The Euro Eats Its Children: Spain Gone, Italy To Follow

by Gretchen Small

July 23—The Trans-Atlantic financial system is evaporating, less than one month after the June 28-29 European summit was hailed as having, this time, finally, established the basis to restore confidence in the euro system. Had not two great obstacles been overcome? The European Stability Mechanism (ESM) for a permanent bankers' dictatorship and bailout mechanism for Europe could finally go ahead, Germany's Angela Merkel having agreed to this new Versailles reparations scheme. And did not the EU100 billion "no conditions" bailout for Spain's banks head off the threat of a general Spanish bankruptcy, without Greek-style social explosions?

Instead, less than a month later, Spain's banks, and central and regional governments, have been cut off from the capital markets, blowing a hole in the euro dike so big that only a trillion-euro-plus bailout could temporarily plug it. Interest on Spanish 10-year bonds topped 7.5% on July 23, with 5-year bonds running close behind, at nearly 7%. Emergency meetings, reportedly underway to cobble together another immediate bailout for Spain, this time for EU300-400 billion, are yet another criminal exercise in futilty.

As goes Spain, so goes Italy. Europe's third-largest economy is now chasing Spain, Europe's fourth-largest, over the cliff into national bankruptcy. The hope of the quick creation of the ESM'S greater bailout capability has been dashed, since the German Constitutional Court put off a ruling on a temporary restraining order on the ESM until September. With Timothy Geithner and the Federal Reserve already in the crosshairs for their collusion in Liborgate, not to mention criminal drug-money laundering by HSBC and other banks, who is left standing to simultaneously bail out Spain and Italy, never mind all the other cracks in the dike?

Within days of the June 28-29 EU summit, a faction of prominent British financiers delivered their verdict on that summit's "success," joining Lyndon LaRouche in demanding the immediate adoption of FDR's full Glass-Steagall principle as the only possible course for survival.

The Way Out

Five years ago this week, in a July 25, 2007 international webcast, LaRouche pronounced the Trans-Atlantic financial system dead, uttering his now-celebrated statement that "there *is* no possibility of a non-collapse of the present financial system—none!" three days before the collapse of the system officially began. LaRouche specified then that "only a fundamental and sudden change in the world monetary-financial system will prevent a general, immediate chain-reaction type of collapse." That chain-reaction collapse is "unstoppable" under the current system, he warned, and the longer governments wait to make that change, the worse it will get.

The situation has gotten much, much worse than all but a few are brave enough to contemplate. Even most who recognize that the euro side of the Trans-Atlantic system is finished, still fail to recognize the speed and totality of the breakdown underway. So, for example, Greek economist Costas Lapavitsas, an advisor to the leading opposition party, Syriza, visited Argentina last week to discuss alternative policies to the Troika (IMF/European Union/European Central Bank) hell being imposed on his country, but he told a July 18 seminar at the state-owned Banco de La Nacion in Buenos Aires, that Greece will default in the next 6 to 12 months, and leave the euro, which will bring down the euro system, which cannot, and will not last six months.

In fact, the ECB and the IMF already pulled the plug on Greece, announcing this week that they are cutting that nation off from international credit. A Greek default now looms for September, if not earlier.

Writing as the June 29 EU summit concluded, Helga Zepp-LaRouche, chairwoman of Germany's BüSo party, demanded the summit's decision be rescinded, and spelled out the measures Europe must take in carrying out the sudden and fundamental change in system required for survival:

"The EU Treaties from Maastricht to Lisbon must be annulled; national sovereignty over currency and economic policy must be taken back again; and in the process, Germany must leave the Eurozone and introduce the new D-mark. A two-tier banking system, in the tradition of Franklin Roosevelt's Glass-Steagall Act, must be introduced, to end the casino economy once and for all. Fixed exchange rates must put an end to currency speculation. A new credit system, in the tradition of the Kreditanstalt für Wiederaufbau (KfW) of the post-1945 reconstruction, must make credit available for the real economy. The 'Development Program for a New Economic Miracle in Southern Europe, the Mediterranean and Africa,'[1] which we have published, must be immediately undertaken."[2]

The Attempted Murder of Spain

There is a lawful relationship between the conditions imposed for the Spanish bailout, and the immediate financial blowout which followed. Every condition imposed undermines the necessary preconditions for Spain's continued existence as a viable nation, and not everyone is so stupid as to fail to see that.

