I. One Minute to Midnight

A New Banking Crisis by Year's End? Savers and Pensioners Will Be Ripped Off!

by Helga Zepp-LaRouche, chairwoman of the German political party, Civil Rights Movement Solidarity (BüSo)

creative commons/Petar Milosevic

Bail-in "rescue": Banca Monte dei Paschi di Siena in Pisa.

WIESBADEN, July 22—There are growing signs that the 2008 banking crisis threatens to be repeated on an even grander scale—with the difference being that the "toolbox" of the central banks is now empty. That's because all of the so-called tools—such as quantitative easing (money-printing), and zero or negative interest rates—have been implemented for years without solving the underlying problem of the casino economy. The current policy benefiting the bankers and speculators—which continually widens the gap between rich and poor—represents the greatest threat to the general welfare, and thus to the stability of society itself. Only the immediate introduction of Glass-Steagall banking separation internationally, and a credit system that exclusively finances the real economy, can avert the danger of an uncontrolled collapse.

Although the government, the parties in the Bundestag, and mainstream media give the impression that the 2008 systemic crisis has done no lasting damage, and Fed chairman Janet Yellen even asserts that we will not experience such a crisis again "in our lifetime," the opposite is true. The trans-Atlantic world is sitting on a monetary powder keg, which can be set off by any one of a number of already burning fuses. Meanwhile the system continues to function according to the maxim, "profits are private, and losses are socialized"—that is, shifted to the so-called little people.

Two Ominous Examples

In the Rust Belt of the American Midwest, whose population has already been hit by the consequences of the globalization policy, pensions are being cut for millions of pensioners. Steelworkers, teamsters, office and factory workers, masons, and construction workers are threatened by cuts that would halve their old-age pensions for the rest of their lives. Responsibility for this lies with a law called the Multiemployer Pension Fund Reform Act (MPRA), signed by President Obama in 2014. The pension funds have been depleted, according to Joellen Leavelle, communications and outreach director of the Pension Rights Center, which she blames, among other things, on the 2008 crash which inflicted losses on many pension funds from which they have never recovered. Fewer next-generation workers, low interest rates, and the results of relocating production to cheap labor countries are other factors.

Another example is provided by the way the European Union (EU) and the Italian banks are fleecing their modest savers. It has been announced that 16 of the 19 Italian banks tested are not in compliance with European regulations with respect to their non-performing loans (NPLs). Under EU regulations, these banks are supposed to recapitalize by raising 32 billion Euros—either through the sale of the bad loans or through state aid. But state aid comes at the sole expense of the taxpayers, and not without "burden sharing," a kind of "bail-in light," by which shareholders and holders of contingent convertibles are expropriated. This procedure has just been used to rescue Monte dei Paschi di Siena (MPS) under the rubric of "preventive recapitalization."

It will be difficult to sell the bad loans on the open market: Since a fixed deadline has been imposed for meeting these demands, and market conditions are extremely bad, the NPLs might have to be sold at only 11 to 13% of their nominal value. The collateral for many of the loans was home or apartment mortgages, and prices for Italian homes and apartments have collapsed by around 50% since 2011, thanks to measures taken by the Mario Monti government. As a result, the market environment for selling NPLs is extremely bad. Moreover, the sale of a huge amount of real estate—it is estimated that real estate valued at 88 billion euros has been thrown on the market—will depress property values even further.

Wikimedia Commons/Armin Kübelbeck

Wolfgang Schäuble, German Finance Minister: special treatment for troubled Italian banks.

Because Italians normally invest the greatest part of their savings into their homes—much more so than in Germany, for example—the collapse in value is for them very serious indeed. The chief executive of Unicredit, Jean-Pierre Mustier, announced that his bank had completed the first phase of the selloff of its NPLs, which amount in total to 17 billion euros, at 13% of their nominal value, to international funds, which are also called vulture funds because of their business practices. Depositors not only lose their savings, but also their houses and apartments, while the vulture funds rake in the profit.

In the latest Italian bank resolutions, the EU Commission allowed state assistance—meaning tax money—in the amount of 5.4 billion euros, for Monte dei Paschi di Siena. In the case of two smaller banks, Veneto Banca and Banca Populare di Vicenza, the EU Commission has also allowed them to be saved according to Italian regulations. Austrian Finance Minister Hans Jörg Schelling sharply criticized this special treatment for Italy, and stressed that the Austrian Hypo Alpe Adria is the only bank that has so far been resolved under European regulations. Looking at the long list of violations of the EU's rules, it is clear that the EU's insistence on being the only institution to set the rules is only a pretext. In reality, this argument is only put forward to curb China's influence. Interestingly, Finance Minister Wolfgang Schäuble sees no problem when EU rules are ignored in the case of Italy.

