EU Prepares Grab For Bank Accounts

by Helga Zepp-LaRouche

May 11—European Union Internal Market Commissioner Michel Barnier is prepared to offer the "Cyprus model"—the expropriation of bank deposits in case of bank failures—to the entire EU, *Focus* magazine reports. Afterthe taboo-breaking and "red lines" that no one ever wanted to cross, it cannot be excluded that soon every bank account, from the first euro on, will be fair game, and the October 2008 promises of Chancellor Angela Merkel and [Social Democratic Party candidate for chancellor Peer] Steinbrück on the alleged government guarantee on deposits up to EU100,000 are just wastepaper today. Rumor has it that such a Europe-wide "bail-in" was already on the agenda at the most recent meeting of EU finance ministers.

Given the "derivatives bomb" of several trillion in outstanding derivative contracts, and even more tension in the financial markets than there was before the collapse of Lehman Brothers, it is not surprising that the publicly owned bank Kreditanstalt für Wiederaufbau (KfW), has simulated the worst-case scenario of the financial system: the collapse of a "too big to fail" bank, with a subsequent global chain reaction and the collapse of the Eurozone. In this case, the printing of money to an even greater extent than is already being done by the central banks would not be sufficient, and it would be necessary to move in on the deposits of account holders and savers. This is the Cyprus model, of which the head of the Eurogroup, Jeroen Dijsselbloem, had spoken. After creeping expropriation by the inherent hyperinflationary effect of the bank-rescue packages—for some time now, the banks' interest rates have no longer offset the depreciation of their deposits—now we are threatened by open expropriation by means of the bail-in.

The final hours of the euro are here, as shown by the fact that former advocates of the European Monetary Union from both sides of the political divide, such as the former finance ministers of Germany's Schröder government, Oskar Lafontaine, and of Britain's Thatcher government, Nigel Lawson, are now simultaneously abandoning the euro and the EU, along with the growing opposition to the euro in virtually every EU member state. French economist Jean-Pierre Vesperini writes in *Le Monde*, for example, that the presently emerging German-French tragedy could only be averted with the termination of the euro, since that tragedy has its roots in the euro's creation.

A Monetarist Coup

There is no doubt that the financial oligarchy is planning to apply the time-tested theory of Carl Schmitt,[1] that only those who can manage the emergency actually have power. Very soon the Draghis and Dijsselbloems of this world will try a coup and issue the threat: Either the EU member states agree to immediate fiscal and banking union, as well as the pooling of sovereign debt, or the euro will break up, with terrible consequences—in combination with the expropriation of bank accounts and savings deposits, of course.

The head of the European Institute of the London School of Economics (the elite of City of London monetarism), Paul de Grauwe, argues that Europe now has no choice other than to push through a fiscal union and pooling of debt, or else to accept the (supposedly) catastrophic consequences of abandoning the euro. De Grauwe had the audacity, writing in the blog Project Syndicate", to compare the debt pooling demanded by the EU with the transformation of war debts from the American Revolutionary War into a credit system by Alexander Hamilton (a measure which played a crucial role in creating the United States as a full monetary, fiscal, and political union—a sovereign nation).

But nothing could be further from the truth, because Europe (which, thanks to EU policies, has become deeply disunited under the heel of the oligarchical bureaucracy in Brussels), and young, republican America are as different as night and day. A European fiscal and debt union is pure monetarism, i.e., the virtually unconditional sacrifice of the real economy and living standards, as we currently experience it with all its horrors in southern Europe. The credit system created by Alexander Hamilton, quite the contrary, was the engine of the industrial revolution and the concomitant dramatic improvement of living conditions in America and, indirectly also, in Europe, Russia, and Japan.

What is happening today in Greece, Cyprus, Italy, Spain, and Portugal is the shame of Europe, and the EU will break up in its current form—the sooner, the better. In Greece, 31% of people live below the poverty line; doctors can no longer perform surgery; 2.5 million

1. Schmitt (1888-1985) was the "legal" apologist for the Nazi dictatorship. See profile in *EIR*, Jan. 6, 2006—ed.

people no longer have health insurance and cannot afford a visit to the doctor; patients must wait 18 months for cancer surgery; and children are no longer vaccinated. The unemployment rate for young people aged 15-24 years is 64.2%! That is, two out of three young people have no work and, under the current EU regime, also no future! (See article on Greece in *International*.)

As Jeremy Warner writes in the *Daily Telegraph*, from the latest monthly report of the International Monetary Fund it is apparent that Spain is already insolvent, and the supposedly successful reduction of the budget deficit came about only because the totals for the last bailout, from the previous year, were simply not counted. The government was just waiting for the introduction of the banking union! Thus German taxpayers especially are expected to pay the debts of the bankrupt Spanish gambling banks!

What a banking union and pooling of debts would mean is simply that similar conditions of poverty would then also occur in Germany, which, in a new version of the Versailles Treaty, would be the ultimate paymaster for all. But 1923 is still too fresh in the collective consciousness of Germany, for us to miss the signs of the times and the *cui bono*: that with hyperinflation, the population is dispossessed in the most brutal manner.

Only the Real Glass-Steagall Will Work

The German Institute for Economic Research (DIW), in a recently published study, concluded that the blueprint presented by the federal government for a so-called "two-tier banking system" does just as little of consequence as all other proposals currently being discussed by officials in Europe. The government's plan makes it very easy for banks to re-package proprietary trading as "market making," and as long as seemingly separate banks are still united in a holding company, the effect of such a law would be marginal at best.

Why then does the DIW not call for the only proposal that really does something to protect the deposits of savers and the accounts related to the real economy, providing the latter with real credit for productive investment? The only way that an imminent catastrophe of the global financial system can be averted, would be with the immediate adoption of the original Glass-Steagall Act, as President Franklin Roosevelt pushed it through in 1933, and as it is currently being discussed, thanks to the mobilization of the LaRouche Political Action Committee, in the U.S. Congress, in state legislatures, and in the American population. If Glass-Steagall is adopted in the United States, this will change the situation around the world, almost overnight, and in Europe, nothing more would remain to be done than to do the same.

This indispensable first step must be followed by a second, equally indispensable one: the establishment of a real credit system in the tradition of Alexander Hamilton, which is the exact opposite of monetarism. Instead of the current, mindless fixation on money, the credit system will ensure that the real economy is brought into accord with the laws of the anti-entropic, self-developing physical universe. That is to say, there will be credit for investments that lead to a permanent increase in the energy-flux density of the production process, and thus help to develop each generation on a qualitatively higher level, allowing their real identities to become those of what is thus far the only known creative species in the universe.

At the risk of giving the monetarists a heart attack: Money as such will play no role in this system, and credit derivatives are entirely superfluous. The key to the organization of the physical economy of the future lies rather in the understanding of how life itself is organized in the universe, and which laws govern the development of life from lower to higher forms. The key lies in the understanding of human creativity as a reflection of the laws of the universe.

Translated from German by Daniel Platt