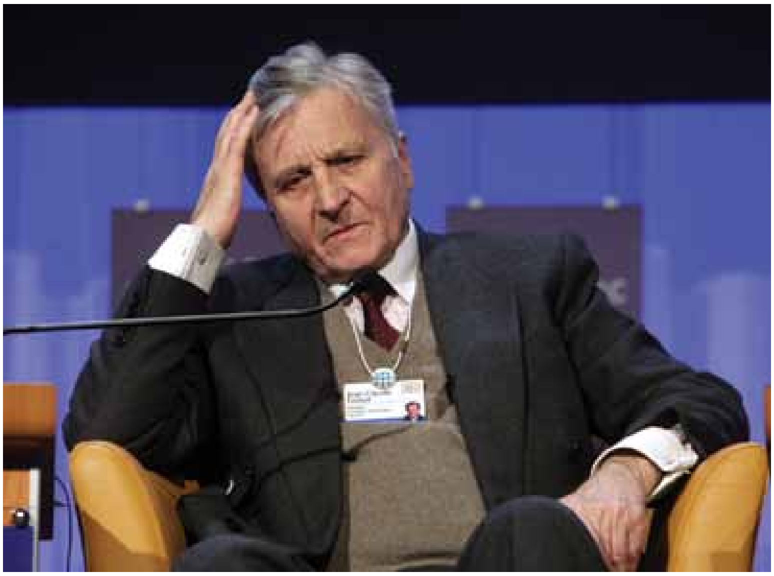
Bank Bailouts Lead Europe Deeper into the Crisis

by Alexander Hartmann

If nearly all official institutions agree that a certain measure is absolutely necessary to overcome the crisis, one must assume—given the present state of mind of our governments and of the financial world—that exactly this measure (a) will do absolutely nothing to alleviate the crisis, and (b) in all likelihood, will lead into an even bigger crisis, and that very soon.

Thus, all of "official" Europe was shaking in their boots and crying "Crucify them!" when the Slovak Parliament last week voted against enlarging the EFSF (European Financial Stability Facility) bank bailout fund, And when this led to the collapse of the Slovak government and, then two days later, the Slovak Parliament, with a new majority, did finally pass the EFSF enlargement bill, shouts of "Hosanna!" were heard.



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European Central Bank chief Jean-Claude Trichet admits that "we are at the epicenter of a global crisis," and that the collapse has reached a "systemic dimension."

So, there is euphoria among the governments and banks, at least for the time being, but this is likely to be short-lived, because it can no longer be denied, that even the enlarged EFSF is much too small to fill all the holes on the balance sheets of the banks.

In fact, the European elites are well aware that we are faced with a systemic crisis. European Central Bank (ECB) head Jean-Claude Trichet declared, in the European Parliament on Oct. 11, that the Eurozone crisis has "reached a systemic dimension," and that "We are at the epicenter of a global crisis." The sovereign-debt crisis has spread to the banking sector, as well as "to some of the larger EU countries," said Trichet, and he warned of "a rapidly rising risk of significant contagion that threatens financial stability in the EU."

And because this is the case, there is a plethora of proposals for what is to be done, to overcome the crisis "for good."

One of the proposals that one hears most often is the idea of turning the EFSF into a bank that can use ECB credits and all the other banking techniques to leverage its capital by a factor of five or seven, so that it can intervene with the force of EU3-4 trillion.

In a similar vein, the giant Allianz insurance corporation—which also plays a mastermind role behind the attempts to create a new financial bubble based on "ecological" scams like DESERTEC—has issued a strategy paper. According to the *Wall Street Journal* of Oct. 11, quoting Allianz's Paul Achleitenr and Michael Diekmann, the plan was presented to the Eurozone governments half a year ago, but was rejected then by the German government in particular, which saw certain legal problems, but, according to the *Journal*, "the plan is now also being taken seriously by Eurozone governments." Allianz is in consultations also with the "Troika" (the ECB, IMF, and European Union), and has the support of Deutsche Bank, Munich Re insurance, as well as some French banks, and Goldman Sachs.

According to this scheme, the EFSF is not supposed to be used as a lender, but as a bond insurer, which would expand the impact of the EFSF, which currently has a lending capacity of EU440 billion, to cover more than EU3 trillion in bonds. But, one has to remember what became of bond insurer AIG: the biggest bankruptcy in American history.

In fact, the proposal is just about what U.S. Treasury Secretary Tim Geithner demanded at the recent EU finance ministers' meeting in Poland—and what was flatly rejected by the EU governments at the time. But since, the U.S. government and the banks have increased their political pressure, so that the proposal has now resurfaced.

