Prof. Wilhelm Hankel

Does the Euro Have a Chance of Surviving?

Professor Hankel is the former head of the Monetary Department and former head of German Banking Supervision of the German Economics Ministry, and was formerly the chief economist of the Kreditanstalt für Wiederaufbau (KfW, the Reconstruction Finance Agency). He addressed the conference on Nov. 25, introduced by Schiller Institute founder Helga Zepp-LaRouche. The video of his speech (in English) is at the Schiller Institute website.

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Prof. Wilhelm Hankel: "State and currency form an identity, because any state needs a currency in order to formulate a rational policy."

Helga Zepp-LaRouche: Let me just say, that for ordinary people, it's very difficult to conceptualize the amount of evil which manifests itself in the present system of globalization. The subject of ever more wars, the question of throwing billions—and we are really talking about billions of people—into misery, for what? You know, you can say that it's a small group of parasites and banksters which are the profiteers, but I'm afraid that there is still an even more sinister dimension to it, and that is this question of population reduction! Because all of these policies do not make sense from an economic standpoint. They do make sense if you think there is a coherence between the policy of the Club of Rome, and the policy of the hedge-funds investing in CO_2 emission trade, which is like the modern times' trade in indulgences, *Ablasshandel*, which the Church used in the Middle Ages to make money.

So, we are really looking at a much more sinister system, which we call the oligarchy—people who believe that only they, the elite, have all the rights, and that the masses of the people are just cattle, whose numbers can be reduced from time to time, as was the case in Sparta, in ancient times. So, I think that people really have to conceptualize that, because I agree that only if you analyze the problem in the right way, can you find the right strategy.

So, now, we will hear the wise words of Professor Hankel.

Prof. Wilhelm Hankel: Thank you, Mrs. Chairman.

Ladies and gentlemen, the situation in Europe can be best characterized by a very old English poet, Mr. Shakespeare: "Though this be madness, there is method in it"—*Hamlet*, Act II.

Why is Europe, especially the Eurozone, in such a mess?

First of all, nearly all states of the Southern part of the Eurozone are in a state of bankruptcy, complete bankruptcy, and the same is true for their banks. But officially, governments and managers reject declaring bankruptcy, saying, "It's not our bankruptcy, it is the situation of the currency." But this is one of the greatest swindles in labels that I have seen in my very long life. It's not the euro in danger, not the euro that is bankrupt, only the money invested in the euro, only the wrongly invested funds and assets which are denominated in this currency. And if we look at the real facts and figures, we see unbelievable, *unbelievable* magnitudes: The grand total of recorded debts in the southern part of the Eurozone is calculated to be EU12-13 trillion. *EU12-13 trillion!* This is four times the German GDP!

And the question is, how can it be redeemed? How can it be repaid? I think it cannot be redeemed and repaid, for the very simple reason that in order to repay debts, as a country, as a macroeconomic unity, you need export surpluses in the magnitude of EU12-13 trillion, export surpluses for a group of countries that never had export surpluses, living with nearly the same amount in *import* surpluses! So, the debt cannot be redeemed in real terms, because this group of countries cannot be restructured and reorganized from import economies into export economies.

We had a similar situation in the 1930s, 80 years ago, with Germany and the gold standard. Only after Black Friday, in the 1930s, did the question come out: With countries overindebted like Germany in those days, by war repayments, is it possible for such a country to restructure the whole economy into a surplus economy? And there was a very famous debate in those days, between John Maynard Keynes and a Swedish economist, [Bertil Gotthard] Ohlin, the transfer debate, and the result was: The only chance for an economy to become a creditor nation and to repay its debts is if it is in a position to restructure the economy. This could be excluded then for Germany, and the same is true now for the Southern parts of the Eurozone.

So, the only way to handle this problem is in the financial sector, and the only way is to cancel those debts. But this, officially, is blocked by an unholy alliance of governments and banks, saying, "These are not our debts, this is the currency," which is fraudulent labeling.

The Euro Cannot Be 'Rescued'

The question now is, what will be the consequence of the impossibility of repaying the debts, and the blocking of the only rational way to deal with them namely, to cancel them? And this brings me to the policy of "rescuing" the euro.

