# EIR Economics

ITALY'S TREMONTI AND FRANCE'S ROCARD:

# Only Bankruptcy Reorganization Will Revive the World Economy

by Helga Zepp-LaRouche

Jan. 9—If governments continue their attempts to rescue all banks and hedge funds, and to honor all demands from private financiers for ever greater sums of taxpayers' money, then we can be certain that we will see an even more dramatic collapse of the real economy, an explosion of hyperinflation in the near term, and a descent into a new Dark Age. Europe's nations, and especially Germany, must support a full bankruptcy reorganization, along the lines of bankruptcy laws of the United States. Public and commercial banks, and the assets invested in them, must be put under protection, whereas, like it or not, financial institutions and investment funds that are more engaged in speculative activity, will have to take their losses on the chin.

The fact that Berlin still has not managed to recognize this, was most recently shown by the "partial nationalization" of Commerzbank, whereby the government paid Eur10 billion in tax revenues out of the Financial Market Stabilization Fund (SoFFin), in order to take 25% control of Commerzbank, so that in turn it can takeover Dresdner Bank, which is still sitting on billions in toxic financial paper. In addition, according to *Der Spiegel*, Allianz will "doll up" its daughter Dresdner Bank with a silent Eur750 million deposit, and will pay Eur2 billion in order to take over Eur1.1 billion worth of securitized paper. Already in late 2008, Commerzbank had promises from SoFFin for Eur8.2 billion of loans and Eur15 billion in credit guarantees—all from taxpayers' money, of course.

Meanwhile, more banks are lining up at the public trough. But the situation continues to grow worse; the interbank market is stagnant, credit supply to small and medium-sized firms is drying up, the collapse of the real economy is deepening, and exports and orders are plummeting. Obviously, the "instruments" that have been pulled out of the wonderful toolbox of which Mrs. Merkel has spoken—all the rescue packages, stabilization funds, and economic stimulus programs—are completely ineffective.

## Tremonti, Rocard Speak Out

Italy's Finance Minster Giulio Tremonti and former French Prime Minister Michel Rocard, on the other hand, were right on the mark at the colloquium on "New World, New Capitalism" in Paris on Jan. 8-9, with participants including French President Nicolas Sarkozy, German Chancellor Angela Merkel, and former British Prime Minister Tony Blair. Tremonti called for separating the healthy activities of banks from the toxic waste. He compared the financial crisis to a video game in which the player is confronted with one monster after another; but the biggest monster of them all is still ahead: the derivatives crisis. Outstanding derivatives obligations are currently 12.5 times larger than the GDP of all the world's countries, and therefore, according to Tremonti, they must be frozen for 50 years. It is simply impossible to finance this mountain of private debt through public funding. Far more important, is saving families and businesses. As for the offshore tax havens, the burden of proof of residence should lie not with the state, but with the citizens. At the colloquium, Rocard likewise said that in view of the magnitude of outstanding debt, he favors a full bankruptcy reorganization.

But Chancellor Merkel appears still not to have grasped the gravity of the situation. True, she has made some progress: Back in 2007, she was stressing that there would be no "state orgy of re-regulation of the hedge funds," whereas in her speech at the colloquium, she vowed that in the future she would not allow the movers in the financial markets to prevent politicians from imposing rules. But her reference to "the moment when everything's going to get better," shows that she still completely underestimates the crisis.

If people continue to attempt to finance the toxic waste with quadrillions (!) of taxpayers' money, the collapse will continue its course, and Germany will not survive as an industrialized nation, and perhaps not as a nation at all.

In Great Britain, the international capital of hedge funds, and a country with a budget deficit of over 8% for 2009, and a collapsing pound, the Bank of England has reduced its interest rates to their lowest level in 300 years. Chancellor of the Exchequer Alistair Darling is considering an emergency plan: The Bank of England should simply print more money—so-called "quantitative easing." George Osborne, the shadow Chancellor of the Exchequer, commented that "the very fact that the Treasury is speculating about printing money shows that Gordon Brown has led Britain to the brink of bankruptcy. Printing money is the last resort of desperate governments when all other policies have failed. It can't be ruled out as a last resort, but risks losing control of inflation and all the economic problems that high inflation brings."

In her speech, Mrs. Merkel said that to deal with the crisis, there is no alternative to piling up mountains of debt. Yet in her very next sentence, she stressed that she wants to remain within the framework of the EU's Maastricht Treaty. The one statement is just as catastrophic and unrealizable, as the other.

## A New Pecora Commission

It is therefore all the more urgent that an investigative commission be convened, on the model of the Pecora Commission in the United States in the 1930s. Because the fact that the agreement adopted by the Grand Coalition in 2005 incorporates an institution expressly created so that Germany could enter into the international securitization market—True Sale International (TSI)—obviously puts a damper on hopes that that the government will voluntarily admit to a gigantic mistake. All it takes is a glance at the list of TSI's founders and shareholders—Commerzbank, Deutsche Bank, Dresdner Bank, DZ Bank, HVB Group, Kreditanstalt für Wiederaufbau, Bayerische Landesbank, Citigroup, Deka-Bank, Eurohypo, NSH Nordbank, Landesbank Hessen-Thüringen, and West LB—to see the intermingling of government policy and private financial institutions.

But the wind could quickly shift with the incoming U.S. administration. The *New York Times* ran an op-ed on Jan. 6 by historian Ron Chernow titled "Where Is Our Ferdinand Pecora?" calling for Obama to set into motion a far-reaching investigation of the collapse of the financial markets, and, just as Pecora did, in 1932-34, to lay the groundwork for new laws forbidding these abuses. (See accompanying article.)

Pecora Commissions are needed today in every country in the West, since the financial regulatory agencies have all failed miserably. Under the supposedly watchful eyes of these institutions, firms such as World-Com, Enron, Parmalat, Madoff, and most recently Joseph Forte, have operated freely. In the United States, preliminary hearings are already under way in the House Financial Services Committee on the need to reorganize these agencies.

One direct result of opening the financial markets to the machinations of predatory capitalism, was the recent tragic suicide of Adolf Merckle, a entrepreneur, who was valued for his concern for the general welfare, but who apparently was unable to resist the temptations of high-risk speculation. There are also some unsettled questions on the role of banks, competitors, media campaigns, and hypocritical politicians.

If Germany is to survive, we require immediate measures to protect public and commercial banks, while the banks involved in speculative dealings must write off their bad paper and take the consequences. Our industry, farming, and public service industries must be protected, and we must return to the kind of industrial banks that were the norm before the paradigm shift into globalization. And the bailout packages for the toxic waste of speculators who have lost, big-time, must stop this very instant.

This is a question of life and death for the world's nations. Unless this scandalous and ruinous policy is corrected, all that will be left, will be "failed states."