Banks Dictate Bailout Policy to EU Summit

by Helga Zepp-LaRouche

This article was translated from German.

Wiesbaden, July 23—Article 20 of Germany's Basic Law states:

> *1) The Federal Republic of Germany is a democratic and social state....*
>
> *4) All Germans have the right to resist any person seeking to abolish this constitutional order, if no other remedy is available.*

Unfortunately, it appears that in the wake of the July 21 EU Summit, a situation has arisen which meets the criteria of Article 20, Paragraph 4.

Because what was decided at the summit has turned the European Union into a transfer union,[1] one in which the chief burden is shifted onto the German taxpayer. In the context of the new EU109 billion bailout package for Greece, it was also agreed to expand the European Financial Stability Fund (EFSF) such that, beginning this Autumn, it will be able to buy up Greek and other toxic bonds, and/or exchange such bonds held by banks and insurance companies for new, EFSF-guaranteed securities.

The fact that German Chancellor Angela Merkel managed to obtain the participation of private investors in these bailout packages, while mooted as her "great success," looks quite different when examined more closely: Semi-toxic government bonds which currently have a market value of perhaps 50% or less of their face valuenow be transformed into 15- to 30-year bonds with a low 3.5% interest rate. So, the banks are supposed to write off 21%, while exchanging securities which are only worth 50%? What a good deal for the banks! And on top of that, private debts have once again been transformed into public debt—to the banks' advantage, and at taxpayers' expense.

French President Nicolas Sarkozy was overjoyed, calling it "a first step toward a European Monetary Fund." "The embryo of a European national debt," concluded *La Repubblica*, while the Italian economic daily *Il Sole 24 Ore* termed it "the birth of a lender of last resort." "The Euro region has become a complete community of liability," writes the *Frankfurter Allgemeine Zeitung*.

And in fact, with the expansion of the EFSF, this agency can now also grant preventive lines of credit to countries that get into trouble, and it can even fund the recapitalization of private banks. Thus it is a giant step toward a European finance ministry, as was demanded recently by European Central Bank head Jean-Claude Trichet. And as Jacques Attali, the *éminence grise* behind former French President François Mitterrand, likewise recently boasted, the euro's defective birth was planned deliberately, so that in the future, under emergency con-

1. The term means that the debt of one or more EU members gets transferred to one or more others; this is specifically ruled out by the EU's Lisbon Treaty.

ditions, a European federal state could be rammed through.

Behind the Scenes

The recent summit also gave us a foretaste of who is going to be calling the shots in this prospective European federal state. The *Frankfurter Allgemeine Zeitung* cited banking circles on the outcome of the negotiations: "We cannot be dissatisfied with the solution, since, after all, [Deutsche Bank board chairman] Josef Ackermann was sitting at the table." And in fact, only hours earlier, a handful of top bankers, gathered in a room at Rue de Loi 155 in Brussels, just a few blocks from the European Council's headquarters, had formulated the final details of the long-prepared Greece/EFSF package—which then, from noon to 9:00 p.m., the 17 heads of state "prepared," i.e., translated into an "acceptable" EC communiqué.

Creative Commons/EPP

German Chancellor Angela Merkel attempts to stare down EU Commission President José Manuel Barroso at a meeting last year. But now, she is allied with "Helicopter Ben" Bernanke's hyperinflationary QE3 policy and the bailout of the banks.

The bankers' group was headed by Ackermann, who, in addition to his day job at Deutsche Bank, also heads the Institute of International Finance (IIF) in Washington, the "only global institution of financial institutions, where the top 420 banks, insurance companies, and capital management firms from 70 countries have all teamed up."

Other IIF members present, in addition to Ackermann, were Boudouin Prot, board chairman of BNP Paribas, the world's biggest bank (as measured in "assets"), and Charles Dallara, CEO of the IIF, both of whom had attended under the pretext of providing "technical assistance" and "advice" over the telephone to the heads of state.

The result therefore suited not only the architects of the euro, whose long-held plan has always been to transform the EU into a supranational empire, but also the financial oligarchy's interest in maintaining, at all costs, their casino economy of high-risk speculation.

The EFSF's goal is to be a gigantic bank into which the toxic waste of financial speculation can be dumped, at the population's expense. And thus, a mechanism has been created equivalent to the liquidity creation of U.S. Federal Reserve Chairman Ben Bernanke's "Quantitative Easing 3," which feeds hyperinflation, but by no means eliminates the danger of an uncontrolled collapse, because the EU heads of state and their "technical advisors" haven't even broached the necessity of a re-regulation of the banking sector. They have given no consideration whatsoever to the vast array of problems cited by the reports of the Angelides Commission of the U.S. Congress, and of the Senate's Levin Commission—problems such as the shadow banks, derivatives, the securitization market, and so much more. And thus, the next mega-disaster, national bankruptcy and hyperinflation, is now pre-programmed.