This policy of rescuing the euro is Act II in the tragedy of Mr. Hamlet. Namely, it means, on the one hand, that for the non-overindebted countries in the North of the same monetary area, you need a lot of money in order to take over the debts. And this money, at the moment, and for the past two or three years, is offered by the European Central Bank. What we have seen in the last three and a half years is a oversupply of new, electronic money, created by the European Central Bank system, in different ways, which are very technically complicated, but can be summarized as follows:

• EU1 trillion more, nearly an open refinancing window for the European banking system, at an interest rate of 0.75%;

• Almost another trillion euros in the way of a so-called "target." "Target" is a complicated word, and abbreviation for a very simple thing: The European central banks can have an open account with each other; every European central bank can get money from the other. So, the central banks of Greece, Spain, and the other debtor countries got the money, via the ECB, more or less, from the only three or four countries in the whole system that have surpluses, namely Germany, the Netherlands, Finland, and Austria. This is the second trillion of newly created electronic euros;

• The next EU2 trillion are more or less credits of the ECB in the commercial sector. The balance sheet of the ECB has been extended in the last two years by more than EU2 trillion;

• And the last act in this program of money creation is now the announcement of [ECB President] Mr. Draghi to buy, in an unlimited amount, the bonds of the overindebted countries in the South.

Some colleagues of mine and myself have launched a complaint against this latest violation of the EU Treaty and the statutes of the ECB, the process that has just been underway since Nov. 15. And my contribution to this complaint was a very simple one, saying: If this new policy of the ECB is what has to be, namely, money policy—monetary policy, and not monetary financing of budgets—then the receipts of all those purchases of the ECB, the monetary counterpart, has to be sterilized, and therefore the sellers of the bonds, both states and banks, cannot get the money; it must be blocked in the accounts of the ECB.

I am very curious to see what our judges will say to this idea, but I'm sure they will say what they have said for the last 12 years to all the complaints we have made in this case: "German judges are not economists. They are not allowed to review either the economic or the political consequences of adjudication"—which is an impossible position, as you can imagine. A Justice of the Constitutional Court is not a lawyer and is not a notary. His job is not only, in a formal sense, to approve new paragraphs and new laws, but in a material sense, what are the consequences—what are the effects in political as well as in economic terms? What is the damage coming from such a new violation of the Constitution as well as of the treaties of the European Union? But, in this respect, in Germany we are more or less hopeless, faced with only formal legislation and adjudication, and not with real ones.

The question arises now: Given all the facts and figures we have—huge money creation on the one side, vis-à-vis more or less zero growth in real terms on the other side, thus a big, big overhang in money against real added value—that means inflation, at least the potential for inflation, in an unlimited amount. But on the

Youth, both to the north and the south of the Mediterranean, are fighting for a future, against the chaos we see today. Left: a demonstration during the Tunisian uprisings, Jan. 23, 2010. Right: Students in Paris demonstrate against the government's austerity, Jan. 15, 2009.

other hand (and this is part of the madness of the whole policy), the debtors, having no haircut,[1] and no chance to repay their debts, are obliged to save money in macro-economic terms, namely, to increase taxes, to decrease incomes, and from a smaller GDP, to pay more for repayment of debt. This is an impossibility, and some of the speakers before have demonstrated this for Spain, and even for Greece. It is a humiliation of the people in those countries to urge them and to force them to pay more from a reduced income and reduced ability to survive. But this is the reality.

And if you look at the Mediterranean world today, you see complete chaos. On the North African side, the Islamic side, you have rebellious youth, fighting for more freedom and liberty; and on the European side, you find a frustrated youth, facing no chances for a good life in the future.

I am melancholy, because some ten years ago, I wrote a book about the Mediterranean Sea as the center of the world economy 2,000 years ago. But now, this center of the ancient world economy is a separation between two regions that are undergoing a revolution for different reasons: One part is fighting for more freedom, and the other part is fighting for better opportunities for life in a material sense, which they are able to have because Europe is not a developing or an underdeveloped part of the world.

The Euro and the Nation-State

Are there ways out of these messes? I think there are two very simple and very rational ways, if you understand what the real problem is behind the euro and the Eurozone. And the real problem behind this multinational currency, a currency in the beginning for 11, and now for 17 nations, shows us that the separation between a country, a state, on one side, and its currency on the other side, cannot be made. State and currency form an identity, because any state needs a currency in order to formulate a rational policy. A rational policy in terms of employment, in terms of social values, in terms of structural imbalances, can be done *only* with its own money, its own interest rate, and its own rules about the banking sector.