The Derivatives Threat

The Italian banking crisis is only one of the various landmines that could explode the whole system, because the total amount of bad loans in the European banking system is valued at one trillion euros. The much larger problem is the outstanding derivatives contracts, in which case the EU, wondrously, does not insist on its own regulations, but allows the banks to operate and balance their books according to their own models and using their own in-house algorithms.

Officially, the total volume of these derivatives comes to about $700 trillion, but in reality it is more than double that amount. If there were a sharp decline in one section of the market, it would risk setting off an international chain reaction. At the end of 2016, the Office of Financial Research (OFR), a division of the U.S. Treasury Department, announced that the so-called "U.S. global systemically important banks" (G-SIBS)—the U.S. banks with global systemic influence—had more than $2 trillion in open positions in Europe. Approximately half of these positions are off-balance-sheet contracts. The OFR further emphasized that nine large banks in the United States and Europe are counterparties for approximately 60% of the $2 trillion in derivatives that American life


© European Union 2017

European Central Bank (ECB) President Mario Draghi: ECB interest rate still set at zero percent.

insurance companies hold.

The real Achilles heel of the trans-Atlantic financial system is the derivatives bubble combined with corporate indebtedness. The corporate indebtedness of companies outside the financial sector has grown around 40% since 2008, as they used the abundant zero-interest-rate liquidities to buy up their own stocks, thereby driving up their nominal worth. The International Monetary Fund itself warned, in its recent semi-annual report, that even the slightest further increase in interest rates could result in a bankruptcy rate of more than 20% among U.S. corporations. That is the deeper reason why European Central Bank (ECB) President Mario Draghi has again set the ECB interest rate at zero percent.

Xinhua/Chen Cheng

A May 12, 2017 photo of the Mazeras Bridge of the new Mombasa-Nairobi standard gauge railway in Kenya, constructed in cooperation with China.

The citizens would do well to realize how brutally pensions in the American Midwest are being halved and the Italian depositors are being expropriated. If a huge crash comes—as the threatening signs increasingly indicate—the life savings and the subsistence of the people will be ruthlessly sacrificed.

The Way Out

There is only one solution: The trans-Atlantic financial system must be totally reorganized in every country with a Glass-Steagall banking separation law, before a collapse occurs.

The EU's austerity policy has slashed the economy and the living standard of Greece by a third, and has dramatically increased the poverty rate; it is largely responsible for a similar development in Italy. According to reports of the Cologne Institute for Economic Research, poverty in Greece rose by about 40% from 2008 to 2015. The reports include not only income, but also material privation, underemployment, and cutbacks in health care. In Italy, poverty has nearly tripled over ten years. According to the Italian National Institute for Statistics (ISTAT), the number of Italians living in absolute poverty increased from barely 1.7 million people in 2006 to 4.7 million in 2016. That amounts to 7.9% of the population. In Germany, the Paritätische Wohlfahrtsverband (Parity Welfare Association) reports that poverty stands at an historic high, at 15.7%, which means that 12.9 million people in Germany are poor.

Putting aside the obvious debate over how to define the concept of poverty, it is evident that the so-called winner country of globalization and the euro—that is, Germany—is in principle going the same way as Southern Europe, at least as concerns the underprivileged part of the population.

China's policy, which has not only freed 800 million Chinese from poverty but—through the New Silk Road policy—is doing the same for all countries cooperating with this project, stands in utter contrast. At a conference in Brussels on the theme, "The Future of Europe," Professor Michele Geraci of Nottingham University Business School briefly underscored China's role in the about-face on poverty in Africa. For centuries nothing had changed on that front, and in the 1990s the problem even got much worse. The western model, the "Bob Geldof Model," clearly failed miserably, he said. But today with Chinese investments, the poverty rate has dropped from 55% in 2000 to 40%

The people of Europe would undoubtedly be better off if China, not the EU, were defining the rules by which the economy functions. In any case, the BüSo's program—the enactment of the Glass-Steagall law and a credit system for the real economy, as well as German cooperation with the program of the New Silk Road—represents the only perspective for preventing the impending chaos.