

Is the Whole World Financial System One Big Madoff Swindle?

by Helga Zepp-LaRouche

Mrs. LaRouche is the chairwoman of the Civil Rights Solidarity Movement (BüSo) in Germany. Her article has been translated from German.

It is truly astounding how brazen the financial oligarchy and its political friends have been in treating the world financial system as if it were their private vending machine, while “experts,” who only recently were still “completely surprised” by the crisis, are now forecasting corporate and personal bankruptcies, mass unemployment, and world food shortages. In view of this, the BüSo is demanding the immediate formation of a parliamentary commission, on the model of the Pecora Commission in the 1930s in the United States, whose task it shall be to investigate the swindles that have triggered the greatest financial crisis in world history. (See <http://larouchepac.com/news/2008/12/31/lpactv-straighten-your-pecora.html>.)

The scandal around Wall Street financier Bernie Madoff—who is accused of having swindled his clients out of \$50 billion (!), and who, incredibly, has only been put under house arrest, with \$10 million of his “personal” funds as bail—is merely the tip of the iceberg.

Madoff, the former head of the NASDAQ, replayed the old, tried-and-true Ponzi scheme, whereby old investors are paid off with money put in by new investors, until the chain finally breaks. When billionaire swindlers receive such velvet-glove treatment, and governments everywhere are routinely handing out tax revenues in unlimited amounts in order to compensate for banks’ and speculators’ losses, can the working (or, currently not working) part of the population do anything but lose all confidence in these governments?

Three months later, right at the year’s end, the online version of *Tagesschau* revealed in its annual

review that for three weeks this past Autumn, Germany was teetering on the edge of a financial worst-case scenario, and that, “if it had gone on for only a couple more days, the ATM machines would have stopped dispensing cash.” The truth is that not only Germany, but the entire world financial system, is hopelessly bankrupt. And even though, ever since the outbreak of the crisis in 2007, Western governments and central banks, according to Italy’s former Finance Minister Domenico Siniscalco, frittered away around Eur3 trillion in 2008 alone, in one rescue package after another—all of it taxpayers’ money, mind you—the crisis in the financial sector continues to worsen, and the real economy continues to collapse worldwide. Three trillion: That’s twice the value of all the privatizations that occurred over the past 30 years—just to give an idea of the proportions we’re dealing with here.

A Toxic Waste Dump

Back in mid-December, at the government’s so-called conjunctural summit, Deutsche Bank chairman Josef Ackermann proposed the creation of a “Bad Bank,” because German banks continue to be burdened with hundreds of billions in worthless securities. If such a repository corporation were to take over the toxic investments, he argued, a wave of bank write-offs (i.e., insolvencies—HZL) could be averted. Blowing on the same horn, the German Banking Association demanded that the federal Special Market Stabilization Fund (SoFFin) finally buy up “critical securities,” which are like “ticking time-bombs.”

The brazenness of these calls to disburse taxpayers’ money on such a vast scale, is, in itself, truly monstrous. But now it turns out that Ackermann had already proposed this at a previous meeting in the German Chancellory back in 2003, in the presence of

then Chancellor Gerhard Schröder, Finance Minister Hans Eichel, Economics Minister Wolfgang Clement, along with Hans Reich, then head of the Kreditanstalt für Wiederaufbau (KfW, or Reconstruction Finance Corp.), top bankers, and representatives from the insurance sector. News of that meeting leaked out to the media, and on Feb. 24, 2003, *Handelsblatt* ran an article titled “‘Bad Bank’ Raises Concern,” citing one banker saying that the revelation of this meeting and its proposal had “done a disservice to Germany’s finance industry. This is massively damaging to its reputation.” The *Frankfurter Allgemeine Sonntagszeitung* reported that the immediate intent was “to bundle together the credit risks borne by Dresdner Bank, Commerzbank, and Hypo-Vereinbank.” The article further states that about Eur7 billion was under discussion.

As this article, and the uproar around its publication, made clear, all participants were well aware of the risks involved in their casino speculation, and that they had something to hide. It also proves that the whole “surprise” over the financial crisis has been at least partially feigned, and that the “amazement” over the machinations of the bad special purpose entities (SPEs) which were thought to be above all suspicion, was either a medically rare case of collective Alzheimer’s disease, or else a flat-out lie. In any case, the same article reported that already, since 2000, the KfW had been working on transferring risks by shunting them into SPEs, to the tune of Eur28.7 million.

Gaming the Markets

The article said further on, “According to *Handelsblatt*’s information, at the Chancellory session, in which KfW head Hans W. Reich also participated, the discussion included how the securitization of bank credits via the KfW could be quickly expanded. By means of securitization, credits issued to large investors can be sold, while at the same time unburdening the banks’ balances. In the future, more banks are supposed to take advantage of these KfW securitizations in greater volume.”

The federal government put into effect a diverse array of credit policy innovations, including forming True Sale International, whose explicit purpose was to game the profitable securitization market on an international level. In 2004, Germany’s “Red-Green” (Social Democratic-Green Party) government revised

the banking law so that for the first time, the sale of credit to non-banks—e.g., hedge funds—was permitted. This provided Germany with international competitive standing.

