We Need Laws To Save The Common Good in Germany!

by Helga Zepp-LaRouche

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Even if the Berlin government issues one denial of reality after another, there can no longer be any doubt that the whole world financial system is hopelessly bankrupt. What Lyndon LaRouche and the BüSo have warned about for a long time is now proven: The globalization system and the so-called "free" market economy is now, as of the beginning of 2008, just as wrecked as the Communist system was in 1989.

It is now urgently necessary to activate the Basic Law and other existing laws and regulations, to uphold the vital functions of the economy—production and trade, budgets of the state and Federal governments—and to protect the population from the impact of the financial collapse. That is possible, but only if we immediately return to the time-tested principles of National Economics and the real economy.

It is quite astonishing, that the man who goes down in history as "Mr. Casino Economy," would declare, on New Year's Eve 2007, in an interview over the American National Public Radio (NPR), that the system is at an end. Alan Greenspan, who for 20 years was the chairman of the American Federal Reserve System, and who launched the "creative financial instruments," explained: "What I have to forecast, is that something will happen, something which is unexpected, which will knock us down.... What I point out is that we're in a turning phase, and that the extraordinary improvements that have occurred in the world economy in the last 15 years are transitory, and they're about to change.... So, I think this whole process will begin to reverse.... We and all other central banks lost control of the forces directing higher prices in homes."

These ominous "forces," the "locust funds" of every sort, for which Greenspan himself was one of the midwives, have made sure, over the past two decades, that a small layer of speculators became millionaires and billionaires, while the greater portion of mankind became poorer and poorer. These "forces," namely the hedge funds, private equity funds, the special purpose financial entities, etc., which operate on the basis of unconditional maximization of profit, are therefore guilty of such monstrosities as Agenda 2010, Hartz 4, or the health-care reform.[1] The speculation by these "forces" and the situation that has come about in the so-called subprime mortgage markets in the U.S.A., which were clearly fraudulent from the beginning, were made possible by Greenspan himself, in the first place, through his zero-interest-rate policies in 2000. The millions who are and will be losing their homes, also have him to thank for it. And the same "forces" are responsible for the fact that prices for food, gas, and energy are exploding, and inflation is devouring wages and savings.

But as little as Mr. "Bubble" Greenspan admits responsibility for the disaster which he is now lamenting, the same can be said of Jacques Attali,[2] who is to blame for another chunk of the systemic collapse. Attali, the "gray éminence" behind François Mitterrand, wrote on Jan. 3, in his column in the French newspaper *L'Express*: "It is the whole world which seems to be going over the precipice. As if a collision of trains going at full speed was in the making. As if, in a vortex emptying the bottom of a bathtub.... There is no hope of a return to stability for the global economy."

What Attali doesn't say, is that we can thank his former boss, François Mitterrand, and Margaret Thatcher, for this. Because the two of them forced Germany to accept the euro as the price for reunification, and they are to blame for the fact that we in Germany no longer have any instrumentarium for defense of the common good. In switching to the euro, we

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1. Agenda 2010, announced in 2003 by then-Chancellor Gerhard Schröder, imposed "free-market" measures, including draconian cuts in health-care coverage, pensions, and unemployment benefits. Hartz 4, which became law in 2005, sharply cut unemployment benefits, while forcing the long-term unemployed to accept jobs paying 1 euro ($1.45) per hour, in order to continue to receive benefits—ed.

2. Attali, an economist, was an advisor to the late French President François Mitterrand. His books include *Cannibalism and Society*, *Noise: The Political Economy of Music*, and *Amours: Histoires des relations entre les hommes et les femmes* (*Loves: Histories of Relations Between Men and Women*, 2007)—ed.

gave up sovereignty over our own currency to the European Central Bank [ECB], and since the treaties of Maastricht and Amsterdam, and the Stability Pact, the government's hands have been tied.

EIRNS/Chris Lewis

Striking auto parts workers in Germany in 2004, as layoffs were hitting industry hard, amid the growing financial crisis. Today, the future facing workers and the unemployed is bleak, unless political leaders follow the advice of Helga Zepp-LaRouche: Junk the euro, return to national sovereignty, and implement an FDR-style economic policy.

The Common Good Must Be Defended!

It is an irony of fate, that Jacques Attali is right, when he says the world financial system is truly, as he says, "bankrupt," and that the EU, with "an Italy going financially adrift," is in such a bad situation, that the very existence of the euro could be put into question. This poses the question of who really is responsible for the common good of Germany.

According to the Basic Law, it is quite clear. Article 20 states:

> 1. The Federal Republic of Germany is a democratic and social Federal state.
> 2. All state authority emanates from the people. It is exercised by the people by means of elections and voting and by separate legislative, executive and judicial organs.
> 3. Legislation is subject to the constitutional order; the executive and the judiciary are bound by the law.
> 4. All Germans shall have the right to resist any person seeking to abolish this constitutional order, should no other remedy be possible.

This commitment to the common good is further strengthened in the oath of office sworn by the President, Chancellor, and Federal ministers, according to Article 56:

> I swear that I will dedicate my efforts to the well-being of the German people, enhance its benefits, ward off harm from it, uphold and defend the Basic Law and the laws of the Federation, fulfill my duties conscientiously, and do justice to all. So help me God.

