

Bank of England Drops The Mask of ‘Niceness’

by John Hoefle

EIR rarely agrees with the Bank of England, that old Whore of Babylon, but we must admit that a recent statement by Bank governor Mervyn King has more than a modicum of truth. At a May 14 press conference, King stated that, “the nice decade is behind us,” and indeed it is. Since last July, when Lyndon LaRouche publicly warned that the global financial system was dead, the bodies have been piling up faster than at a Hollywood orgy.

“The world monetary financial system is actually now currently in the process of disintegrating,” LaRouche said in his July 25, 2007 webcast. “Most of the financial claims and the financial assets and obligations in the world today, are worthless,... the fakery is enormous,” LaRouche added.

Those who preferred to think that LaRouche was exaggerating, know better now. Since that webcast, one of the world’s largest investment banks has collapsed; the world’s central banks have pumped more than \$3 trillion into the banking system, while taking huge amounts of worthless securities off the market as collateral; the world’s major banks have taken more than \$320 billion in asset write-downs and credit losses, and begged over \$160 billion in emergency capital infusions; oil prices have soared to once-unbelievable heights; nearly 250 subprime mortgage lenders have closed up shop; and food shortages have triggered famines and riots among desperate peoples. With the collapse of the securities market, real estate prices are plunging, home foreclosures are soaring, municipal budgets are blowing, and chaos is spreading. The city of Vallejo, Calif., has declared bankruptcy, and more bankruptcies are expected, as governments deal with plunging tax revenues and soaring costs. Everywhere one looks, there is disaster.

This collapse, LaRouche said in his webcast, will be “*unstoppable*,” without a “fundamental change in the policies of the United States government now.... Anyone who thinks differently is either just an incompetent, or an idiot, or a raving lunatic. *That’s a reality*.” LaRouche also warned that, “the Congress—the Senate, the House of Representatives—is not currently competent to deal with this.”

Again, LaRouche proved to be right. But rather than make a fundamental change in policy, the government has engaged in a series of reckless, accelerating bailouts, the effects of which have been to transfer huge losses from the banks to the taxpayers, while decimating the value of the dollar, and pushing the financial system deeper into hyperinflation. The Plunge Protection Team, led by former Goldman Sachs CEO Henry

Paulson and Federal Reserve chairman Ben Bernanke, has attempted the impossible, hoping to gradually write down the values of derivatives, CDOs, mortgage-backed securities, and other fictitious assets, without having to admit that they are all frauds, fictitious values stacked upon fictitious values, gambling chips belonging to a failed casino.

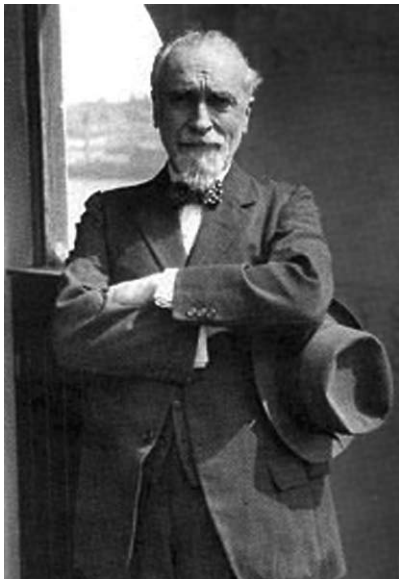
Inflection Points

There have been several inflection points where proper policies could have been implemented, but weren’t. Instead, the “easy way out” was taken, first in little steps, and then in giant steps. The collapse of the Bear Stearns hedge funds last Summer was the proverbial writing on the wall that the system was finished, although the bankers and the regulators insisted that it was just a blip, that all was fine. But it wasn’t, and the losses kept spreading. On July 31, just a week after LaRouche’s prescient webcast, the two Bear Stearns hedge funds filed for bankruptcy; and by August, the Fed announced that it would take mortgage-backed securities as collateral for loans—part of a coordinated, \$284 billion intervention by the Fed, the European Central Bank, and the central banks of Switzerland, Canada, Australia, Japan, and Singapore. In November, after British-linked sources highlighted the dire situation at the bankrupt Citigroup, the bank initiated a management shakeup, the first in a string of executive changes. Wounded, Citigroup arranged for a \$7.5 billion cash injection from the Abu Dhabi Investment Authority.

