

LaRouche: Only Glass-Steagall Can Halt Global Breakdown

by the Editors

May 29—Abruptly, but lawfully, the Spanish debt crisis has erupted into a systemic rupture in the entire trans-Atlantic financial and monetary facade, posing the immediate question: How far will the European Monetary Union and the entire trans-Atlantic financial system survive into the days or weeks ahead? *The collapse is upon us.*

Late on Friday afternoon May 25, the Spanish government revealed that bailing out the Bankia bank, which was nationalized on May 9, will cost Spanish taxpayers nearly EU24 billion—and rising. Many other Spanish banks are facing imminent collapse or bailout; the autonomous Spanish regions, with gigantic debts of their own, are all bankrupt and desperate for their own bailouts. Over the past week, Spanish and foreign depositors have been pulling their money out of the weakest Spanish banks in a panic, in a repeat of the capital flight out of the Greek banks months ago.

But the Spanish government's bank bailout fund had only EU5.4 billion in its coffers, so two days later, Prime Minister Mariano Rajoy announced a new plan to bail out Bankia with government bonds—basically, funny money. The next day, in the face of plunging markets and soaring interest rates, Rajoy called a press conference to repudiate his plan, and plead instead for a direct bailout by the European Financial Stability Facility (EFSF). The funds for Bankia, of course, would only be the beginning, as the government estimates that other Spanish banks need an additional EU50-60 billion—on top of the EU170 billion debt crises in the bankrupt regions.

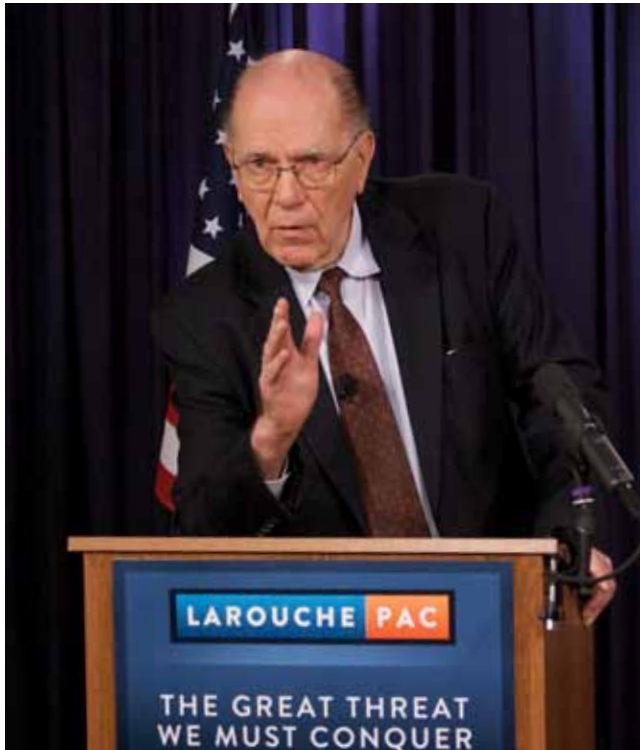
The situations in Greece, Italy, Portugal, and Ireland are equally on the edge of total disintegration—and the exposure of the big Wall Street banks to this European disintegration is so enormous that there is no portion of the trans-Atlantic system that is exempt from the sudden, crushing reality of this collapse.

Non-Solutions

The hyperinflationary “solutions” being discussed by European leaders are known to be no solutions at all, as bankers and companies are now publicly admitting. The euro system is at an end, and they are scrambling to put together a “Plan B.”

Some examples: On May 27 Richard Ward, the CEO of the insurance giant Lloyds of London, admitted in an interview with the *Sunday Telegraph* that his company has devised plans for the breakup of the European Monetary Union, based on anticipating that Greece, which faces new elections June 17 (the last election was May 6), will be leaving the euro, and adopting its old currency, the drachma. The Franco-German firm Euler Hermes, which provides credit insurance for euro-denominated businesses, said it was considering canceling future credit default swap contracts for Greek debt denominated in euros. And the head of the Swiss National Bank, Thomas Jordan, has acknowledged that his government is working up contingency plans for the breakup of the euro.

Whether the system holds together for a few days or weeks more, or whether it goes into meltdown in the



EIRNS/Stuart Lewis

Lyndon LaRouche comments on the current meltdown of the euro system: "If the rate of inflation is higher than the rate of your bailout, then what happens when you try to increase the bailout, is you increase the hysteria. You increase the rate of collapse. The rate of collapse exceeds the rate of bailout."

coming hours, the moment of truth has arrived, when all options to hold the current system together have run out.

On May 26, in response to this immediate crisis, Lyndon LaRouche issued a call to action. Referring to the overall trans-Atlantic financial bubble, in light of the Spanish debt explosion of the previous 48 hours, LaRouche pinpointed its significance, and laid out the only solution, which starts with a revival of President Franklin D. Roosevelt's 1933 Glass-Steagall Act. Either immediate action is taken to enact it—Rep. Marcy Kaptur's H.R. 1489, "The Return to Prudent Banking Act," is before the U.S. Congress and ready to go—or the situation will be hopeless.

The Hyperinflationary Trap

LaRouche laid out the situation as follows:

"The rate of collapse now exceeds the rate of the attempts to overtake the collapse. That means that, essentially, the entire European system, in its present form, is in the process of a hopeless degeneration. Now, this is something comparable to what happened in Germany

in 1923, and they've caught themselves in a trap, where the rate of collapse exceeds the rate of their attempt to overtake it yesterday.