But where is the commitment to defend and ward off harm from the German people, when the taxpayers are forced to shoulder the losses, in a banking crisis such as that which began with the IKB [Industriekreditbank] crisis of July 10, and was followed by the crisis of West LB, Sachsen LB, and LBBW [Landesbank Baden-Wuerttemberg], although those losses were due to the greediness of private speculators?

In the financial crisis that began with the collapse of the American mortgage markets in the second half of July, a whole array of antagonisms, conflicts of interest, and legal loopholes have been discovered, which must be rectified if a solution is to be found.

It has become obvious that the BaFin [German Financial Supervisory Authority] has not been carrying out its banking oversight role. Otherwise it would never have been permitted the indirectly state-controlled IKB to become so embroiled in high-risk speculative deals. The BaFin and the principal stockholders of the IKB, the Kreditanstalt für Wiederaufbau [Reconstruction Finance Agency, or KfW], as a public bank, should have prevented the IKB from getting into such a mess. Clearly, people in both institutions have no understanding of the "creative credit instruments," such as CDOs, MBSs, ABCPs, or SIVs. The same goes for West LB, and certainly for Sachsen LB, which are costing taxpayers in Saxony and Baden-Wuerttemberg around 43 billion euros! The BaFin itself also must not be spared charges of incompetence. And when then the overwhelmed savings banks are forced to participate in bailing out the state banks [*Landesbanken*, or LB], this violates the conclusions of the 1968 legislative probe of banking practices, which defined the task of public banks as that of conducting business "according to economic guidelines, but without profit-seeking," in order to supply the needs of the regions, the *Mittelstand* [small and medium-sized enterprises], and to protect the depositor—but instead have to cover the losses of the state banks, which have degenerated into "speculative betting agencies."

Who Is Responsible for Saving the System?

The maxim that profit is private, but losses are general, is borne out, but it is not the only blow against the common good for which the government is itself to blame. An even more complex and nebulous question, is just who is responsible for saving the collapsing banks. For we have not only a national banking crisis in Germany, but also a crisis throughout the Western banking system, however with highly varied circumstances.

Up to 1999, the Bundesbank was Germany's "lender of last resort," the source of credit, should the national economy go out of kilter. But with the introduction of the euro, currency sovereignty was transferred to the European Central Bank, and so we have the paradoxical situation in which national central banks are responsible for providing extraordinary liquidity—so-called "Emergency Liquidity Assistance" (ELA)—whereas they have no sovereignty over the creation of currency. And this legal loophole, which the fathers of the euro believed could simply be ignored, is now proving to be the potential deal-breaker of the European Monetary Union.

Since the onset of the global financial crisis, activated in August 2007 by the "sub-prime" mortgage crisis in the U.S.A., a credit crunch has developed, which has particular forms and manifestations in the Eurozone. The large investment banks have been sitting, since that time, on large mountains of paper titles, in so-called SIVs [structured investment vehicles], which are unsalable, or can be sold only at a fraction of their book value. Were the banks to actually sell these securities, the loss in their value would be obvious to all, and they would have to make enormous write-offs, exceeding even the amount of their capital for many of them, which would mean bankruptcy. Thus these banks are still sitting on their worthless paper, and while none of them know exactly what the risk of the others is, interbank lending has almost come to a halt.

In this situation, it becomes clear that the designs behind the Maastricht and Amsterdam treaties, the Stability Pact, the still-unratified European Treaty, the euro, and the ECB are highly problematic from the standpoint of responsibility and national interest. According to the motto "What can't be, shouldn't be," there is no mechanism, on the level of the EU, whereby the risk to the system could even be evaluated. And if trust between the banks even within national boundaries no longer exists, so much the greater is the difficulty across national borders.

Indeed there are various memorandums about cooperation among the national central banks, according to which their countries, together with the regulatory authorities, are supposed to play the function of "lenders of last resort." But the crisis of confidence and the complexity of the SIVs are such, that the necessary exchange of information among bank regulators, central banks, and market players makes coordination among those responsible very difficult. And within the present system, the choice is only between the Scylla of a crash and the Charybdis of hyperinflation, so that we've gone now for almost half a year since the outbreak of the crisis, with no solution.

Differing National Interests

Then we come to the differing interests of the individual member countries of the Eurozone. France is pushing for the ECB to lower interest rates, since, compared to Germany, it has relatively high unit labor costs and a relatively low technological level, France's exports are endangered by the present appreciation of the euro against the dollar. Germany, on the other hand, fears—not least because of the experience of hyperinflation in 1923—the inflation that is already visible, and the further rise of the euro currency, and would would rather like to raise interest rates. However, this would place an additional burden on the domestic market, which has been weakened considerably since the introduction of the euro. And Italy, which has the highest level of debt in the world, in comparison to its Gross Domestic Product—a total debt of 1,575,346 million euros, which now means 104% of GDP, instead of the 60% "allowed" by the Maastricht Treaty—fears it would no longer be able to pay the interest on its debt, should rates rise. That is why Attali declares that "Italy going financially adrift" could place the euro itself in jeopardy. The differing appraisals of the risk thus exist not only between the Fed and the ECB, but also between the national central banks within the Eurozone.