Two weeks after bragging that the EU had granted it a precedent-setting, "no conditions" bailout for its banks, Spain's Rajoy government revealed that it had signed a 32-point Memorandum of Understanding (MOU) with the EU, imposing conditions every bit as brutal as those killing Greece.

Prime Minister Rajoy went to Parliament on July 11 to announce *EU65 billion* in cuts over the next three years. Rajoy said that he had been forced to implement his fourth austerity package in seven months in office, and hand over sovereignty to the hated Troika, because "circumstances have changed and I have to adapt to them.... We cannot choose whether or not to have sacrifices. We do not have such freedom."

1. Helga Zepp-LaRouche, "Reject the Second Versailles Debt Dictatorship for Europe," *EIR*, July 13, 2012.

2. Helga Zepp-LaRouche, "There Is Live after the Euro! An Economic Miracle for Southern Europe and the Mediterranean!", *EIR*, June 8, 2012.

In a country in which a quarter of the population, and over half of its youth, are already unemployed, jobless benefits, pensions, and social security were ordered slashed; a full month's worth of wages cut from public employees' wages (the so-called "bonus" month); and labor and professional rights overturned. The Autonomous Communities (regional governments) were ordered to pile their own cuts on public sector wages, on top of the central government's, and to slash health and education services as much as required to meet even larger deficit reduction requirements.

Privatization fire sales of public companies will begin. High on that list for destruction is Spain's vanguard rail sector, a sector critical for Spain's contribution to the Mediterranean and North African components of building the World Land-Bridge, which will take off in the wake of a Glass-Steagall reorganization of the global financial system.

Business groups are already estimating how many firms will close, and how many tens of thousands of layoffs will result from the fall in consumption they project from the tax increases announced. The general value-added tax (VAT) rate jumps from 18 to 21%, and the reduced rate from 8 to 10%; and numerous products and activities currently taxed at the reduced rate are reclassified for the general rate. Thus, come September, taxes on activities ranging from health-care-related items (dental services and many categories of medical supplies, equipment, and instruments), to concerts, libraries and museums, barbershops, street cleaning, and funeral services, will increase from 8 to 21%.

The elimination of the tax deduction for home mortgages delivers the *coup de grâce* for the already crushed real estate sector.

Government ministers have made clear that these measures are only the beginning. Initially, the government promised that the only item currently taxed at the "super-reduced rate" of 4% that would be moved to a higher bracket, would be purchases of new housing, on which taxes will jump from 4 to 10%. But within days, a decree was issued moving 20% of the school supplies purchased by families, and 60% of those bought by schools, out of the super-reduced category and into the general category, thus increasing taxes on them from 4 to 21%, in one fell swoop.

The principle employed, is that "what cannot be paid, must be cut," Economics Minister Cristóbal Montoro told Parliament, because the "absolute priority" is to cut the deficit—everything, except the billions of euros being pumped in to bail out the banks.

YouTube/Russia Today

YouTube/Russia Today

Over a million government workers and trade unionists held mass rallies in 80 cities across Spain—this one is in Barcelona—on July 19, a week after the Rajoy government announced that it had signed a new agreement with the EU imposing conditions as brutal as those in Greece. The sign (insert) reads "Usurious Banks!"

An 'Anti-Glass Steagall' Reform

Two other features of the MOU threaten Spain's continued existence as much as the immediate austerity imposed. Both are 180° opposed to the principle of Franklin Roosevelt's Glass-Steagall law which could have saved, and would still save Spain from imminent generalized bankruptcy and chaos.

First, the Bank of Spain has handed over all sovereign control over its financial system to the Troika, which is now empowered to decide which banks survive, and which will be shut. The Troika will oversee creation of a "bad bank" to hold all the toxic assets from the real estate bubble. Those worthless gambling bets made and lost, the government must assume responsibility for, and make "good."

At the same time, the Troika effectively ordered that the savings of up to a million Spanish families be wiped out, to bail out the banks. The MOU orders that ordinary Spanish citizens suckered into putting their savings into bank stocks (*preferentes*) and "subordinated" bonds, must take a huge or even total "haircut"—a writedown of their value—while the big financiers get bailed out. An estimated EU67 billion of people's savings are involved.

The preferred-stock scam practiced by the Spanish banks is, in fact, similar to the 1930s looting of consumers carried out by First National City Bank (today Citibank), whose exposure by chief counsel Ferdinand Pecora, in the 1933 Congressional hearings, led to passage of FDR's Glass-Steagall law.

