

Only Glass-Steagall Can Stop The Disintegration of Europe

by Our Wiesbaden Bureau

Aug. 6—“While prominent voices in the British and American establishments have publicly admitted that the policy adopted so far has been a giant mistake, those who insist in bailing out the euro and the banks are fanatically sticking to their failed idea, and making use of tools from European history in the 1930s: brutal cuts in the Brüning¹ tradition, mass unemployment, and geopolitically motivated wars of aggression,” wrote Helga Zepp-LaRouche Aug. 5 in an article published in the weekly *Neue Solidarität*.

Zepp-LaRouche referred in particular to the hysterical exhibition of European Central Bank president Mario Draghi at the Aug. 2 ECB press conference, where Draghi repeatedly shouted that “the euro is irreversible”—i.e., that Euroland would last forever. When the communist leader of East Germany, Erich Honecker, “expressed a similar optimism on the future of socialism on Aug. 14, 1989, it was only two months to his fall, and three months to the fall of the Wall,” Zepp-LaRouche commented.

Draghi was offered the chance to join his more intelligent colleagues of the Anglo-American establishment, when *EIR*’s Claudio Celani asked him whether, in view of the “outcry for banking separation” provoked by the Libor scandal, and since he, Draghi, had been the

architect of the abolition of banking separation in Italy, he does not want “to join Sandy Weill, the architect of the repeal of Glass-Steagall in the U.S., in saying: ‘We made a mistake, and we should go back to a full separation between commercial banks and investment banks’?”

Draghi, visibly upset, lied that there had been no banking separation in Italy, and therefore there was no need to apologize.

Expect no “conversion on the road to Damascus” from such blockheads. There is not only Draghi, but a large “Honecker fan club” in Europe: Hollande, Monti, Rajoy, Juncker, Merkel, and many others. As Lyndon LaRouche recently stressed, “Europe is about to go, unless something is done to change the situation, and Glass-Steagall pushed now, ruthlessly, is the only thing that can lead to the avoidance of a general disintegration of Europe.”

Financial Disintegration...

There are two aspects to the disintegration of the European continent now in process—financial and socio-economic—which need to concern any thinking person, including in the United States. Former IMF official Simon Johnson presented a shocking picture of the financial side to U.S. Senators at a hearing of the Foreign Relations Subcommittee on European Affairs on Aug. 1, called to discuss “The Future of the Eurozone: Outlook and Lessons.”

1. Heinrich Brüning, Chancellor of Germany (1930-32), whose extra-constitutional emergency decrees, imposing vicious economic austerity, paved the way to the seizure of power, in 1933, by Adolf Hitler.



YouTube/RenegadeEconomist

Former IMF official Simon Johnson presented a shocking picture of the Euro-crisis to a Senate hearing on Aug. 1: We are “sitting on a powderkeg of opaque, over-the-counter derivatives transactions,” running in the hundreds of trillions of euros, he warned.

Johnson insisted repeatedly in his testimony that the euro will not last in its current form, and that no one knows how this will set off the derivatives “powderkeg” tied to the currency.

Johnson told the hearing that Draghi et al. were kidding themselves: The ECB cannot possibly issue enough credit to bail everyone out, and the more credit it issues, the more it undermines the credibility of that debt. The euro is moving into its most dangerous phase now, where “dissolution risk” is dominating, and, Johnson asked, how can anyone sign a contract, if they do not know if the euro will exist in a year? We are “sitting on a powderkeg of opaque, over-the-counter derivatives transactions” linked to the Euribor, running in the hundreds of trillions of euros, Johnson said. He added that no one is able to tell what U.S. bank exposure is to these derivatives, or what the effect will be of Greece leaving the euro—which Johnson put as 90% probable before the end of the year.

Subcommittee chair Sen. Jeanne Shaheen (D-N.H.) was clearly stunned. She questioned Johnson on how it was that Treasury Secretary Tim Geithner “consistently assures” us that U.S. bank exposure to Europe is “limited.” Johnson reiterated what he had said at three different points in the hearing: The complexity of deriva-

tives is such, that not even the institutions that hold them know what their actual exposure is, so neither Geithner nor any other officials can be fully aware of the situation. He repeatedly cited the case of JPMorgan as exemplary. In JPMorgan’s own “living will”—which they published before their recent more than \$6 billion loss—they estimated that a \$30 billion loss would bankrupt them. The bankruptcy of JPMorgan would be a systemic event, while the stress tests done by Federal regulators did not even model the events that today we are all taking as our basic premise, he said. He told the Senators to read that Morgan “living will,” which is public.

