INTERVIEW WITH MARCO ZANNI

The Fraud of the European Stability Mechanism

Marco Zanni, Italian Member of the European Parliament and Chair of the Identity and Democracy Group in the parliament, granted the following interview to EIR*'s Claudio Celani on December 18, 2019. Zanni was a featured speaker at the Schiller Institute Conference, "The Urgent Need for a New Paradigm in International Relations," on July 1, 2018. Subheads have been added.*

EU
Marco Zanni, Member of the European Parliament.

EIR: Marco, my idea was to explain to our international audience, and the American audience in particular, the debate going on in the European Union about the so-called Banking Union, especially the European Stability Mechanism (ESM). This is a fund which is supposed to bail out banks and governments. There has been quite a debate in Italy, and your party was opposed to it. Can you explain to us what this fund is, and why you are against it?

Zanni: Thank you for your question. Actually, the debate around the reform of this so-called bailout fund has been one of the main political topics in Italy and the European Union in the past weeks, so it is a very important issue.

We must go back to the sovereign debt crisis of 2010, which strongly affected the Eurozone and the individual Eurozone countries, especially the so-called PIGS, Portugal, the Republic of Ireland, Greece, and Spain. At that time, the Eurozone was really in danger because of the common currency's unworkable architecture and the fact that this architecture was not able to give member states the instruments and flexibility needed to respond to the challenges of the financial crisis and the sovereign debt crises that erupted in the European Union in 2010.

So, in 2012, European governments decided to set up a fund—the European Stability Mechanism—not to bail out banks, but to support the sustainability or refinancing of troubled Eurozone countries' public debts. The aim of the ESM in 2012—or at least that's how the European institutions marketed it—was to support member states in trouble. At the beginning, the fund took over some bilateral loans made by member states to the Greek government, but the main action of the fund in 2012 was to buy back Greek government debt from French and German banks, which were heavily exposed to Greek government debt.

Steal from the People to Prop Up the Banks

In 2012 we set up the ESM, which was supposed to bail out states, primarily to support Greece, to support the Greek people in a very difficult moment. But in the end—and this was confirmed by *Il Sole 24 Ore*, the main financial newspaper in Italy—the fund bailed out French and German banks. Only 5% of the money committed by the ESM to Greece went to the Greek people; the rest was used to buy back Greek government debt on the balance sheets of French and German banks. That is what the fund did. It functioned not as a fund to support countries in trouble but it was instead a fund to transfer the losses incurred by private banks—mainly German and French banks—from their balance sheets to government balance sheets. The ESM, the bailout fund, was financed by member states' contributions.

Italy at that time committed 15 billion euros and later, in 2013, a total of 60 billion euros to support the fund, to bail out French and German banks. This was in a historical period in which the story being told in the Eurozone was that Italy was unable to pay its debt, to pay Italian pensions, or to pay public administrative salaries. That was the narrative spread by Mr. [Mario] Monti [the technocrat who was imposed on Italy as a Prime Minister by the European Central Bank (ECB) and the European Commission (EC) in 2011-2012].

EU/Alain Rolland

Mario Monti, Prime Minister of Italy (2011-2013).

When Mr. Monti's government implemented its pension reform, cutting retirement checks for the Italian people, the Italian government paid out fifteen billion euros to the ESM to bail out German and French banks. That was the reality of the ESM.

Soon thereafter, the ESM went on to "support" Spain, Portugal, Ireland, Cyprus, and other Eurozone countries. The problems in the Eurozone became evident to the common people. In response to that growing awareness, a package of policies to discuss the reform of the Eurozone and of the European institutions was put forward in 2017. Mainstream parties and politicians, along with Brussels bureaucrats decided to offer a proposal to transform the European Stability Mechanism into a sort of European Monetary Fund, similar to the IMF. That didn't work due to a lack of agreement in the council of member states, so it was decided to put forward a different path, for a reform of the ESM.

The Eurogroup, composed by the Finance Ministers of the 19 Eurozone member states, started to work on a plan to reform the ESM following two principles: The first principle was to allow "bailing-in" or restructuring of the government debt of Eurozone member states, keeping the member states in the Eurozone. That meant a bail-in [taking the funds] of government debt holders, i.e., savers and institutions that were invested in the government debt of Eurozone countries.

The second part of the reform was the creation of a backstop for the Single Resolution Fund (SRF), a fund created under the umbrella of the Banking Union to intervene if a banking crisis were to breakout. The SRF is one of the pillars of the Banking Union, which includes the Banking Supervisory Mechanism at the Eurozone level, a common resolution mechanism attached to the SRF, and the third pillar, which has not yet been agreed upon, the Common Deposit Insurance Fund.

So, the backstop's function was supposed to be a sort of safety net for Eurozone banks.

EIR: If I understand correctly, in the case of Greece, they were against the bail-in of private banks because this would have penalized French and German banks. But now, if Italy needs aid, Italy will have to bail-in [take the funds of] its creditors first, which are mostly Italian banks?

