation responsibility "for compelling reasons." Then on the next Friday, Aug. 31, the state parliament debated the matter in hindsight, and state Finance Minister Metz announced his resignation.

That Governor Milbradt, an ideologically hard-wired advocate of the unregulated free market, is so unscrupulously prepared to suspend the constitution in order to try to cover up his own incompetence and his irresponsible behavior, should

ring the alarm bells loud and clear. Because it shines a spotlight on the question of how secure democracy really is in our country. In a federal state where the NPD [far-right National Democratic Party] came in with almost 10% of the vote in the last state elections, such democracy-disdaining behavior on the part of the government is inexcusable.

For the argument by Metz and Milbradt, that the market crisis had not been so noticeable, simply demonstrates one thing: the hair-raising incompetence of the two former finance ministers—or in reality three former finance ministers. Because it was former Finance Minister Thomas de Maizière, today the chief of staff for Chancellor Angela Merkel, who was responsible as finance minister, in 2001, for the Saxony Landesbank's abandoning the financing of the Saxony *Mittelstand* [small and medium-size enterprises], and resorting to speculation in the international capital markets. Already at that time Saxony Landesbank let itself be taken to the cleaners by Barclay's Bank, and it is even more shameful that dubious financial business continued with this British bank.

But now the casino-economy is finished. The actual bankruptcy of the Saxony Landesbank is not a Saxony event, but an expression and consequence of the systemic collapse of the world financial system. The pyramiding of risks means that the collapse of one institution indirectly and directly involves the collapse of countless other institutions: The cluster-risk of the linkage of market segments will leave no stone unturned. What has already happened is similar to the action by which a wrecking ball has demolished the lowest floor of a huge building complex. The resulting collapse of the upper floors is certain.

What is now occurring is the result of at least 40 years of continuous misdirection, a paradigm-shift through which growth of physical economic goods has evolved increasingly negatively, while, especially over the last 20 years—during which Greenspan has invented his “creative financial instruments—financial titles have undergone hyperbolic growth. This development occurred in different countries at different rates and speeds, but finally all countries with convertible currencies fell into the maelstrom of a hyperinflationary increase in their financial obligations.

Wherever physical goods were used as security for the financial aggregates, in wilder and wilder form, ever more physical capacity was sacrificed in order to achieve short-term increases in profit in the monetary realm.

What has happened now is what Lyndon LaRouche has described in his famous Triple Curve (see accompanying figure): The hyperbolic curve of monetary expansion has crossed the hyperbolic curve of financial aggregates in a kind of shock front.

Over the next weeks the collapses in different markets will occur in a nonlinear manner; next to hedge funds, venture capital funds, “conduits,” “investment vehicles,” and so on, the banks themselves will also come into a huge crisis. We will experience the dramatic process of disintegration of the world financial system. And as long as governments try to hang onto the regime of the unregulated free market, the end

will approach with a thundering terror.

A Firewall for the Physical Economy

Although that has perhaps up to now not yet penetrated the world of imagination of the Berlin government: There is only one exit which can protect the population from a catastrophe. The government must erect a protective wall, a firewall, which rescues the physical part of the economy. A point of reference for this must be the draft of “The Homeowners and Bank Protection Act of 2007,” which Lyndon LaRouche has proposed for the United States.

Although federal Finance Minister Peer Steinbrück has stubbornly refused, even in internal meetings of the financial elites, to acknowledge the systemic character of the crisis, and Chancellor Merkel would prefer to study the melting of the North Pole rather than the core-meltdown of the financial system, it is now up to the Chancellor to take action and to protect the German people from injury, according to her oath of office pursuant to Article 64, with regard to Article 56 of the Basic Constitutional Law.

The federal government and the Lower House of the German Parliament (Bundestag) are called upon to pass laws and regulations which protect the real economy, the banks as servants of the physical economy, the productive jobs, and the living standards of the population against collapses in the speculative domain of the casino economy. They must absolutely prevent a sharpening of the crisis of confidence in the financial world and among the banks, from leading as well to a disruption of a normal extension of credit to production and trade.

The head of the BaFin, Sanio, recently drew the comparison to the banking crisis of 1931, which was an understatement, in as much as the global financial system today is in a systemic crisis of a much more fundamental dimension. However, the comparison is nonetheless useful, because it should direct attention to what followed this crisis: namely, the austerity policy of Hjalmar Schacht and National Socialism.

At that time in Germany, there was the possibility of finding an exit from the crisis, on the same basis upon which Franklin D. Roosevelt had overcome the depression in the United States after 1933 with the “New Deal.” This chance had existed in Germany in the plan named after Dr. Wilhelm Lautenbach, which the latter had submitted in September 1931 to a secret meeting of the List Society, whose participants included leading industrialists, bankers, and the head of the Reichsbank, Dr. Hans Luther. It was a proposal for state credit generation for productive full employment, primarily in infrastructure, and for other areas of the General Welfare, in which one would also invest if the economy improved.

If this plan had been realized, full-employment would have been achieved, and two years later, the conditions would not have existed, which enabled Hitler to come to power.

If we have learned anything from history, then this time we should take the path of Roosevelt and Dr. Lautenbach. Now it is up to you to act, Chancellor Merkel!