As a consequence of this multinational currency system, we have installed and introduced the euro. The euro for any country, for any economy—it doesn't matter whether it's in the North or in the South—is more or less foreign exchange; it's a foreign currency, a currency like a dollar for Europe, a renminbi for Europe, or a Swiss franc for Europe, or another currency. And this stupidity never happened in the 3,000 years of

1. The idea of the banks accepting a "haircut" refers to reducing the outstanding loans of nations that cannot pay—ed.

monetary history that I know and I have studied.

So, the way out is to cancel the situation, and to come back to the identity of currency and state, and safeguard your currency by your national legislation and your national laws, as has been done since we first had money as a public good, and this has been a very long time.

And what about the euro? I think the euro has, in such a system, a real chance for surviving, which is good for face-saving for all politicians and European fanatics. What could be the role of the euro in such a system of a return to national currency? Very simple. If you remember the long, long, very successful story of monetary integration in Europe, Europe since the Second World War had at least three very successful monetary arrangements with its neighbors.

The first was the European Payments Union, directly after the war, in the years 1947-97, which was established with the help of the United States, with some funds from the Marshall Plan. This European Payments Union was transferred into European Monetary Agreement (EMA), with the beginning of the common domestic market, because the start of the domestic market was also the start for the capital market in postwar Europe.

But a payment union, just on the level of central banks, was not sufficient; therefore the EMA introduced and integrated the money market into the system. And this system was continued by the European exchange-rate mechanism of 1979, which was an idea of then French President Valéry Giscard d'Estaing and German Chancellor Helmut Schmidt. And the only difference from the former system was the introduction of a European Currency Unit, the ECU. And France was very proud of this name, because they could say "écu," and écu was the name of a very old-fashioned gold coin of Louis XIV, 300 years ago.

And what was the difference from the system with the euro? Very simple: In all the former systems, you had national currencies, and therefore the capability of states to formulate and execute their own policy, which is very important. Secondly, instead of the European Central Bank, you had an automatic mechanism of foreign exchange rates. Nearly every currency was linked with any other currency with an exchange-rate mechanism. If the country was making good policies, you had a trend of appreciation, and in the opposite case, a trend of depreciation.

And one of the good results of the danger of depreciation was avoiding foreign indebtedness. In those days, no Greece, no Spain, no Italy was overindebted to its neighbors, because of the danger of possible depreciation. And depreciations happened very often. This was the best remedy against importing too many credits from the outside world, to avoid overindebtedness.

And the second element of the former system was that it needed a unit of account in order to calculate the foreign exchange rate. This was the ECU.

A Future Role for the Euro?

So, what will be the future chance of a euro in a revised system of national currency? Being a second ECU! Why not? A second ECU under the name of euro would make the euro enormously attractive, because you can depreciate a currency, but not a unit. Since all currencies have to depreciate against the unit, the unit is the only monetary entity, the only monetary unit which is stable, stable by definition. So, we could get a stable euro as a unit of account in a multi-currency system of Europe. This would be the best solution: the euro as a second ECU.

But if you wanted to have a stronger symbol of Europe, there would be the chance to give the unit the character of a real currency. Why not? Why should a federal Europe—a Europe of not only 17, but 28 nations—why should such a Europe not live with two currencies? A national one and a supranational one, namely a euro—not as a unit, but as a parallel currency to all national currencies in Europe? Even in such a system, the euro would become very stable, contrary to the past, because any trend for depreciation of the euro would force and urge the European Central Bank to issue such a currency, to strengthen it. So, we would have what we lack today in Europe (not in the world), a competition of currencies. And competition of the European currencies with the additional currency, namely, the euro, would, of course, stabilize the whole system, the euro as well as the other currencies.

To come to a conclusion: Even if this new euro is another sort of fraudulent labeling—namely, to say we *have* the euro and we *don't* have the euro—still in *this* case, the euro would have a chance to survive, and all the stupid governments in Europe could say, "We never capitulated to all our critics. We have been able to save and rescue Europe for a good aim, and to a good, happy end."

Thank you.