Gordon Brown

Banks Need Gigantic Global Bailout

by Paul Gallagher

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The current banking crisis is "on a par with the crash of 2008," Gordon Brown admits. His solution? Hyperinflation.

May 28—A figure more instrumental than any other in accomplishing the complete deregulation of banking across Europe during the past 20 years, has admitted that those banks are in the midst of a huge crash, and immediately threatened by "unstoppable runs."

Former British Treasurer and Prime Minister Gordon Brown's op-ed in the May 22 *New York Times*, "Crafting a Global Rescue for Europe," was more frank than the *Times* editor who headlined it. Brown made clear he means bailing out, not "Europe," but the Eurozone's big banks. European megabanks are a subject Brown knows something about, having labored as Tony Blair's Chancellor of the Exchequer to deregulate them and blow them up to as big a bubble-size as possible. And he made no bones in the *Times* op-ed that the situation of those big banks is now desperate.

It was estimated in the most recent IMF report on Europe's financial system, in April, that the Eurozone banks were harboring bad debts totalling over EU4 trillion, or $5.5 trillion—worst case. And the only thing worth considering now is everyone's "worst case," which still may understate the reality. This is also indicated by the lengthy pleading of Mr. Brown, now a British MP, for the biggest "global bailout" anyone has yet dreamed of.

Forget the antithesis of "growth" and "austerity" being rhetorically beaten to death by elected leaders and media, says Brown: "Europe faces a crisis in the fundamentals of its banking sector, and another crisis in the failure of economic growth." Spain's banks alone have EU260-280 billion in bad loans on their books. The crisis is "on a par with the crash of 2008," Brown warns. "Indeed, Spain's banks now require upwards of £100 billion ($160 billion) of recapitalization [only one part of bailing them out—pbg] even before we deal with similar pressures on banks in Italy and even in France." Since "the banks are now unable to provide good collateral for their loans, the 2012 life raft—1 trillion euros of European Central Bank support—may have to be scuttled."

And finally: "The specter of unstoppable runs on banks will hang over everything until there is decisive action."

This decisive action, Brown said, will have to be a global bailout on an immense scale. "Europe's 1 trillion-euro rescue fund is nowhere near large enough." The whole world, Brown cried, must contribute to a much larger bailout "firewall."

Tying this to the U.S. taxpayer, the May 22 London *Financial Times* reported that behind the scenes, "the Bank of England, the [British] Financial Service Authority (FSA) and the American Federal Deposit Insurance Corporation (FDIC) are studying a 'top-down bail-in' mechanism, in which combined authorities take control of a bank in difficulties." Estimates of bank runs waiting to happen in "peripheral" countries go up to EU350 billion in mass withdrawals.

When Brown was prime minister, in April 2009, he and British puppet President Barack Obama got the G20 nations to put $1 trillion in new reserves into the IMF, and create bailout funds of their own for the banks as well. Does Brown believe that trick can now be repeated, but with $4 or $5 trillion for the banks? Or is the ECB—despite the banks having no more good collateral, as Brown admits—going to be backed up by the Federal Reserve and central banks of England, Japan, and Switzerland, and just *print* EU4 trillion?

In his 1,000 words in the *Times*, Brown didn't spell that out. Either way means the fire of hyperinflation.