European Bankers Panic, Admit System Is Doomed

by Nancy Spannaus

June 5—Lyndon LaRouche and *EIR* magazine have told you for decades that the current financial system, including the Euro system, is doomed, and last week, LaRouche warned, with the breaking crisis in Spain, that an absolute breaking point had been reached. Over the last days of May, the leading international bankers finally publicly agreed. The problem is that those bankers, with their allegiance to the British global monetarist system, are determined to replace the current system with Weimar-style hyperinflation and a global financial dictatorship—which would doom mankind to not only servitude, but destruction.

There is resistance to that dictatorship, and thus, in the face of the utter abdication of any responsible solution from the current authorities, in Europe or the United States, the global financial community is on the verge of panic.

Panic, however, is totally counterproductive, as LaRouche has emphasized. What's needed is the immediate reduction of the unpayable debt burden by the application of Glass-Steagall, starting in the United States, and then a rapid shift into a system of state-backed credit issuance for great infrastruction projects. To this end, *EIR*, under the guidance of Helga Zepp-LaRouche, is issuing an emergency program for a new "Economic Miracle" in the Mediterranean region, encompassing Southern Europe and Africa, which program you will find in this week's *EIR* Feature. Even before we go "to print," this program will be circulating in leading political circles in Europe and elsewhere, for immediate action.

Collapse Outpaces the Bailout

In declaring his evaluation of the systemic collapse on May 26, LaRouche pointed to the crucial indicator that the system has reached the point of bankruptcy, as being the fact that the rate of collapse of the trans-Atlantic monetarist system is now outrunning the rate of any attempt to salvage it, especially by bailouts. The situation of the Spanish bank debt over the course of the last week, bears out that evaluation in excruciating detail.

Last Friday, June 1, Nomura Securities estimated that the bad debt of the Spanish banking system, which needed to be addressed, was EU300 billion; the next day, the United Bank of Switzerland said it was EU375 billion; on Monday, June 4, the *Financial Times* reported EU475 billion. And this, in *EIR*'s view, is undoubtedly an underestimate as well.

EIR estimates that the total of Spain's debts which will have to be covered in the immediate period ahead are in the ballpark of *EU1 trillion*: EU600-700 billion for the private banks, about EU50 billion for the country's regions, and some EU200-250 billion for the national government. In other words, about a quarter of Spain's estimated total public and private debt of EU4 trillion, as of the end of 2011.

And none of this takes into account the uncharted amounts of derivatives that are piled on top of each of these categories. One analysis done last week, by former IMF economist Simon Johnson, estimated the total euro-denominated derivatives debt outstanding at *EU185 trillion*.

In addition, due to the gambling nature of the international financial system, these bad debts continue to grow.

Clearly, these kinds of debts cannot be covered by any financial institution—the European Central Bank (ECB), nor the European Financial Stability Facility (ESFS), and certainly not the yet-to-be established European Stability Mechanism, which is currently on track to miss its own deadline of July 1.

Desperation Reigns

The reality of this bankruptcy has begun to sink in. On May 31, both Robert Zoellick, current head of the World Bank, and Mario Draghi, head of the European Central Bank, issued cries of desperation that the Euro system (they should have said the whole trans-Atlantic system) was on the verge of disaster. They were followed June 4, by even more ominous warnings.

In an op-ed in the *Financial Times*, Zoellick wrote: "While those living in the euro-zone building, especially those on the executive floors, will not want to hear an alarm, they had best read the instructions. Events in Greece could trigger financial fright in Spain, Italy and across the euro zone, pushing Europe into a danger zone." He added, "If Greece leaves the eurozone, the contagion is impossible to predict, just as Lehman had unexpected consequences."

Zoellick wrote that Europe "may be nearing a 'break the glass' moment: when one smashes the pane protecting the emergency fire alarm," warning, "If a crisis does occur, the European Central Bank may not have the ability to respond fast, fully, and forcefully because of differences on the bank's board.

"A Greek exit would trigger a hit to confidence in other sovereign euro assets. Euro zone leaders need to be ready. There will not be time for meetings of finance ministers to discuss the outlook and debate the politics of incrementalism. In panicked markets, investors flee to safe assets, sparking other flames."

