

International Bankers' Scramble Shows Money Can Solve Nothing

by Nancy Spannaus and Claudio Celani

Oct. 11—The week that began with the ramming through of the U.S. Congress's bailout bill on Oct. 3, was supposed to demonstrate that the U.S. political-financial establishment, and its European colleagues, had brought the global financial meltdown under control. In fact, all it showed was that the current financial authorities have no credibility, and that the issuance of *money*, trillions of dollars of it, will do absolutely nothing to save the financial system.

Rather, as Lyndon LaRouche has emphasized consistently, the current financial system *cannot* be saved. It must be put through bankruptcy reorganization, and replaced.

The unprecedented collapse (800 points) of the U.S. stock market on the day immediately after the bailout was signed, launched a process of escalating panic, which unfolded day by day over the week. Leaving aside most of the European measures, which we will relate later below, the following shows the increasing amounts of money which were thrown down the bottomless sinkhole:

Oct. 6: The Fed increased to \$900 billion the lending limit in its Term Auction Facility, and announced that it would begin paying banks interest on their reserves, thus, *de facto*, reducing interest rates by 0.75%.

Oct. 7: The Fed invoked emergency powers to establish a new unit, funded by a deposit by the Treasury at the New York Fed, which will buy up an undisclosed amount of *unsecured* commercial paper, which businesses are no longer able to sell to banks to fund their daily operations.

Oct. 8: As the stock market opened in the U.S., the central banks of the Group of 7 announced a coordinated cut in interest rates, in the alleged pursuit of providing liquidity to the banks. The cut brings the U.S. rate down to a nominal 1.5%. The Fed announced that it was issuing an additional \$38 billion to AIG, because it has already burned through most of the first \$85 bil-

lion, without touching its “core business.”

Oct. 9: Treasury Secretary Henry Paulson announced that he may devote \$200-300 billion of his \$700 billion bailout fund to purchasing preferred stocks in U.S. banks, rather than dump it all in purchasing toxic bank assets.

Oct. 10: With market turmoil sweeping worldwide, despite the bailout efforts, the only thing the U.S. government could think of to do, was to bring out President George W. Bush to address the public—after which the U.S. markets went through unprecedentedly wild gyrations, but ended up only 128 points down.

The European Epicenter

It has long been LaRouche’s contention that the European banking crisis was, in fact, worse than that of the United States. The last week exemplified this reality dramatically.

On Oct. 8, the British government intervened with a mega-bailout plan of £500 billion pounds (about \$1 trillion), a figure approaching the almost £600 billion total government spending. The plan will see the government spend up to 50 billion pounds (\$86 billion)—the equivalent of £2,000 for every taxpayer—on buying proprietary shares in the banks in order to increase their



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The LaRouche Youth Movement organizes in Germany’s financial center, in Frankfurt. The sign says, “What do Obama and Saakashvili have in common? Their political and financial godfather George Soros.”



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BüSo (Civil Rights Solidarity Movement) organizers in Berlin. Left: “The only Liquid Bank Is the Sperm Bank.” Right: “Financial Crash: LaRouche Was Right: 3 Point Plan Now!”

capital. Half is available immediately, while a further £25 billion can be used if necessary in future. In addition, the government will make £250 billion (\$500 billion) available to underwrite the banks' medium-term debts. Meanwhile the Bank of England will inject a further £200 billion into the markets, by offering Treasury bonds for "toxic assets." This makes a potential liability of £500 billion, which amounts to more than a third of the British GDP and would almost double public debt. So far, eight banks are reported to be seeking government help under the new scheme: Abbey, Barclays, HBOS, HSBC Bank, Lloyds TSB, Nationwide Building Society, DBS, and Standard Chartered.

But, as the emergence of this week's crisis in Iceland showed, the financial house of cards centered in the City of London is going to be hit a lot harder.

Iceland had been built as a "carry trade" center by British banks over the last few years. In a country of little more than 300,000 inhabitants, massive money was poured in, in order to exploit the different exchange rates between the Japanese yen and the Icelandic króna. Money was borrowed in Japan and used to buy Icelandic bonds. The whole country was transformed into a hedge fund! Icelandic banks were flooded with money, which they invested in assets totalling over ten times the GDP.

A few years ago, when the carry trade flow was inverted, the money turned into a huge debt. The collapse of the derivatives bubble created a reverse leveraged dynamic, as the Icelandic government tried to prevent capital outflow by repeatedly increasing interest rates, until the whole thing collapsed.