Zanni: That is more or less what happened in the past. Investors in Greek government debt incurred losses but not the full losses they should have incurred. So, French and German banks speculated on Greek debt because before 2010, with the common currency, it was very profitable for them to borrow money, considering the French and German interest rates; and invested this money in profitable financial instruments—Greek debt was offering higher interest rates than the German Bund or French treasuries. Basically, the difference is that at that time we, the Italian taxpayers, had to indirectly contribute to bail out German and French banks. Now, with the current reform, we would be forced to bail-in our citizens who have invested their money in Italian Treasury notes.

EIR: Let me address another aspect which, in my view, is the big change: The ESM is officially becoming a safety net for banks. Before, it was officially a safety net for states—while in reality, it bailed out private banks. But now it is officially to protect banks with this backstop thing. So, first they will use the Single Resolution Fund, which I think is not even fully funded; it has only a few million euros.

Zanni: It should be replenished by 2024. It is a bank-funded fund that should support the resolution of failing or ready-to-fail banks and, according to EU regulations, the total amount of the fund should reach 55 billion euros in 2024. The backstop should intervene if this fund is not sufficient to support the resolution in the European Union.

But it is just a fake fund: Look at the huge amount of money committed by the European governments for restructuring banks during the big financial crisis of 2008 and 2010. Just in Germany, the direct recapitalization and guarantees that the German government issued for the banks—we are talking about approximately 400 billion euros! In France, 250 billion euros; and for the entire European Union, we are talking about one trillion euros at that time. Do you think that a 55 billion euro fund with an additional 63 billion euro safety net will be sufficient to stabilize our banking system or to function as a safety net for our depositors? I don't think so.


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The European Central Bank building in Frankfurt, Germany.

EIR: Let us remember that the global financial system, including the European system, was bailed out ultimately by the U.S. Federal Reserve with an estimated $28 trillion. This leads me to the real motivation for the urgency of these reforms: Of the two dangers, the private and the government risks, it is the private risk that is up front. The international financial system is in a comatose state, as our readers know; the repo market, the system that banks use for overnight refinancing, has been dead since September. The U.S. Federal Reserve Bank is pumping billions of dollars into the system every day. The entire financial bubble *is* going to burst and the ESM will have to face this.

ECB—Teetering on the Edge

Zanni: Neither the ECB nor any other European institution is aware of the huge risks inside our financial system. There are strong signs of stress. You mentioned the repo and liquidity crisis in the U.S. We have also seen problems in the EU because the ECB has been refusing to properly assess the real value of illiquid assets (Level 3) on the balance sheets of European banks. So, European institutions are failing to assess the real risk in the financial system. They are again putting emphasis on the sustainability of government debt. European and especially Italian government debt is perfectly sustainable; we have big risks in the private sector and the EU and ECB are refusing to properly assess or consider actions to tackle the huge risks that are now evident to everyone.

They will not react; they will not put concrete proposals on the table for this. You know, the ESM is a complicated, and useless mechanism, which is typical of the EU decision making process. We have an instrument that is already in place and could guarantee financial stability to the financial system: it is the ECB. We don't need the ESM as a safety net; the ECB should do it.

Another problem is banking regulations. In 2010, we had a flood of new regulations, but those regulations do not address the problem. It is an attempt to create buffers, capital buffers, which are not sufficient to guarantee stability in our financial system. We are now setting up mechanisms that could absorb a financial crisis, but history shows that it is impossible to calculate in advance the consequences of a financial crisis. Whatever capital buffers we impose on banks, it still won't be enough to face the next financial crisis.

The right thing to do is to act to prevent the financial crisis. That is the only safe way to make our financial system sustainable. We have worked since 2014, I have worked in the European Parliament and in the European institutions, to protect the healthy part of our banks and separate out what we don't need—the specu-


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Italy depositor guarantee fund to decide on Dec. 30 on Pop Bari rescue: source

BANCA POPOLARE DI BARI

Drifting away from traditional banking activities and into speculative instruments, and under poor supervision from the Italian central bank, Banca Popolare di Bari got into trouble and was bailed out at Italian taxpayers' expense.

lative debt, which is just feeding the big financial bubble in our system. History shows that in the end, this bubble will burst, and taxpayers will have to pay for the mistakes and the bankers' speculative activity.

EIR: You are referring to bank separation, the famous Glass-Steagall Act, which we have promoted for years. Indeed, we helped start a debate after the financial crisis in the United States and in Europe. I am surprised that now nobody comes up with this solution, especially facing the new crisis of the system that you just described. We have the case of the troubled bank in Italy, the Banca Popolare di Bari (BPB), which is perhaps the type of crisis in which one could bring up the issue of bank separation. Is that correct?