The same day, ECB head Draghi addressed the European Parliament in similar apocalyptic terms. Urging European political leaders to drop their differences and take bold action, he posed the questions: "Can the ECB fill the vacuum of lack of action by national governments on fiscal growth? The answer is no. Can the ECB fill the vacuum of the lack of action by national governments on the structural problem? The answer is no." Draghi's conclusion: Without more aggressive action by the EMU's 17 heads of state, the euro "is being shown now to be unsustainable unless further steps are to be undertaken." (Those steps, by the way, are the establishment of a totally illegal, dictatorial European-wide FDIC, or banking union, to which Germany will not agree.)

On June 4, the voices from the financial sector became even more shrill.

• *Gary Jenkins*, a top British investment advisor with Swordfish, said: "We may be approaching the end-game, where either the eurozone or the ECB takes action to stem the bleeding, or the whole thing collapses."

• *Roger Bootle*, managing director of Capital Economics of London, writing in the June 4 *Daily Telegraph*, compared the current crisis to both the collapse of the Soviet Union and the demise of the Austro-Hungarian empire: "Sometimes really big things happen. The end of the Soviet Union burst upon a largely unsuspecting public. We could be close to another of those seismic events that reshape the world." Bootle then recounted having recently visited the remains of palaces of the Austro-Hungarian Empire in Vienna, noting that today's EU structure is about to implode like them. "In some not too distant future, I wonder if tourists will visit the EU building in Brussels and muse on lost power."

Bootle's argument closely echoes that made by Helga Zepp-LaRouche for quite some time, but there's one huge difference—Bootle and his colleagues have no clue as to what the solution is.

They're Not Kidding

There will be many who write off these expressions of panic as mere propaganda, aimed at getting nations such as Ireland and Greece to accede to increasingly onerous austerity demands which will kill their people, and at twisting the arm of German Chancellor Angela Merkel to foot the bill for accelerated hyperinflation. That would be a foolish mistake.

Not that such intimidation is not going on. Of course it is. The bankers are desperate, for example, to prevent the Greek population from rejecting the austerity memorandum imposed on their country, in their second parliamentary election on June 17, because it will mean the implosion of their whole system. (They did succeed in intimidating the Irish into voting up the Fiscal Austerity Pact.) But the reality of the situation is that the monstrous bubble of debt *is* totally unpayable, even if all the fascist consolidation schemes of political or banking union in Europe were put into effect.

Nor is it only the European bankers who are screaming for riding roughshod over or eliminating sovereign governments in order to authorize unprecedented levels of money-printing to give them the appearance of solvency. Aware of systemic nature of the crisis, the Obama Administration is weighing in with increasing intensity, holding conference calls with European leaders in order to demand that they implement "accelerated measures" "to strengthen the European banking system." It's clear that the Federal Reserve is already pouring out funds in futile efforts to fill the deepening hole.

The panic is not abating. With capital flight and runs on the banking systems out of control in Spain, the heads of state of the G-7 held an emergency video conference call this morning, to try to come up with a new bailout plan. Reuters cited unnamed G-7 sources saying before the meeting that everyone was going to gang up and beat up on Germany, to get it to go with direct bank bailouts. Germany, on the other hand, leaned again on Spain to go with a bailout. So the chicken game continues.

No official statement was put out after the call.

Save the People, Not the Banks

Since the terminal financial crisis broke out in July 2007, the death toll from the austerity measures has been incalculable, but very high, and growing at an escalating rate. The suicides and medical cutoffs in Greece, the unemployment and cutoffs of services to the poor in the U.S., the deaths by famine in regions of Africa and beyond that are denied the basic credits they need, in favor of bank bailouts—all can be attributed to a British monetarist policy commitment to save the power of the global financiers, at the expense of the people.

Because the system is unsalvageable, that process will become increasingly mass-murderous—until an alternate system of real economic development is adopted. It is just such a development system that Lyndon and Helga LaRouche and their political movement have put on the table repeatedly, and are doing again today.