

# LaRouche: Strauss-Kahn's Fall Means End of the Bailout Game

by the Editors

May 24—Over the last three to four years of the global economic-financial breakdown crisis, Lyndon LaRouche has warned that if the hyperinflationary policy of bailing out the bankrupt banks of Wall Street and the City of London were continued, it would lead to increasingly dire consequences, up to and including the blowout of the global system. As of approximately ten days ago, it has become patently clear that some powerful forces within the world's policy elite agree with him.

The arrest of IMF chief Dominique Strauss-Kahn in New York on May 15 has brought the entire global financial bailout process to a halt. It was no accident. The “clean job” that was pulled on Strauss-Kahn had been in preparation for some time, to the purpose of achieving exactly those effects it did achieve. “What the outcome of those effects will be, is uncertain, but the effects . . . cannot be avoided,” LaRouche commented in a discussion with associates on May 21.

LaRouche continued: “The entire system is now going to crash in one of two ways. Either, by some unlikely prospect, the backers of Obama, Geithner, and Bernanke will survive this, in which case all Hell busts loose, or they won't survive it, and the situation becomes much more interesting. And what happened to Strauss-Kahn, is an absolutely crucial part of this turning point which has been reached in the past two weeks.”

There are only two options, LaRouche stressed: either the international speculative system collapses, or the world economy does. Strauss-Kahn (aka “DSK”) was not only a key figure in the bailout of the euro and the whole trans-Atlantic system, but was projected to become the “Emperor of the Mediterranean.” His arrest has changed the game. The mad-man bailout faction, especially DSK's buddies U.S. Treasury Secretary Tim Geithner and Federal Reserve Chairman Ben Bernanke, is now in disarray.

There are at least two factions in Europe, who rightly fear that new rounds of bailout packages would throw the world into an uncontrolled hyperinflationary wave. One, in Germany, is visibly acting through the German government's insistence on debt restructuring of Greece. A story now making the rounds on Internet is that, even before the first bailout plan went through, the head of the German banking bailout fund BaFin, Jochen Sanio, expressed his opposition to a Bundestag commission. Asked why, he candidly replied: “Because the taxpayers would come and hang us!” The other faction is visibly emerging in Britain, through the discussion of the “too big to fail” issue, and through the attack on the Blair-Royal Family nexus (see article in *International*).

In the U.S. as well, certain influential circles oppose the hyperinflationary casino-economy, a reflection of which is seen in the intervention of the New York jus-

tice system against Strauss-Kahn. In addition, New York Attorney General Eric Schneiderman has opened an investigation of five large Wall Street banks for fraud through activities on the secondary real estate market (mortgage-backed securities/MBS). Goldman Sachs, Morgan Stanley, Bank of America and others will be investigated under New York State's Martin Act of 1921, for crimes which have been exhaustively documented in the Angelides and Levin reports.

### **Bailout Frozen**

Meanwhile, the bailout process in the Eurozone has been frozen. Faced with DSK's empty chair, EU officials are unable to reach an agreement on a package for Greece. Strauss-Kahn had made sure that the IMF—which includes the U.S., Russia, and developing countries—would be a key part of all the bailouts. Now, EU president Van Rompuy complained that “we are feeling the lack of leadership in solving the Greek crisis,” and called for quickly finding a replacement for Strauss-Kahn.

In the meantime, the IMF-ECB-EU troika has suspended its mission in Athens, announcing that everything is in limbo until the government takes concrete steps toward the privatization program, which the Greek population considers another rape, initiated by Strauss-Kahn. And if Athens cries, Dublin is not laughing. The sale of a EU5 billion bond by the European Financial Stabilization Facility was postponed because of the Irish refusal to accept the exorbitant credit conditions. In other words, the whole bailout mechanism has come to a halt, and through that, the entire speculative derivatives market is facing a chain-reaction collapse.

Just look at the unrest spreading across Europe, from Greece, to Portugal, to Spain. Italy too is being hit by downgradings from the financial rating agencies, with the potential for detonating even broader financial and social instability. It is undeniable that the trillions in debt being held by the European Central Bank is *never* going to be paid—and some bankers are refusing to keep the game going.

Particularly telling on the death of the bailout system was a wire put out by the Moody's credit rating agency on May 24, in which it announced that it was reviewing two of the leading Inter-Alpha banks—Royal Bank of Scotland and Santander UK—for downgrading. Why? Because, Moody's says, there will be no taxpayer bailouts in the future!

### **A Turning Point**

In effect, the downfall of Strauss-Kahn has brought the world situation back to the same kind of branching point where it stood in the fall of 2008—of course, after the destruction of millions of lives. The alternatives then, as LaRouche pointed out forcefully, were either a return to the Glass-Steagall standard in banking, as the first step in restoring a credit system, or a bailout policy that would lead to ruin. London and Wall Street, working through the Bush Administration *and* candidate Obama then, succeeded in armtwisting the U.S. Congress into going along with the bailout—which has cost, according to Phil Angelides, the chairman of the Financial Crisis Investigative Commission, trillions of dollars.

The result of this action is clear: *the monetarist financial system is more bankrupt than ever.*

Among those recently pointing this out is Li Hong, a writer for China's *People's Daily*. In his May 24 article, Li Hong laid it on the line. “Lately, financial markets from Wall Street to London and Hong Kong all tumbled on news that euro-zone fiscal indebtedness would worsen, as ratings agencies were cutting Greece and Spain, and warned impending risks to cripple Portugal, Belgium, Italy and many more. Some economists have announced that if the European Union, typically Germany and France, won't rush to their bailout, these countries have to default on their prior borrowings. The scenario of falling dominoes in Europe stokes new fear that the world will be thrown into another serious financial crisis, following the 2008-09 global meltdown. But, the demarcation isn't that clear-cut since *the colossal meltdown hasn't really faded*, and, a deterioration of the European fiscal woes is an appendix of the 2008-09 collapse” (emphasis added).

Li Hong went on to warn that some in the U.S. still want to try to deal with the crisis by more money-printing, especially the vaunted Quantitative Easing III. This would mean even greater hyperinflation, leading into a crash. Politically, it would be poison.

Now, as in 2007-08, the solution to the global disaster lies in the United States, where a return to the Glass-Steagall principle is a live option on the table. Geithner and Bernanke, DSK's partners in bailout, are now in a much weakened position. So too, President Obama, whose disdain for the welfare of the American people is fueling increasing rage against him. As LaRouche emphasized this week, this is a transitional period where the British enemy of humanity is destabilized: It is time to act.