Zanni: We have had several banking crises in the European Union and in Italy that were badly managed. We have two problems with Banca Popolare di Bari: One problem is related to supervision. A huge responsibility rests with the supervisory authority for BPB, the Italian central bank, [Banca d'Italia]. Something went wrong with that supervision. I hope the judiciary will, in fact, ascertain the role of the central bank in carrying out, or not carrying out, its proper responsibilities as pertains to BPB. In the European Union, central banks usually hide themselves behind the concept of "independence" and say: "We are independent, so you cannot attack us because of our supervisory mistakes." But that is not correct.

I don't agree with central bank independence, but that is not the issue here. We have that concept of central banking in the world and also in Italy. But independence does not mean irresponsibility; independence does not mean that central bankers are not responsible for their mistakes. That's the point.

The other point is that banks, in order to increase payouts to shareholders and bonuses for their managers, are moving away from their traditional banking activities while investing more in speculative instruments. That is not safe; that is not something that banks should do; and that is something that public authorities should address with proper banking separation, which is a very important pillar of a safe financial system.

EIR: Our time is running out, but I have two more questions for you. The first is whether under EU law, bank separation can be introduced at the national level. The EU drafted, and eventually all member states implemented, in 1989, what is called the "universal bank" model. Despite that, could a member state introduce a bank separation system at the national level? The second question is about the authorities that have oversight and regulate bank activity, but instead seem to be in a flight forward. They do not want to regulate; they want to launch a new bubble to save the old bubble. This is what I think the European Commission's proposal for a Green New Deal is about. The big international financial companies are saying this openly. Yesterday, the CEO of Goldman Sachs wrote an article saying his firm wants to invest in the transition to the Green Economy, but it must be profitable. This is going to be made profitable through government subsidies. So, these big financial players want the taxpayers to bail them out, they want to transfer money from the taxpayers to a new bubble. Is that correct?

Green New Deal—Financial Bubble Bailout Scheme

Zanni: You know, Claudio, green is the color of money. This green schizophrenia is something we should assess better. It is not based on concrete data; it is not based on a pragmatic approach; it is just danger-

The 25th United Nations Climate Change Conference (COP25), held December 2-13, 2019 in Madrid, Spain, targetted the U.S., Russia, China, and India for destruction via "decarbonization."

ous propaganda. Last week the EU Commission President presented her Green New Deal, which is one of the pillars of her program for the next five years. I was not surprised—this is just speculative finance hiding behind a sort of green wall.

What will happen with this? Banks will speculate on these new instruments, will make profits, will feed the financial bubble, and in the end, someone will have to pay the bill of this speculation. The question for the EU today is, will it put the burden on our businesses, on our small and medium-sized businesses, on our agricultural sector, on our energy companies, and on all our progress, because of this fake propaganda.

What is the EU facing with this Green New Deal and the proposal for a "Just Transition Fund," which is expected to be capitalized at 100 billion euros to help banks make profits and help government and private business invest in so-called green projects? That, for me, is something similar to the ESM. When Germany was in trouble with its banks greatly exposed to Greek debt, the decision was to set up a bailout fund, which collected taxpayers' money from all member states and bailed out those German banks. That will happen with this Just Transition Fund. Germany today needs to revert to its industrial system. This proposed fund will once again collect money from taxpayers around Europe to pay for Germany's industrial conversion. That is what will happen, and that is something we want to block.

We have the duty to bring the debate about climate change back to reality. This is dangerous propaganda, dangerous schizophrenia, which will hurt not just Europe but the entire world—and the progress of our continent and our countries in a moment in which we are all experiencing a lack of growth.

EIR: I agree with you, and it was striking to see that the COP25 conference, which just took place and failed in Madrid, targeted four countries, the United States, Russia, China, and India for "decarbonization"—exactly the four powers that Lyndon LaRouche, whom you have met, indicated as being the key partners to make an agreement to rebuild the world economy and secure world peace.

What about the other question? Is there any room for an EU member state to implement bank separation reform under EU law?

Zanni: Since 2008, all banking regulation has been drafted at the EU level. The EU does not have exclusive authority on banking and financial regulation, but de facto in the European single market, it is the European Union which has the power and the initiative to regulate the banking system. Member states can legislate and draft banking and financial regulations. In Italy, the Lega party had banking separation in its 2018 program. Unfortunately, due to the short life of the last government, we have not been able to propose this reform.

However, the reform should not be limited to the national sectors; it should be developed at the European level for all EU countries. This will make our financial system safer, because our banks are deeply interconnected.

EIR: In the last European Parliament, you did not have a majority to force through bank separation, but you successfully blocked a fake reform. How do things look in the new parliament?

Zanni: The situation has not changed in regard to the so-called banking structural reform bill that was discussed in 2014 in the European institutions. But I think that at some point in the next five years [the legislative tenure of each European Parliament] the coming financial crisis will force European legislators to consider banking separation as a strong action to stabilize our financial system and make it safer.