The Devil's Circle of Bailouts

Albert Einstein defined as insanity, when someone keeps repeating the same experiment, and expects to eventually achieve a different result. Well, the policy of trying to bail out the banks and speculators, who have created bubbles by miraculously multiplying their money, by driving this miraculous multiplication of money to ever new records, will, in the end, always lead to the same result, namely, that the amount of money circulating is multiplied in relation to the real economy, which ultimately is bound to lead into hyperinflation. And of course, from one round to the next, it becomes more difficult to prevent the newly created bubbled from popping.

This creation of more and more bubbles is being accompanied by brutal austerity measures that will accelerate the shrinking of the real economy, and hence its ability to pay back debt, as we can see in the cases of Ireland, Greece, Portugal, Spain, and Italy. How can a country that is forced to shrink its real economy by 10-20%, pay back a load of debt, increased by scores or hundreds of billions, if it was already insolvent beforehand?

Hence, it shouldn't be surprising when rating agencies, sooner or later, react to a bailout package for a country by downgrading it—and the creditor banks—which will ultimately lead to the next round of bailouts.

After four years of one such bailout after another, there are some voices a little less insane, that are demanding an "orderly bankruptcy" for countries like Greece, in order to adapt the debt load weighing on these countries somewhat to the state of their real economy, and to reduce the amount of "toxic" securities in the banks' portfolios.

But as long as the governments jointly commit themselves to "keeping the banks afloat," the debt will only be passed around—from Greece to the banks, and from the banks to the guaranteeing governments, which have to come up with new bailout packages, as soon as the banks admit that the value of their "assets" is really much less than what they have on their books. And with these new bailouts, new bubbles are being created, the popping of which will lead to new bailout packages.

At the same time, we hear demands for a "European economic government," to manage the mess and force the austerity measures upon governments and citizens that try to resist.

We Need Glass-Steagall!

It is obvious that this circle does not lead out of the crisis, but only deeper and deeper into it. And indeed, there are more and more voices in Europe—not the least because of the campaign by Lyndon LaRouche and his co-thinkers around the world—that are calling upon the governments to separate the deposits and regular banking activities of the population from investment and speculation activities.

In the U.S., there are now at least 46 Members of Congress who are co-sponsors of Rep. Marcy Kaptur's bill (H.R. 1489) to reinstitute Glass-Steagall, Franklin Roosevelt's Banking Act of 1933, which is a top demand of the "Occupy Wall Street" movement.

In France, where Presidential pre-candidate Jacques Cheminade and the Solidarité et Progrès party are campaigning for a Glass-Steagall-type two-tier banking system, there is a lively debate among financial experts about the need to re-regulate the banks and to separate their commercial and investment (speculative) activities.

In Austria, the Working Group Christianity and Social Democracy (ACUS) is demanding the creation of a two-tier banking system and of a credit system for the real economy, similar to what was called for (but not acted upon) by Austrian Finance Minister Maria Fekter, at the recent Alpbach Forum. The call was formulated by ACUS director Michael Lauer, as part of the mobilization for a global day of action against the bank bailouts.

Even the German Green party, the most faithful foot soldiers of the international financial community, had to recognize that the idea of a two-tier banking system is gaining support within their own ranks. At their next party convention in Kiel, there will be a vote on a proposal to slice the big banks into smaller, regional and local banks, which would then give credits to regional and local "green" projects, as part of what they call a "Green New Deal."

This is fully on the line peddled by Social Democratic chairman Siegmar Gabriel, and would certainly be the platform of a new, "red-green" government, in case the present conservative-liberal government of Chancellor Angela Merkel collapses. But it would hurt the real economy even more, so that the disproportion between the productive economy and the financial bubble would only grow further.

This proposal totally misses the point. The task is not to make the banks smaller: The legitimate banking activities must be separated from any form of speculation, and the governments must withdraw their protection from the speculative part of the financial world. This will force them to revalue and write off their worthless paper "assets." Then, the real work begins—to revive and rebuild the real economy.

Already, Russia and China have embarked on a course to build up their economies with a high-tech program to develop the Russian Far East and Siberia, in order to secure the raw materials supply for humanity for the coming generations.

As Lyndon LaRouche has stressed, repeatedly, this thrust of the Eurasian great powers creates a unique possibility for the United States—provided President Obama is forced out of office, soon enough—to join Russia and China in an alliance for a global economic recovery, which would be open to all other nations.