Unconstitutional and Suicidal

Some important circles do recognize these dangers. Kurt Lauk, president of the German Christian Democratic Union's economic advisory council, warns of the danger that Europe "is rushing by leaps and bounds toward an unregulated transfer union." Freiburg constitutional law expert Dietrich Murswiek sees, in the EFSF's planned preventive activity, an unbelievable expansion of its powers. Virtually no restrictions on the EFSF remain, recourse to Parliament is totally ineffective, and "the existing deficit in parliamentary control will become much greater," he argues.

Clemens Fuest, deputy chairman of the German Finance Ministry's economic advisors council, finds that "The Bundestag's power over the budget has been further encroached upon, perhaps not formally, but *de facto*." And it is telling that even Merkel's own former economic advisor, Bundesbank head Jens Weidmann, has been sharply critical. The Euro summit's decisions have made it extremely difficult from now on to practice any kind of stable financial policy, he said.

Calculations by Stephen L. Jen, head of the London hedge fund SLJ Partners, that the cost of all bailout packages up to this point totals some EU900 billion, fall short of the mark, but are interesting nevertheless. This, he says, has bought us approximately 500 days of peace, which works out to almost EU2 billion for each day of peace—too steep a price, in his view. But if you also consider that out of the EU109 billion package for Greece, half is being used to collateralize the risks of the participating private creditors—which the *Frankfurter Allgemeine Zeitung* rightly describes as "just another way of making the debt into communal property"—then it becomes clear that we have fallen into the hands of bandits—oh, excuse me, I meant to say "convergence, competitiveness, and governance," as it is called, of course, in the EU-speak of the official communiqué.

Since the brutal austerity policy imposed upon all states by the EU can only serve to further dramatically ruin the economies of Greece, Ireland, Portugal, Spain, Italy, and all the others, the ability of these states to ever pay back these credits, is virtually zero. The idea floated by some politicians, of a Marshall Plan for the Mediterranean countries, should, to be perfectly clear, be described as a Morgenthau Plan,[2] since these proposals consist solely of programs for renewable energy and luxury tourism, which only the mega-speculators will be able to afford.

And we don't have that much time left. With the EU's decision to turn the EFSF into a mechanism for buying up toxic government securities, the end-game has gone into overtime, such that Ben Bernanke's "Quantitative Easing 3" now applies to Europe, too. The next thing Chancellor Merkel will have to do, is interrupt her vacation in order to join Ackermann in flying over Brussels, Frankfurt, and London, to drop wads of cash from their helicopter.

The Glass-Steagall Alternative

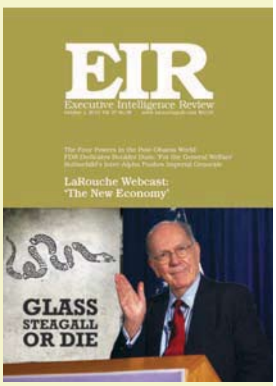
The only alternative to this policy—a policy which threatens Germany's prosperity and its citizens' savings, by imminent hyperinflation—is to immediately replace the casino economy with a two-tier banking system—known in the U.S. as a Glass-Steagall standard—whereby commercial banks' activities in areas where personal savings are managed and people's life's work is honored, are maintained and put under government protection, so that, in a credit system, they can issue credit to the real economy. The high-risk speculative sector, on the other hand, which was spawned by deregulation, must be written off, without compensation. In the United States, there is a growing citizens' movement for the reintroduction of the Glass-Steagall standard, along with growing bipartisan support for it in the House and the Senate. We need the same thing here, too: a two-tier banking system.

The EU's current policy is a threat to Germany's fundamental character as a democratic and social state. And therefore, Article 20, Paragraph 4 of the Basic Law applies. And if the Bundestag, whose sovereignty over budget matters has been almost completely annulled by the EU decisions, goes ahead and approves those decisions—as is, unfortunately, to be expected—then all Germans have the constitutional right to resist, because no other remedy remains.

If you don't want to live under the dictatorship of "governance" by the IIF and its executive organs, and if Germany and its future are dear to you, then join with the Civil Rights Movement Solidarity, the BüSo, for a two-tier banking system, a new D-mark, fixed exchange rates, and a New Bretton Woods System!

Lyndon LaRouche ON Glass-Steagall AND NAWAPA:

The North American Water and Power Alliance



"The greatest project that mankind has ever undertaken on this planet, as an economic project, now stands before us, as the opportunity which can be set into motion by the United States now launching the NAWAPA* project, with the preliminary step of reorganizing the banking system through Glass-Steagall, and then moving on from there."

"Put Glass-Steagall through now, and I know how to deliver a victory to you."

Subscribe to **EIR Online** www.larouchepub.com/eiw

1-800-278-3135

For subscription rates: http://tiny.cc/9odpr

---

2. The Morgenthau Plan for deindustrialization of Germany after World War II was ultimately rejected.