...And the Destruction of Lives

The financial side of the crisis can, of course, be easily dealt with (although not painlessly), if there is the political will to cut off support for the gambling debts with a Glass-Steagall reorganization of the banking system. The more serious side of the disintegration is what it’s doing to the people of nations such as Greece and Spain.

The European Union’s brutal austerity policies have led to population reduction in Greece. According to the National Statistical Service of Greece, the country’s population decreased by 1 million people, close to 10%, within one year! The reason is clearly the financial crisis, which has forced many Greeks, especially the young, to flee the country in search of a livelihood.

Nevertheless, the current coalition government headed by New Democracy leader Prime Minister Antonis Samaras, Pasok leader Evangelos Venizelos, and Democratic Left leader Fotis-Fanourios Kouvelis, just agreed to another EU11.5 billion in cuts. After talking to European Commission President José Manuel Barroso and European Council President Herman van Rompuy, Samaras was convinced to make the additional cuts, on penalty of Greece being thrown out of the Eurozone.

On Aug. 1, the government rammed a bill through Parliament allowing the government to close universities by fiat, if it serves “the national interest.” In this case, the “interest” is that of Greece’s creditors. The government is moving full-speed ahead with the privatization of state assets, including the power and energy companies. Meanwhile, living standards and production are plummeting, while suicide rates and unemployment zoom up. This is the *death of a nation*—with the concomitant exacerbation of social tensions, and even



UN/Evan Schneider

Argentine President Cristina Fernández noted sharply that “the dead can’t pay their debts.” Look at Spain: “How can you have growth if people lose their jobs, their wages are cut, their houses are auctioned off, and their benefits are taken away?”

the threat of civil war.

The Spanish situation is not far behind, as Prime Minister Mariano Rajoy attempts to placate the ECB with draconian budget cuts, in return for bank bailouts. Spain’s official unemployment rate is the highest in Europe, at over 24%, and the new cuts are threatening to shut hospitals and schools.

For example, the president of the Andalucia region, Antón Antonio Griñán, charged on Aug. 1 that to meet the deficit target being set by the central government, he would have to close 19 public hospitals and half the schools, and lay off 60,000 public employees. The region’s budget would be EU2.7 billion, and “it is impossible” to draw up a budget under those circumstances. Griñán, a member of the Social Democratic PSOE opposition party, accused the central government of preferring to help the banks, at the expense of public health and education. He ordered staff to prepare a legal suit against the government.

Kirchner to Europe: ‘The Dead Can’t Pay’

Argentine President Cristina Fernández de Kirchner, speaking Aug. 2 at the Buenos Aires Board of Trade, celebrating the 158th anniversary of its founding, directly addressed the dilemma that European gov-

ernments are facing, with demands that they kill their citizens through brutal austerity. She recalled her late husband Nestor Kirchner’s 2003 warning to the UN General Assembly that “the dead can’t pay their debts.” He explained there why austerity would never bring about a recovery in devastated Argentina, and emphasized that he would not place the bankers’ interests before those of his own citizens.

“I have the feeling that Europe doesn’t understand this,” Fernández said. Look at Spain: “How can you have growth if people lose their jobs, their wages are cut, their houses are auctioned off, and their benefits are taken away?” She reported that she had read that 10% of Spain’s public sector jobs were being cut, along with 50,000 public hospital beds. “*You can’t sustain an economy or a society under these conditions,*” she warned.

In Europe today, “what you have is an incredible speculative crisis ... something we know very well.” Argentina was “strangled” by foreign debt, she said, debunking the idea that there has been an “excessive amount of public spending” in Europe. What there has been, she said, is a bailout of the banks, such as Spain’s Bankia, run by former IMF director Rodrigo Rato, “who used to lecture us” on economic policy, yet his bank had to be bailed out to the tune of EU230 billion. “There has been an incredible bailout of the banks, so they can pull out of their difficult positions” in the southern European nations, yet these “are the same banks that lent” to those countries!

This, she said, is exactly “like Argentina in 2001,” when foreign financial predators imposed “mega-swaps” and bailouts with usurious conditions, and promised this would defend the country with protective “armor” against crisis. Right up to the moment the nation imploded, financiers proclaimed that the economy was really “solid.” It was a fraud, Fernández said, and Argentines were the victims.

The Glass-Steagall Solution

While a significant faction has emerged in Great Britain to push for Glass-Steagall, the crucial step that needs to be taken to open the door for continental Europe to do the same, is action in the United States. Thus, Zepp-LaRouche points out, European patriots are looking to the political forces around LaRouchePAC in the U.S. to ram through the reinstatement immediately, before further disaster takes over—which could happen any day.