This was preceded by the repeal in the United States of the Glass-Steagall Act in 2000, under President Clinton and his Treasury Secretary Robert Rubin. In September 1998, in connection with the impending Long Term Credit Management (LTCM) bankruptcy, Clinton had spoken about the need for a new financial architecture, and thereby brought down upon himself the wrath of the entire financial oligarchy; from then on, he was dogged by a calculated campaign of defamation. The Glass-Steagall Act, introduced in 1933 by Franklin D. Roosevelt in connection with his New Deal, had erected a firewall between the activities of investment banks and of commercial banks, which latter were not permitted to engage in speculation.

It is interesting that none other than the *Daily Telegraph*, one of the City of London’s main mouthpieces, published an article on Dec. 29, 2008 by Liam Halligan, arguing that all of the rescue packages and bank nationalizations have not helped things one bit, and that only by mercilessly exposing the true magnitude of the toxic waste, writing it off the books, and legal proceedings against those who committed these crimes, could the problem be solved. And then, as the most important measure, the Glass-Steagall Act would have to be reinstituted internationally. Evidently some circles in the City are panicked indeed.

Meanwhile, the miraculous proliferation of money for the financial oligarchy and the speculators, at taxpayers’ expense, is proceeding to even giddier heights. Whatever had already been made out of bad mortgage credit, thanks to paid-off rating agencies, transforming it into “packages,” certificates, derivatives, and highly profitable “securities,” has been endlessly restructured and rebundled, and then re-sold under new names. What if everything goes bad for banks in Europe? No problem, that’s why we have the European Central Bank (ECB), which will tenderly relieve the banks of their toxic waste.

Along these lines, on Dec. 26 the *Frankfurter Allgemeine Zeitung* wrote an article titled “Securitization Business Running at Full Throttle,” reporting that in 2008, the volume of securitization would reach a good Eur500 billion, and that Germany’s True Sale International would achieve a volume of risk transfers in

the range of tens of billions. The banks' intent has been to take the burden off their balance sheets, thereby reducing their own equity capital requirements. But what was new about the year just ending, was the securitizations which were explicitly aimed at creating guarantors for refinancing deals with the ECB. It works this way: A bank first sells credits to an SPE that has been formed for just this purpose; and the SPE in turn creates securities nominally backed by these credits, breaks them into tranches, with graduated yields, and—at least in theory—graduated risks of loss. Since there is no longer any market for these securities, the bank then buys back these tranches from the SPE, and uses the topmost, highest-rated tranche as collateral to borrow money from the ECB. The ECB accepts this paper as collateral because of its high credit rating, even though it knows the rating is a fiction.

But even that isn't a big problem, because after all, what are the rating agencies for? Thus, for example, Italy's second-largest bank, Intesa Sanpaolo, issued mortgage-backed securities, first Eur5.7 billion worth, and then another Eur13 billion worth, which were given an AAA rating by one agency, and as a result were used as collateral for "fresh" money from the ECB. And just in case your mind begins to spin at these figures, so that you don't lose your sense of proportion: Eur13 billion is equal to the annual debt-service which Greece must pay for its national debt of 92% of GDP—a situation which is not unconnected to the riots that have been going on there in recent weeks.

The European Central Bank is not, according to its own statutes, a "lender of last resort"—a function which Europe's central banks had performed prior to the adoption of the Maastricht Treaty. But if one examines the ECB's practices over the past few months, one gets the impression that the ECB now conceives of itself as the "garbage-pail of last resort." The ECB is currently functioning like an artificial snow-making machine for a gigantic snowball system, in which the "players" are the beneficiaries, while the people, laboring under the collapse of the real economy and imminent hyperinflation, are the losers. Is there any qualitative difference between this, and Madoff's scams?

The most terrifying aspect of all this, is the extent to which those responsible have demonstrably lost all sense of reality, and have demonstrated downright clinical incompetence, acting with the most extreme irresponsibility. So, for example, shortly before

Lehman Brothers went bankrupt, the always good-natured Herr Ackermann asserted that the worst was already over. And Italy's former Prime Minister Romano Prodi's nose is already considerably longer than his country's north-to-south highway, when he claims that no one foresaw that the world economy would undergo such a rapid and comprehensive collapse, and furthermore, that protectionist measures would lead into depression.

Need for a Dramatic Change

The signs are overwhelming that we are in the midst of the collapse of the entire world financial and economic system; yet despite this, governments continue to act as if everything can be cobbled back together with the aid of the usual "toolbox," out of which each country grabs the most appropriate tool. Are orders in key industries down by 30%? Is world trade collapsing, and is there a crisis in confidence worldwide? No problem! We'll just take out our old tools and manage the situation.

Could this, perhaps, have something to do with the fact that Germans feel that they've been tricked out of the fruits of the peaceful Revolution of 1989 and of German reunification, because in the wake of the geopolitical manipulation of the Maastricht Treaty, their loss of sovereignty over their currency, and of the deutschemark itself, and the forced acceptance of the euro and the transfer of their national capital to Brussels, they've come to feel that they can't fight it, and that they might as well adjust to the existing power equation?

Whatever all these reasons add up to, we need a parliamentary investigative commission along the lines of the Pecora Commission (see article, p. 66), to look into how this disastrous financial collapse could have come about, and to investigate the guilty parties; and we need to implement clear principles of physical economy, so that such aberrations never occur again. And in order that this can occur as quickly as possible, the BüSo must be represented in the federal parliament. And so, the best thing that citizens can do for their own future, is to help us in this effort.

And if the United States, under a new administration, joins with Russia, China, and India in putting a New Bretton Woods credit system onto the agenda, then Germany, together with Europe's other nations, must become part of this new financial and economic order, in the tradition of Roosevelt.