The U.S.A. and Europe Are Reaching the End of the Line

by Helga Zepp-LaRouche

*This article is excerpted and translated from the German weekly **Neue Solidarität**. The full article reports on developments in the United States that are covered elsewhere in this issue.*

June 25—The euro crisis is coinciding dramatically with the de facto bankruptcy of Greece and other states, and also the imminent bankruptcy of the U.S. government: In both cases, the end of the line is here. On June 24, in a vote in the U.S. House of Representatives, the question of impeachment of President Obama was potentially and implicitly put back on the agenda, because in the military operations against Libya, he has deliberately flouted the War Powers Act, and thereby the Constitution. Because the movement for the early introduction of a two-tier banking system is also growing massively, the greatest danger now lies in a staged event like the Reichstag fire of 1933, which would provide the pretext for State of Emergency legislation....

Bankruptcy Threatens the ECB

The situation in Europe is no less dramatic. Because of the sins of the EU Commission, the European Central Bank (ECB), and the governments, which have repeatedly violated the no-bailout clause of the European Union's Maastricht Treaty with their so-called rescue packages, plus the ECB's acquisition of toxic government bonds, a situation has now arisen in which the ECB could become technically bankrupt overnight. For example, if the Greek Parliament, under pressure from the population, were to reject the brutal austerity program[1] prescribed by the Troika [the IMF, European Commission, and ECB], or if there is a "haircut" for banks that are holding Greece's debts, the ruthless and reckless behavior of the ECB would be immediately exposed.

As Welt-Online reported on June 25, the ECB has only EU82 billion of equity, with nearly EU1,900 billion in euro securities on its balance sheet, the vast majority being junk bonds. The ECB is almost as strongly leveraged as Lehman Brothers was in the darkest days, with its equity capital leveraged 23-fold (compared to 30-fold for Lehman Brothers). If the ECB ends up on the brink of bankruptcy as the result of a debt haircut for Greece, for example, it would immediately have to increase its capital to avoid insolvency. In this case, the Bundesbank—that is, the German taxpayer—would immediately provide this capital, thereby burdening the German federal budget with that debt. A debt haircut of only 50% for Greece would therefore instantly add over EU100 billion of debt to the German federal budget.

After the most recent EU summit on June 23, which decided on a further EU120 billion rescue package for Greece, the daily *Frankfurter Allgemeine Zeitung (FAZ)* commented that Merkel and Finance Minister Wolfgant Schäuble had "allowed themselves to be led by a nose-ring through the capital markets." And in fact, Chancellor Merkel, faced with opposition within her governing coalition, had previously indicated, that private investors might have to cover part of the debt, capitulated

1. The package is scheduled to come to a vote in Parliament on June 30.

again, and used banker-speak to explain that such a thing would lead to a "credit event."

Since the banks have already quietly dumped many of their Greek bonds, and since extending the maturities of the remaining bonds would have little effect, Merkel obviously does not want the bankers to have to put up with even minor losses, while the taxpayers, on the other hand, will have to come up with a trillion euros, as the *FAZ* writes—and it is quite right when it continues: "Anyone who wants to fight the debt crisis in a situation like this by incurring even more debt, is trying to put out a fire with gasoline."

Opposition Is Growing

While hundreds of thousands of people in Greece and Spain have for months been taking to the streets to oppose this policy, dramatic ferment is also now beginning in Germany on the grassroots level. More and more people are deeply troubled and upset with the reckless policies of Merkel's government. More and more groups are seeing the bailouts as just as reckless as the nuclear phase-out, which is endangering Germany's energy security and causing deindustrialization, a policy leading to Germany's national suicide. There is also growing recognition that this policy was imposed on Germany by the euro system, and that Merkel has been taken in by bad Anglophile advisors, such as Hans Joachim Schellnhuber, CBE.[2]

Engineers and other skilled professionals are realizing with horror, how frightfully little scientific knowledge the politicians have, and how lightly decisions are being made that throw out the window the economic and cultural achievements that were developed over decades. Better late than never, people are starting to realize that what really matters is what *they* do. Still unsure about the exact form that the resistance must take, more and more citizens realize that the issue is protection from the oncoming political and financial tsunami, which is being exploded by the political cocktail that the EU and Merkel's government have mixed for us. People are realizing, with a certain bewilderment, that they have fallen into the hands of robbers.

If one were to be cynical, one could say that Article 65, Sentence 1 of the Constitution, according to which the Chancellor defines the guiding principles of policy, could be amended to specify that, in Germany, it is the banks that define policy—that would sum up the political reality in our country.

A better solution is emerging in the United States: There is growing support in the U.S. House of Representatives for H.R. 1489, which would reintroduce the Glass-Steagall standard, and which is being demanded by more and more organizations and groups throughout the country. If America re-introduces such a two-tier banking system—and this could happen relatively soon, in response to the abovementioned dangers—then Europe will have no choice, given the interdependence of the global financial sector, than to do something along the same lines.

2. The radical malthusian Schellnhuber, Honorary Commander of the Most Excellent Order of the British Empire (CBE), is the head of the German Advisory Council on Global Change (WBGU) and a climate advisor to Chancellor Merkel.

Documentation

Dissent Inside the System

Bank of England Governor Mervyn King, June 24: "Right through this crisis from the very beginning . . . an awful lot of people wanted to believe that it was a crisis of liquidity. It wasn't, it isn't. And until we accept that, we will never find an answer to it. It was a crisis based on solvency . . . initially financial institutions and now sovereigns. . . . "Providing liquidity can only be used to buy time. Simply the belief, 'Oh we can just lend a bit more,' will never be an answer to a problem which is essentially one about solvency."

Andrew Graham, master of Balliol College at Oxford University, letter to the *Financial Times*, June 22: "I am appalled, indeed terrified, by the lack of understanding of macroeconomics being shown by the European Central Bank and by the German government." The first bailout with conditionalities has reduced the Greek ability to repay its debt, "and now, the ECB want a second pound of flesh. This is punishment, not macroeconomics. What is more, it is stupid punishment. It risks producing a failed state in Greece, the non-repayment of any Greek debts at all and the collapse of the entire European banking system."

Swedish parliamentarians Ulla Andersson and Jonas Sjöstedt (Left Party), article in *Aftonbladet*, June 19: "If Greece does not get its own currency with another exchange rate, the country risks being trapped in a very deep crisis. It is time to plan for an organized retreat from the European Monetary Union."