# Unsustainable Bailouts Bring Euro System to Its Knees

by Our Wiesbaden Bureau

May 10—On May 6, the finance ministers of the largest European Union nations celebrated the successful imposition of a bailout package on Portugal—at the same time that they were trying to avoid burying the Greek bailout, one year after its birth. The ceremonies occurred at a "secret" meeting in Luxembourg, where the finance ministers of at least the six nominally solvent members of the European Union—Germany, France, Netherlands, Austria, Finland, and Luxembourg—met at Senningen Castle to discuss the fact that, under the terms of the bailout regime, the Greek economy is about to blow apart, and with it, the euro system as a whole.

If anyone was expecting consoling words to come out of the meeting, they were sorely disappointed. Amid widespread rumors that Greece would simply pull out of the euro system, Luxembourg's Finance Minister Jean-Claude Juncker issued a vehement denial: "We are not discussing the exit of Greece from the euro area; this is a stupid idea and an avenue we would never take.... We don't want to have the euro area exploding without any reason."

But exploding is exactly what the European system is doing, precisely as the LaRouche movement had warned from the beginning. From the outset, the European Union and European Central Bank adopted a policy of guaranteeing the bad gambling debts of the major private banks in the bankrupt Inter-Alpha Group-dominated system, and then transferring the obligation to pay for them to the national governments. This action guaranteed the collapse of the physical economy of those governments, and thus created an increasingly worsening crisis—which *cannot* be solved under the current system.

In fact, the euro system should be disbanded, and nations throughout the continent should return to sovereign national currencies and economies, *without* the burden of the massive debts which have been dumped on them by private speculative interests, and with the imposition of a banking separation based on a Glass-Steagall standard. Realistically, such action is likely to occur *after* the reimposition of Glass-Steagall in the United States, rather than before.

## The Greek Crisis

Over the course of the last year, Greece has been subjected to the full brunt of the EU program. Financial rescue packages amounting to as much as EU110 billion have been promised, while draconian austerity programs imposing cuts in wages, pensions, and government services have been demanded and implemented. Serious social unrest, including strikes, have failed to derail the process.

Not surprisingly, Greece has fallen into a deep economic crisis, and now needs to borrow more money in order to meet its payments. Estimates go as high as an additional EU50 billion.

But it is becoming increasingly obvious that this money will simply go into a black hole. Some EU finance ministers have asked Greece to offer assets as collateral for the loans. This means, in case of a default,

such assets (mostly land and real estate properties) would be seized. "But," as a reporter for Italy's *Corriere della Sera* wrote, "for such an option, the Papandreou government should resign and be replaced by a government of national unity."

A default seems unavoidable. Greece must collect EU40 billion on the market next year, and even more the following year. Markets are betting on the default, with two-year yields on Greek bonds up to 25%, indicating that the bet is on a default between 2012 and 2013.

So, not surprisingly, rumors are circulating widely that Greece will demand a "restructuring" of the terms of its payments—a "haircut"—or else it will leave the euro system. But such an action would threaten the whole house of cards, especially in an environment where debtors and creditors alike are in virtual despair, and calls for a return to sovereign currencies are becoming more and more frequent.

## Questioning the System

As the system unravels, discussion of the dissolution of the euro system is less and less taboo. The head of Germany's IFO economic institute, Hans-Werner Sinn, called on Greece to leave the euro in order to avoid destruction. If Greece tries to cut wages by 20%, as required, the country "would slide towards civil war," Sinn said in an interview with the May 8 *Frankfurter Allgemeine Zeitung*. A restructuring of Greek debt is unavoidable, he believes, whether Greece stays in the Eurozone or leaves, the difference being that the country will survive without the euro.

Sinn was attacked by Industry Minister Rainer Brüderle, but received support from the economics spokesman of Brüderle's party, the FDP, Frank Schaeffler.

Meanwhile, a similar debate has developed in Ireland around the proposal by economist Morgan Kelly to give the toxic assets back to the banks. "National survival requires that Ireland walk away from the bailout," Kelly wrote in the *Irish Times* on May 7. The government-owned bad bank, NAMA, should be returned to the banks, and this would become a problem for the ECB, "not ours."

In Italy, some are awakening to the fact that the country, despite carrying a 120% debt over GDP, has to borrow EU125 billion for the so-called European Stabilization Mechanism (ESM). Sergio Cesaratto, a professor from the University of Siena, and Lanfranco Turci, the former governor of Emilia-Romagna, point out in *Il Riformista* May 3 that "Italy will be called on to pay for responsibilities which Italy does not have," since the ESM is aimed at saving British, German, and French banks.

## No Leadership

Despite such voices, including the consistent clarion call from the European LaRouche movement on the nature of the solution, no country in Europe has the leadership to resist the process. So, the bailouts of the bankers, *by the taxpayers*, go on, as do the vicious cuts in living standards. After Greece's EU110 billion bailout, came Ireland, with EU85 billion, and now Portugal, with EU78 billion. And in all of these cases, the figures are set to rise.

Take the Portuguese deal, allegedly just concluded—although there is *no* elected government with the authority to commit to the conditions. The Portuguese government has committed to reducing the deficit to 5.9% of GDP this year, and to 4.5% next year, to reach a level of 3% in 2013. Currently, the deficit is over 7% of Portugal's GDP.

Caretaker Prime Minister José Socrates—Portugal's voters just threw out his government for proposing austerity packages to save the banks—has claimed that there will not be any cuts in public sector wages or the national minimum wage, nor any dismissals of state workers. However, Portuguese media report that a special tax on pensions above EU1,500 a month is being discussed, as well as a freeze in public sector pay and pensions until 2013.

Unemployment benefits will not be paid for any longer than 18 months (compared with three years currently), and will not exceed a maximum of EU1,048 a month (down from EU1,258). Major state infrastructure projects along with public-private partnerships are to be suspended while their viability is reassessed. And the government is supposed to pay EU12 billion to "recapitalize" the banks.

On May 17, the Ecofin committee of the EU is expected to approve the deal. However, Finland might not sign, which means that the EU has to find an expedient, such as an abstention formula.

If this whole process sounds familiar, it should. It's not only a repeat of Greece and Ireland—but also of U.S. states such as California, which have put themselves through one round of budget cuts after another, only to find their deficits larger and larger, their debt growing, and their people devastated. What is needed is a different principle—the Glass-Steagall principle—and now.