The mid-July ruling by Judge Olga Martin in the city of Cambados, that Novagalicia Bank must return EU7,560 to a client to whom they had sold fraudulent *preferentes* hybrid bonds, apparently with no intention of ever paying the money to the defrauded investor (the return on the non-performing bonds was scheduled for the period from the year 2050 on), could unleash a firestorm in the country against the Troika's attack on savers. Manuel Pardos, the president of Spain's ADICAE (a bank customers' association), warned that "there are more than a million families and more than 52 institutions that have been charged. . . . We are dealing with a massive fraud, not a particular, concrete, specific one which affected just a few people."

Under these conditions, the stage is being set for a constitutional fight over the principle of sovereignty. Which law rules in Spain: Spanish law, or supranational EU law?

In Search of Leadership

Should it continue with this program, this government will fall, sooner rather than later. What is unknown, is what kind of government can replace it, or even if any government will come together at all. The potential for chaos and breakdown is enormous, given the lack of leadership for the alternative policy required.

Leadership or no, the Spanish population is taking to the streets to protest against the Greek-style genocide it faces. Spontaneous demonstrations across the country began the day Rajoy announced the package, and they have not stopped. Public employees are taking the lead; protesting firemen wearing their helmets and gear are now a daily sight.

Calls are proliferating for a referendum on the program and on the government's continued existence. A call to occupy the Parliament on Sept. 23, and stay until the government falls, is circulating.

Over a million Spaniards poured into the streets of more than 80 cities on July 19, in the first of what organizers promise will be many nationwide protests, including in the "vacation" month of August. That protest, organized by three trade union federations, was joined by the 15M social movement, the Unified Association of Spanish Military Personnel (AUME), and the Unified Police Union (SUP). Under the organizing slogan, "They Want To Ruin the Country. That Must Be Stopped. We Are More Than They Are," organizers demanded that a referendum be held on rescinding the "brutal" austerity program.

The current party and trade union leadership has said nothing on what *should* be done, other than saying "no," and toppling the government. LaRouche movement activists participating in the demonstrations report that ordinary citizens, however, are looking for leadership, furious at all the politicians, and sick of the right-left ideological barricades on which Spanish politics has foundered for decades.

Actions by two sectors, in particular, epitomize just how dangerous a situation the government now faces. Three trade unions representing the military and public security forces have announced their support for the mobilizations against austerity. AUME Secretary General Mariano Casado told the 20minutes.es news website on July 15 that they do not rule out a military protest action to express the "deep and generalized unrest" within the Army against cuts which "could drive many families into a truly dramatic situation," creating "veritable chaos." The Unified Civil Guard Association (AUGC) called on its members to demonstrate, saying they "are not going to tolerate" being used as "scapegoats to pay for the economic outrages of others." The SUP, whose members are already participating in the demonstrations, called on their members to work "according to what they pay you" (that is, if their pay is cut, they do less work).

The secretary general of the Union of Students announced that it intends to put the youth of Spain "on a war-footing," to stop the de facto takedown of public education. The announcement came as Marco Peña, president of the Economic and Social Council of Spain, issued an urgent warning that the 450,000 youth of Spain who today are neither working nor studying constitute "a timebomb."

Publicly, the majority of Rajoy's Popular Party remains fanatically committed to the government's homicidal (and suicidal) course, with the PP's parliamentary delegation disgracing itself by applauding Rajoy's announcement that the unemployed and needy had to sacrifice more. The mass media continue to churn out scare stories that Spain has no choice but to go for "more euro," not less.

However, private discussions about the necessity of Spain leaving the euro and returning to the peseta are occuring even within circles close the government. The decision by Spain's leading conservative daily, *ABC*, to feature an interview with Hans-Olaf Henkel on July 16 puts the lie to the silly claim that "no one in Spain is considering leaving the euro." Henkel is a prominent figure among the Germans suing to block the ESM, and favors saving the euro by splitting it into a "euro of the north" and a devalued euro for the countries not meeting Maastricht criteria, arguing for austerity reforms. But when *ABC* asked him, "Why not return to the peseta?" he answered: "Without a doubt, returning to national currencies is a better alternative than leaving things as they are.... [A] country which controls its own currency has better options than one trapped in an over-valued currency."

ABC introduced the Henkel interview, by endorsing his arguments for being as "as provocative as they are solid."