Fed to the Rescue! But the System Can't Be Saved

by Claudio Celani

Dec. 5—France now, for the moment, tops the list of Euroland countries giving *agita* to financiers and bankers around the world. The decision by the U.S. Federal Reserve to cut 50 basis points on dollar swap rates, to European central banks, prevented a meltdown centered on French banks. With $8 trillion in (largely phony) assets, the French banking system is the most overexposed in the world. In the current phase of the global financial collapse, it is crumbling under the combined effects of a deleveraging of financial markets, stock capital collapse, depreciation of sovereign bonds portfolios, and a virtual dry-up of American funds.

Remember that European banks, especially members of the Inter-Alpha Group, were among the main beneficiaries of the circa $16 trillion bailout of the various Fed funds in 2008. For instance, six of the first eleven beneficiaries of the Term Auction Facility (overnight Fed funds), were European banks, including Société Générale and Royal Bank of Scotland.

Bottomless Bailout

The new rate cut in the Fed swap agreement, which had already been revived in October, is a continuation of that bailout. It throws bad money after bad, debasing the U.S. currency and setting up the world for a hyperinflationary catastrophe. It allows the European Central Bank, the Bank of England, the Bank of Japan, and the Swiss and Canadian central banks to borrow cheap dollars from the Fed, and loan them to European banks, replacing frozen interbank and U.S. money markets.

Together, the six central banks have also created a temporary mechanism aimed at making it easier to perform the swaps—i.e., send dollars in exchange for euro-paper as collateral, just as the Fed did for the U.S. banks, illegally and secretly, to the tune of nearly $8 trillion, as just revealed this week by Bloomberg, after obtaining the Fed documents through FOIA requests.

Bank of England governor Mervyn King played a central role in arranging the new Fed bailout, according to King's own statements, reported in *The Economic Times* of India.

And yet, this new mega-injection of liquidity is still not enough. U.S. Treasury Secretary Tim Geithner is flying again to Europe, ahead of the Dec. 8-9 EU summit, to press activation of the ECB for a role similar to the Fed. The scheme now being discussed is to have the ECB lend money to the IMF, so that the IMF can create a $600 billion "temporary" safety net for Italy and Spain (i.e., French, British, and German banks owning Spanish and Italian sovereign debt). At the same time, pressure continues on Germany to accept so-called "Eurobonds," i.e., creating a EU debt underwritten together by all 17 Eurozone members.

Eurobonds are based on the multiple illusion that 1) they will enjoy low rates, close to current German refinancing costs; 2) they will enjoy a strong global demand.

However, big market players are already discounting a depreciation of German debt values, not to mention those of the weaker economies. Goldman Sachs has recommended to its customers, "betting on German 10-year bond yields climbing to 2.8 percent from 2.3 percent and exiting the trade if they fall to 2 percent,"

Presidenza della Repubblica

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Bloomberg reports, because German debt is becoming less German and more European.

According to Italy's *Corriere della Sera*, "Goldman Sachs thinks that Germany will anyway take the burden of a [major] part of a balanced monetary union, whose structural flaws have been exposed by the crisis."

As for the second condition, the catastrophic result of the last German bond sale, on Nov. 24, where 35% of the EU6 billion issue was not sold, shows that the era of lower bond rates is over.

Dictatorship To Follow

If the ECB is to play the role of lender of last resort in the dimension required by the bankrupt system, current EU treaties must be changed. EU leaders are determined to follow this path to suicide, but it's turning out to be a slow path, and until that is accomplished, there will be no money available.

This elimination of sovereignty was the idea behind the establishment of the euro to begin with, and it has been incremently enacted through violations of the Maastricht Treaty itself. Utilizing the mechanism of the "markets," the supranational financial establishment has systematically "punished" European nations, one after another, which have not agreed to the austerity measures and bailout policies, demanded by the EU and the ECB. Governments have been toppled in Ireland, Portugal, Greece, Spain, and now Italy, as populations reject the brutal conditions. Yet those very conditions continue to be rammed through, even as their implementation visibly *reduces* the productivity and viability of the subject economies.

Exemplary is the situation in Greece, where the European central financial institutions have effectively taken over the government, with a commitment to further slash living conditions which already amount to genocide against the population.

Much larger Italy is now getting the same treatment, with a technocratic austerity government imposed, again by the will of the "markets," not the population. The latest round of cuts demanded by the EU targets pensions for the elderly, and is so draconian, that Elsa Fornero, Welfare Minister in the puppet government of Mario Monti, broke down in tears during a press conference Dec. 5, when she had to announce tough sacrifices demanded by her pension reform. Fornero was going to announce severe reforms, including the abolition of inflation adjustment for pensions above EU960 monthly. She could not pronounce the word "sacrifices" and started to cry. Premier Monti had to intervene, explaining what Fornero intended to say.

The Monti government program, explicitly aimed at "saving the euro," provides for overall cuts amounting to EU20 billion, as demanded by the EU. This comes on top of what already decided by the former Berlusconi government, bringing the total amount of the austerity package decided this year to EU151 billion.

Will It Survive?

While German Chancellor Angela Merkel knows she doesn't have the political support for eurobonds, she is doing what costs Germany nothing: enforcing more EU totalitarian measures, through what is called a "fiscal union." In her speech at the Bundestag Dec. 3, Merkel announced that this is all that Germany can concede—for the moment. That is, the EU Commission shall acquire total control of Eurozone member countries' budgets, ordering "fiscally undisciplined" members what, where, and when to cut. Such a "fiscal union" shall be announced at the EU summit Dec. 9—if the system has survived until then.

In fact, there *is* no solution to the crisis without dumping the bankrupt *system,* cancelling worthless speculative debt, and adopting a two-tiered banking system as part of a global shift by an post-Obama United States. Then the U.S. could actually save Europe, not just give the bankers a few more weeks.