"So therefore, we're in a new situation, and the only solution in Europe, in particular, is Glass-Steagall, or the Glass-Steagall equivalent, with no fooling around. Straight Glass-Steagall! No bailouts! None! In other words, you have to collapse the entire euro system. The *entirety* of the euro system has to collapse. But it has to collapse in the right way; it has to be a voluntary collapse, which is like a Glass-Steagall process. This means the end of the euro, really. The euro system is about to end, because you can't sustain it.

"Everything is disintegrating now in Europe. It can be rescued very simply, by a Glass-Steagall type of operation, and then going back to the currencies which existed before. In other words, you need a stable system of currencies, or you can't have a recovery at all. If the rate of inflation is higher than the rate of your bailout, then what happens when you try to increase the bailout, is you increase the hysteria. You increase the rate of collapse. The rate of collapse exceeds the rate of bailout.

"And now, you have Spain, and Portugal implicitly, and the situation in Greece. Italy's going to go in the same direction. So the present system, which Obama's trying to sustain, in his own peculiar way, is not going to work. There's no hope for the system. Nor is there any hope for the U.S. system in its present form. The remedies and the problems are somewhat different between Europe and the United States, but the nature of the disease is the same. They both have the same disease: It's called the British disease. It's hyperinflation.

"So, now you're in a situation where the only way you can avoid a rate of hyperinflation beyond the rate of hyper-collapse is Glass-Steagall, or the equivalent. You have to save something; you have to save the essentials. You take all the things that go into the bailout category, and you cancel them. How do you cancel them? Very simple: Glass-Steagall. Anything that is not fungible in terms of Glass-Steagall categories doesn't get paid! It doesn't get *unpaid* either; it just doesn't get paid. Because you remove these things from the categories of things that you're responsible to pay. You're not responsible to bail out gambling, you're not responsible to pay out gambling debts.

"Now, the gambling debts are the hyperinflation. So now, we might as well say it: The United States, among other nations, is hopelessly bankrupt."

Get Rid of the Bad Debt

“But this is the situation. *This is what reality is!* And what happens, is the entire U.S. government operation is beyond reckoning. It is collapsing, and there’s only one thing you can do: the equivalent of Glass-Steagall. You take those accounts, which are accounts which are worthy, which are essential to society; you freeze the currencies, their prices; and no bailout. And you don’t pay anything that does not correspond to a real credit. It’s the only solution. The point has been reached—it’s here! You’re in a bottomless pit, very much like Germany 1923, Weimar.

“In any kind of hyperinflation, this is something you come to. And there’s only one way to do it: Get rid of the bad debt! It’s going to have to happen.

“The entire world system is in a crisis. It’s a general breakdown crisis which is centered in the trans-Atlantic community. That’s where the center of the crisis is. So, in the United States, we’re on the verge of a breakdown, a blowout; it can happen at any time.

When will it happen, we don’t know, but we’ve seen this kind of thing before, as in 1923 Germany, November-December 1923, this was the situation, and it went on after that. But it’s a breakdown crisis. And *that’s it*.

“Those who thought there could be a bailout, or they had some recipe that things were going to be fine, that things would be manageable, that’s all gone! You’re now relieved of that great burden. You need have no anxiety about the U.S. dollar. Why worry about it? Either it’s dead or it’s not! And the only way it’s not going to be dead, is by an end of bailouts. That’s the situation.

“We don’t know exactly where the breakdown point comes, but it’s coming, because we’re already in a system in which the rate of breakdown is greater than the rate of any bailout possible. And there’s only one way you can do that: Cancel a whole category of obligations. Those that don’t fit the Glass-Steagall standard, or the equivalent of the Glass-Steagall standard: Cancel them immediately! We don’t pay anything on gambling debts. Present us something that’s not a gambling debt, and we may be able to deal with that.”



Creative Commons/Lucia García (Zaqarbal)

Bankia is collapsing, but it's not the architect's fault. Shown is the bank's operational headquarters in Madrid. The figure for the government's bailout, which was first estimated at EU5 billion, had reached EU24 billion by the end of the week.



Creative Commons/Iker Parriza

Spanish Prime Minister Mariano Rajoy is scrambling from one day to the next to come up with a “solution” within the confines of the existing system. He offers a “plan” one day, and repudiates it the next.

A Stark Warning

“If you think that this system is going to continue, and you can find some way to get out of this

problem, you can not get out of this problem, because you *are* the problem. Your failure to do Glass-Steagall, is the problem. And it’s *your failure!* Don’t blame somebody else: If you didn’t force through Glass-Steagall, it’s your fault, and it continues to be your fault. It’s your mistake, which is continuing.

“That’s the situation we have in Europe, and that, really, is also the situation in the United States.

“But that’s where we are! It’s exactly the situation we face now, and there’s no other discussion that really means much, until we can decide *to end the bailouts*, and to absolutely cancel all illegitimate debt—that is, bailout debt.

There’s only one solution: *Get rid of the illegitimate disease, the hyperinflation! Get rid of the hyperinflationary factor. Cancel the hyperinflation.* Don’t pay those debts! Don’t cancel them, just don’t pay them! You declare them outside the economy, outside the responsibility of government: We can no longer afford to sustain you; therefore, you’ll have to find other remedies of your own. That’s where you are. It had to come, it has been coming.”