Facing bankruptcy, Icelandic authorities ordered the country's banks to begin calling in their loans and leverage positions, particularly in Great Britain. The British launched a pre-emptive strike, and the UK Financial Services Authority seized the British subsidiaries of Kaupthing, Landsbanki, and Glitner. This was done under anti-terror legislation. This was a move that forced the Icelandic government to move in, and take over the banks under the new emergency legislation, which gives the government the right to take over full control of the banks. Kaupthing Bank was taken over on Oct. 9, along with Glitner, after the government cancelled its plan to purchase the bank for Eu600 million. Landsbanki was taken over earlier this week.

This had an immediate repercussion in Britain, as hundred thousands of Britons have their money in Icelandic accounts. This includes private citizens, local

governments, banks, and utilities. For instance, the county of Kent had £40 million, the London transport authority £30 million, various municipalities have anywhere between £10 and £20 million apiece.

Measures of Self-Defense

While the British measures were the most dramatic, national governments throughout Europe felt compelled to make decisions this week to try to protect their banking systems, and populations. While none of these is adequate—nor could it be under conditions of the collapse of the global dollar-based system—their very failure will tend to impel national leaders to move in the direction of the FDR-style measures which are being championed by LaRouche.

Most importantly, as we emphasized last week, these country-by-country emergency measures have once again asserted the primacy of national sovereignty, as against the bureaucratic impotence (if not malevolence) of the European Union bureaucracy.

Germany announced over the Oct. 4 weekend that it would provide unlimited state guarantees for bank depositors. It was followed by Sweden and Denmark on Oct. 6, and by Italy on Oct. 8. The ability of these nations to carry out these intentions is clearly in doubt: Germany would need to have a Eu1.6 trillion fund to protect all depositors, as would Italy. Such an expenditure would bring Germany to the current state of indebtedness of Italy, while Italy's debt would become over twice its GDP.

Clearly, the primary intention of these announcements was to prevent panic runs on the banks, rather than to actually pour in funds.

So far, the government which has come the closest to acting for the public good has been Iceland's. Prime Minister Geir Haarde, in taking government control of the banking system, froze bank assets, and divided them into two categories, one of which (dealing with the domestic economy) would be guaranteed a credit line, and the other of which was put on a second tier. On Oct. 8 Haarde announced: "The total indebtedness is such, that there is no way that the Icelandic population can take responsibility for the debt these private companies have incurred. It happens every day in bankruptcies, that some are burned."

A New Bretton Woods

There is, in parallel, an increasingly lively discussion within Europe on moving beyond self-defense, to

building a new monetary system. President Nicolas Sarkozy of France and Economics Minister Giulio Tremonti of Italy have both called for a New Bretton Woods system. Sarkozy, who this week hosted an international conference on the world financial crisis which included Russian President Dmitri Medvedev, has raised the call for an emergency international conference on this matter, to be held in the United States, probably immediately after the November Presidential elections.

One of the most active debates on the New Bretton Woods is occurring in Italy, where Sen. Oskar Peterlini has introduced Motion 1-00029, a resolution which outlines the requirements of a New Bretton Woods credit system. The motion identifies LaRouche as the author of such proposals, and backs LaRouche's call for a Four Power agreement (United States, Russia, China, and India) to establish a New Bretton Woods system. The motion will be debated next week.

In a Senate debate on Oct. 9 on the world financial crisis, Sen. Gianpiero D'Alia called for bankruptcy reorganization and a new monetary and credit system as the only possible solution to the crisis. D'Alia referred to Peterlini's motion, and read through the

main elements of that text.

"It is not thinkable," D'Alia said, "that the hole created by speculation could be completely filled, nor it is admissible that public money be used to cover losses caused by mortgage-based assets and by derivative instruments that multiplied speculative values beyond imagination.... It is therefore necessary [to have] a system of rules where such speculative debts are extinguished or cancelled, the banks' balance sheets be cleaned up guaranteeing small depositors' moneys." D'Alia spoke before a full house, convened for listening to emergency communications by Economics Minister Tremonti.

Tremonti, who has appeared publicly in discussion on the economy with LaRouche, has been outspoken against the economics of speculation, for the building of Europeanwide infrastructure, and for a New Bretton Woods.

What can be said for sure, is that the discussion of establishing a new global financial system will be increasing over the next weeks, as it becomes ever clearer that throwing money at the systemic breakdown, will not feed or clothe anyone—and will only make the situation worse.