European Commission Readies Bail-In Law To Grab Citizens' Bank Deposits

by Helga Zepp-LaRouche

May 25—The EU Commission is currently working on a directive which, if enforced, will create conditions throughout Europe as bad or worse than those in Greece and Cyprus—mass poverty, hunger, and early death. Because in future impending bankruptcies of large banks, savings, pensions, pension funds, and working capital of businesses will be confiscated and converted into equity of the bank.

The "Cyprus model," which will serve as a template for the whole of Europe according to Euro Group chief Jeroen Dijsselbloem—the so-called "bail-in"—is leading, in the case of the Bank of Cyprus, to a likely loss to investors of 60%, and in the case of the insolvent Bankia bank in Spain, fleeced customers were forced to accept "preferred stock" in the bank in place of 99% of their deposits.

The European Parliament is currently discussing this directive from the EU Commission for a so-called Bail-In Law to "establish a framework law for recovery and resolution of credit institutions and investment firms," which was also up for discussion at the recent meeting of the ECOFIN[1] ministers. In the "explanatory memorandum" that preceded the meeting, the Commission states that it is necessary, in view of the integration of financial markets in the Union and the associated risk of infection, that "the authorities" be equipped with effective tools and authority to preemptively attack banking crises, in order to preserve financial stability, and to minimize the risk of losses to the taxpayer in cases of insolvency.

Since the so-called "bail-out tool"—the rescue packages for the ailing banks funded by the taxpayer—are no longer sufficient, and the European Stability Mechanism (ESM), with its EU700 billion, has long since become too small (with roughly EU14 trillion in state and bank debt in Europe), we now have a new instrument: the "bail-in tool." Depositors' funds are to be simply expropriated and converted into equity of the banks!

ISDA: Bankers Call the Shots

The global financial system is headed irrevocably toward collapse. Given the estimated EU700 to 2,000 trillion (!) in outstanding derivatives contracts, it is virtually impossible for deposits to be insured up to EU100,000, as governments have promised. So what is threatened is brazen expropriation. And then the Commission admits, in the aforementioned paper, whom they worked with to concoct this planned raid: experts from the banking sector, academics, and law firms. On the Commission's website you will find all of the documentation to prove that it was primarily the London-based International Swaps and Derivatives Association, Inc. (ISDA) that advised the Commission on the impact of the Bail-In Law on the derivatives sector, as it had already done before in March 2011, and as it had advised the Financial Stability Board in September 2011. So the plans had been in the works for a long time, long before the Cyprus crisis.

The monstrous advice of these experts excludes the derivatives debt from the bail-in. "We understand that some feel that derivatives liabilities should be brought within the scope of the bail-in power as a matter of fairness," they write, "but we think that this is based on a misunderstanding of the nature of derivatives liabilities. A derivative liability is not a form of capital."

"In any event," they claim, "we must emphasise that the strongest grounds for excluding derivatives liabilities are practical." And the reason is supposedly the following: "The difficulty of applying bail-in to outstanding derivative transactions increases with the number

1. The Council of EU economics and finance ministers; budget ministers join the meetings when budgetary issues are discussed.

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and diversity of underlying assets and reference values in the derivatives portfolio (including rates, prices and indices relating to interest rates, foreign exchange rates, equities, debt securities, credit risk, energy products and other commodities, bullion, emissions allowances, inflation and other economic statistics, weather data, freight forward rates, bandwidth, longevity and so on)." Oh, my goodness! So the little people are supposed to bleed, but the derivatives are too complicated to be included?

What does the ISDA say about themselves in their "mission statement"? "ISDA fosters safe and efficient derivatives markets to facilitate effective risk management for all users of derivative products." And who is represented on the board? "Representatives of Morgan Stanley, Société Générale, JPMorgan Chase, BNP Paribas, Citi, Goldman Sachs, Pimco, HSBC, Standard Chartered Bank, RBC, Barclays, BP, Deutsche Bank, Nomura Securities, RBS, Unicredit, UBS, Bank of Tokyo."

The EU Commission thus lets the top investment banks in the world provide the legal texts, with which they intend to stab the population in the back! The profits of the mega-speculators are to be protected, as well as the right of these predatory capitalists to push ahead with the madness of derivatives. This scheme in itself shows that the financial oligarchy is just as ruthless as it is incompetent. Although they are willing to march over the proverbial dead bodies, they are obviously so blinded by their greed that they do not stop to consider that there might be nothing more to take out of a dead man's pocket!

The EU Commission finds itself, with its inhuman policy that has already been condemned by the UN as a human rights violation in the case of Greece, perfectly in line with the so-called Dodd-Frank Act in the U.S. Congress, which also includes the bail-in tool. Again, the experts on Wall Street write the laws, as the *New York Times* revealed on May 24 with the publication of e-mail traffic: Citigroup and other bank representatives wrote, word for word, the texts of laws that would dispossess ordinary bank customers, while entire categories of derivatives speculation would remain exempt. The only changes made by the Congress were the two words it changed from singular to plural. The nonprofit organization Maplight has just revealed that the Congressmen who voted for the special treatment of derivatives trading received twice as much in the way of campaign contributions from financial institutions as those who voted against it.

What motivates the Troika [IMF, European Commission, European Central Bank], which has brought misery and despair to the Southern European countries, or the governments that have rubber-stamped the arrangements of the financial oligarchy, is left to the imagination. The fact that can no longer be denied is that all of their previous models have failed, from the euro experiment to the chimera of the EU as a sponsor of peace in Europe, all the way to the bailout policy. We urgently need to stop falling for the swindle of "more Europe." Most of us will not survive "more Europe" of the sort proposed by the new Bail-In Law.

The Glass-Steagall Solution

There is a way out: the original Glass-Steagall Act, which was introduced by President Franklin Roosevelt in 1933 as a bank separation law, has been introduced in exactly in this form in the U.S. House of Representatives by Marcy Kaptur (D-Ohio) and Walter Jones (R-N.C.) and 61 other signatories under the title H.R. 129, and in the Senate by Tom Harkin (D-Iowa) under the title S. 985. It is the exact opposite of the Bail-In Law: The worthless, outstanding derivatives contracts will be canceled, while the citizens' savings, pensions, the real economy and infrastructure, are protected. As the paper of the ISDA correctly determines, derivatives are not a form of capital in any case, so nobody loses anything if these virtual constructs are eliminated.

Close combat is presently raging in the U.S. Congress and Senate between the lobbyists of Wall Street (using the "carrot" of bribes and the "stick" of career loss), and the representatives of the people, whose lives are at stake.

An Italian member of the European Parliament, Claudio Morganti, appealed to the Europeans in a recent speech in Strasbourg to follow the example of Senator Harkin and adopt a law on the separation of banking, rather than discuss European banking union. That's what we should do. The Eclecta blog in the U.S. reported on the fight for Glass-Steagall and called on the population to develop a "passionate obsession" with this bill. This is perhaps a somewhat unusual formulation, but it hits precisely the point at issue.

People who do not stick their heads in the sand suspect more or less clearly that the current policy, in the interests of the banks and the financial oligarchy, is about to plunge Europe into a political, economic, and social disaster of unprecedented proportions. If it comes to that, many millions of people will pay with their lives—and that is probably the intention of the forces of the Empire under which we live, which proceed from the assumption that the world is overpopulated.

It is therefore nothing but a healthy impulse for self-preservation to fight with "passionate obsession" for the realization of the Glass Steagall Act!

There is not a single reason to stay in this EU, but there are many good reasons to win back sovereignty over monetary and economic policy, and to bring human creativity and dignity back into the center of politics and social life.

Translated from German by Daniel Platt