The main problem of the current ECB-euro financial architecture is that the national governments no longer have the instrumentarium to defend their own economies and their own banking systems, and to initiate State investment programs that could bring the economy out of the depression that is hitting us. Already, credit to banks that are in trouble can only be provided with adequate security and at market prices. Cheaper credit could be provided by an injection of public funds, which is not the job of the Bundesbank, but of the State, and according to the EU Treaty, is only allowed under certain conditions and with the approval of the EU Commission. In general, the Treaty forbids the central banks from financing costs that are incurred by the State.

We Need a Legislated Firewall!

Even more fatal for economic and currency policy, however, are Articles 103 and 104 of the Maastricht Treaty: that "any type of credit facility with the ECB or with the central banks of the Member States in favor of Community institutions or bodies, central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of member states shall be prohibited, as shall the purchase directly from them by the ECB or national central banks of debt instruments." And in Article 104a, it also says that private banks are not allowed to give credit at reduced rates to governments and other public institutions.

This all means that the present EU financial architecture is unsuitable for Germany's character as a social state and for the common good, whose defense is mandated by the Basic Law, to save the global financial system, under the conditions of the currently exploding crisis of the system. Therefore, the erection of a firewall for areas of public welfare is urgently needed. The unsolved national banking crises, as well as the rudderless global financial and monetary crisis, clearly constitute a "breakdown of the common economic balance," and so the government can and must act, on the basis of Article 20 of the Basic Law and the subsequently adopted "Law on the Requirement of Stability and Growth of the Economy," in combination with Article 104a, Section 4, Sentence 1, and Article 115 of the Basic Law.

The transfer of sovereignty over one's own currency to supranational institutions must be suspended. The Maastricht Treaty and the Stability Pact must be frozen. The State must place the public banks, the savings banks, the cooperative banks, the state banks, and the KfW under its protection, and in the future bring them under effective control, so that the mistakes that have been made are not repeated. (The fact that in the very homeland of Adam Smith, the nationalization of the Northern Rock Bank, now referred to as the "Northern Wreck," is being discussed, shows that Alexander Hamilton wins over Adam Smith.)

Thereafter, secure credit lines must be made available for all essential functions of production, trade, and supply of household necessities. The competence and capacity of the public banks will have to be expanded to correspond to demand. The treatment of all nonessential problems must be set aside, until the breakdown of the economic balance is overcome.

Furthermore, provision must be made for the poor and low-income population, with affordable food and energy. For all essential categories, price controls must be decreed. The government must make sure that people can remain in their homes, and are protected against foreclosures.

Credits for Construction

In order to achieve real productive full employment, which is ultimately the only long-term basis for health of the economy, the Bundesbank or an expanded KfW should offer credit lines for investment in the maintenance and modernization of industry and the construction of means of transportation. This includes the repair of roads and bridges, the modernization of canal systems and supply of drinking water, construction and maintenance of schools, hospitals, and other public buildings. Aufbau Ost [rebuilding of the East] must be directed so as to achieve social justice and structural improvement. Street transport must be reduced, and public mass transportation systems such as the Transrapid and the CargoCap system will be required.

For energy security, it is urgently necessary to start building the inherently 100% safe high-temperature nuclear reactors, the so-called pebble-bed modular reactors. At the same time, the introduction of hydrogen technologies will solve many of today's problems in an environmentally friendly and safe way.

In other words: We must return to the principles of the real physical economy, placing the common good above private profit.

Parallel with the reorganization of the German banking system and the real economy, we must work out and conclude long-term agreements with other nations on necessary measures for reorganization of the world financial system—a New Bretton Woods system—and the reconstruction of the world economy. Building the Eurasian Land-Bridge could provide the concrete framework for a New Deal for the reconstruction of the world economy, with special emphasis on the economic construction of Africa.

Avoiding the Mistakes of the Past

In view of the demonstrated incompetence of the authorities who have participated in bringing about the current crisis of the system, either by active policies or by neglect, competent people must take office, who have studied the principles of the real physical economy and the national economy. Such persons exist in the BüSo, as well as among scientists, engineers, and *Mittelstand* entrepreneurs.

If we in Germany have learned anything at all from history, then we dare not repeat the mistakes of the 1930s, in which austerity policies, as a reaction to the banking and economic crisis, ultimately led to Hjalmar Schacht and Hitler. It is obvious, that today there are again financial interests, which Greenspan so ominously called "forces," who would be happy to take this route. This is the context in which to see the attempt by a mega-locust of Wall Street, with a personal fortune of $11 billion (!!!), to buy the Presidency of the U.S.A.: Michael Bloomberg, a real representative of those "Robbing Hoods," who would like to solve the banking crisis by massively driving down the living standards of the population.

Now as then, we have a choice: either the policies of Mussolini and Hitler, or a policy in the tradition of Franklin D. Roosevelt, a New Deal and a New Bretton Woods. Particularly in Germany, we must not make the same mistakes twice!