By mid-December, with the end of the year approaching, the central banks announced another joint effort, with the Fed setting up a new Term Auction Facility (TAF) to loan money to banks, in exchange for an even wider range of exotic and illiquid securities as collateral. One bank economist characterized this move as a “firebreak,” but it proved predictably ineffective. Paulson, whose attempt to orchestrate a rescue of the SIV market failed miserably, promulgated a plan to prop up the mortgage securities market under the guise of helping the homeowners.

Thanks to these extraordinary measures, the banks managed to keep their doors open into the new year, proclaiming that the worst was over. They were lying, and they knew it. They were zombies, kept “alive” by a combination of life support from the central banks, phony accounting, and regulators who refused to issue death certificates.

In March 2008, with the end of the first quarter approaching, the central banks carried out a number of extraordinary interventions, even larger than before. On March 7, the Fed increased the amount of money loaned in the TAF auctions, to \$50 billion at each of the twice-monthly auctions—up from \$20 billion—and announced a new \$100 billion term repurchase loan program for selected investment banks. Four days later, the central banks announced another coordinated intervention, capped by the Fed’s creation of yet another loan facility, the Term Securities Lending Facility (TSLF), intended to lend even more money to the investment banks. On March



Montagu Norman (left), governor of the Bank of England (1921-44), helped fund Mussolini and Hitler. A coin of the Bank of England, commemorating 300 years of imperial rule. And Norman's current-day successor, Mervyn King. No more Mr. Nice Guy.



IMF

14, the Fed moved to provide emergency funding to Bear Stearns. Just two days later, on Sunday, March 16, afraid of what might happen when the markets opened on Monday, took several steps, including \$30 billion in assistance for J.P. Morgan Chase's takeover of Bear Stearns, a promise of further loans to investment banks, and a quarter-point cut in the discount rate, to 3.25%. The next day, the Fed cut the Fed Funds rate by three-quarters of a point to 2.5%.

The failure of Bear Stearns was a watershed event, proving that the rescue operation mounted by the central banks and the Plunge Protection Team had failed to solve the problem.

Since March, the problem has gotten worse. On May 2, the Fed increased the amount of TAF loans yet again, to \$75 billion each auction. Month by month, the amount of loans outstanding from the Fed have increased, from over \$80 billion a week in December, to well over \$400 billion a week now. Considering that we are not even half way into the second quarter, these amounts are ominous.

The end-of-quarter reports are important because the banks have to open the books on their balance sheets, putting them in an untenable situation: If they were to tell the truth, they would have to close their doors, but if they lie, they leave themselves open to lawsuits and possible—though unlikely—prosecution. Their accountants, all too aware of what happened to the Arthur Andersen accounting firm in the wake of the Enron debacle, are extremely nervous about signing off on the phony financial statements, and are demanding indemnity.

Imposing Control

The bankers are in full-spin mode, trying to paint the crisis as over, which is what they've done ever since it started. Secretary Paulson, for example, claimed earlier this month that, "the worst is likely to be behind us." More interesting, from a

Freudian-slip point of view, are those who maintain that the end of the crisis is near, bringing to mind the street people with their sandwich-board signs that the end is nigh. Having been wrong at every step of the way, the bankers' credibility is a bit tattered, and the end is indeed near.

All of which brings us back to the Bank of England's Mervyn King and his observation that the "nice" decade is over. One can quibble about how nice the past decade has been, especially if you're in the lower 80% income bracket, or if you've lost your job or your home or your health, but it is clear that the world has taken a nasty turn for the worse. Given that the Bank of England was a major force behind the fascist movements of the 1920s and 1930s, helping to install both Mussolini and Hitler, it should be taken quite seriously when it warns that the mask of niceness is coming down.

The Bank of England, which for all practical effect, is the bank of the oligarchic *fondi* and the heart of the Anglo-Dutch Liberal system, knows that this financial system is dead, and that the solution to this crisis is political, not financial. By political, we mean that the empire is determined to save itself by imposing fascism upon the populations of the world. Look at the way the bankers' losses are being dumped upon the public; look at the way a police-state apparatus is being built; look at the way that the public is being gouged by high fuel and food prices; look at the food shortages around the world and the unrest that creates; and look at the way wars, big and small, keep spreading. These are not discrete events, but all part of a single process, the British Empire's war against human progress. That such a policy is insane, makes it no less real, and no less dangerous.

Read this issue of *EIR* very carefully, as if your life depended upon it, because unless we use the sovereign power of the nation-state to stop the empire's plan, many among us will not survive what comes next.