Italian Senate Takes Up LaRouche's Plan

by Helga Zepp-LaRouche

This article was translated from German.

Although Germany will probably be the last nation where the media will report on it, in reality, there is only one realistic proposal, as to how the greatest breakdown crisis of the finanical markets since money came into existence, can be overcome. This revolutionary proposal was just submitted as a resolution in the Italian Senate by Sen. Oskar Peterlini and, so far, by an additional 19 Senators. It calls upon the Italian government to immediately put on the international agenda the entire program proposed by Lyndon LaRouche for a New Bretton Woods. Italian Economics Minister Giulio Tremonti had previously repeatedly demanded the immediate formation of a new financial architecture.

The second—unrealistic—proposal of U.S. Secretary of the Treasury Henry Paulson, to ram through a fund of $700 billion as the beginning of an unlimited rescue action for the involvent banking system, could rapidly fall through, in the face of the resistance of conservative Republicans and furious American taxpayers, who see themselves faced with having to pay for the rich speculators, and in the process, losing their savings and their standard of living through inflation.

The question of which of these two conceptions will prevail, will decide whether the world recovers relatively soon from the escalating financial crisis and depression, and can begin a reconstruction of the world economy, or whether a hyperinflationary worldwide collapse will occur as happened in Germany in 1923, and a crash into a New Dark Age.

The chance absolutely exists, that the solution proposed by LaRouche will prevail. Even if it remains to be seen, whether the right actions follow the words quickly enough, French President Nicolas Sarkozy used his speech, as the current president of the European Union, before the UN General Assembly on Sept. 23, to say that he will organize a New Bretton Woods conference in November. In his keynote address on the financial crisis given two days later at an event in Toulon, France, Sarkozy said: "The entire global financial and monetary system must be rebuilt from scratch, as was done after World War II in Bretton Woods," and added: "With the end of finance capitalism[!], an epoch draws to a close." There has been no regulation and no political interference in the market. "The idea that the market is always right is insane."

Much as Sarkozy's thinking seems to go in the right direction, we don't have two months in which to convene such a New Bretton Woods conference; the tempo of the meltdown is much too rapid. Not only is the former Presidential candidate of the Solidarity and Progress party, Jacques Cheminade, who for many years has advocated the ideas of LaRouche in France, pushing for immediate action, but so are representatives of other parties, such as François Hollande, general secretary of the Socialist Party, and former prime minister Michel Rocard. A debate on the New Bretton Woods has broken out in full in the French media, in glaring contrast to the complete *Gleichschaltung* [marching in step] of the German media, which reports neither on the discussion of a New Bretton Woods in Italy, nor on that in France. Also in Russia, which has been gripped by the repercussions of the financial crisis, a full debate on a New Bretton Woods has broken out. The increased interest in the programmatic ideas of LaRouche is reflected in hundreds of Russian websites, as well as in the interview with LaRouche that the state TV station Russia Today broadcast on Sept. 22, in which LaRouche pointed out the parallels of the current financial crash to the 14th Century, and the danger that now, as then, the crash threatens to result in a Dark Age.

Moreover, right now there almost no nation in the world, in which many leading individuals are not confronting themselves with the question of how right LaRouche has proven to be, in his webcast on July 25, 2007, in which he emphasized that the world financial system had already collapsed, and that now we would

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The LaRouche Youth Movement's street theater in Los Angeles on Sept. 22 caught the imagination of a citizenry that is more inclined to lynch Hank Paulson, than to accept his bailout of Wall Street speculators.

just observe how the effects of this collapse would wash up on the shore. Three days later, the U.S. subprime mortgage crisis broke out. Many are now trying to figure out how LaRouche could have known that, whereas so many "experts" had not only regarded a systemic collapse as impossible, but even in May of this year, were proclaiming that the worst was over.

Change of Mood in the U.S.A.

The situation in the U.S.A. has meanwhile intensified dramatically. On top of the substantial list of banks that had already gone bankrupt, now, with the bankruptcy of Washington Mutual—the largest U.S. savings and loan bank, with deposits of $188 billion and a mortgage portfolio of $176 billion, much of which is in distress—the biggest banking collapse in U.S. history has occurred.

In the face of this dramatic development, the mood in the population is more inclined to lynch the unscrupulous speculators, than to accept Paulson's proposal to create a bailout fund of $700 billion, the Mortgage and Financial Institution Trust (MFI), whose funds are to be increased without limit, as required.

Now the Senators and Congressmen who will be up for reelection on Nov. 4, are getting an earful of this change in the mood of the population, when they return to their home districts. And conservative Republican Senators have said that they perceive it as deeply "un-American" to socialize financial losses.

When it became apparent, at the crisis summit in the White House on Sept. 25 (in which, besides President Bush, John McCain and Barack Obama also participated), that not everybody agreed with the Paulson plan, Paulson knelt down in front of Speaker of the House Nancy Pelosi, seeking support for his hyperinflationary swindle—a gesture which was as laughable as it was senseless.

Paulson's attempt to have the MFI take over the toxic waste at 100% of face value—that is, the worthless, unsellable "commercial paper" of the banks and hedge funds, as well as domestic and foreign investors—would prove to be the poison that finally kills the patient: the world economy. Due to the lack of transparency in over-the-counter derivatives transactions, no one knows with certainty the precise extent of this problem; however, the figure of $600 trillion has been mentioned as comprising the outstanding derivative transactions. but it could very easily be even higher.

If all of these outstanding debts were honored, it would result in hyperinflation, which would endanger the livelihoods of literally billions of human beings. At the same time, the MFI's hundred percent guarantee would be an incentive for all mortgage holders and creditors of all types to apply for help in meeting delinquent payments, in the certainty that they would be compensated. The "moral hazard" would explode.

German Government Indignant, But at a Loss

When Paulson demanded that other nations create similar funds to save their banks, a storm of indignation broke out. Chancellor Angela Merkel and Finance Minister Peer Steinbrück adamantly refused German participation, saying that this was an American problem. That this is not the case, could surely be understood by anyone in Berlin, after the losses of IKB, Saxon LB, Baden-Württemberg LB, Bavarian LB, and the Kreditanstalt für Wiederaufbau (KfW), and the difficulties of the German subsidiaries of Lehman Brothers. And, as

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The LaRouche movement organizing in Berlin on Sept. 15. The sign on the left, referring to Weimar Germany's hyperinflation, reads, "Does Bernanke's treason mean an upswing for the wheelbarrow industry?" The sign on the right says, "Financial crash: LaRouche was right: 3-point program now!"

the London *Times* points out, Great Britain's five top bankers alone have $175 billion in "endangered deposits," and could claim a quarter of Paulson's mega-rescue package, if it comes to fruition.

French Finance Minister Christine Lagarde is among those who was pleading with Paulson to save the insurance giant AIG, which had insured over $300 billion in credit derivatives of European firms. And Daniel Gross, director of the Centre for European Policy Studies in Brussels, in an interview with the *Daily Telegraph* went so far as to say that the Paulson plan was, in reality, a rescue plan for the European banking system. Gross explained that Deutsche Bank deploys foreign capital that amounts to 50 times its own capital, and has obligations of $2 trillion, which amounts to 80% of the German gross national product. Fortis Bank has obligations which add up to 300% of Belgium's gross national product. Europeans, moreover, do not have the means to save these banks; only the European Central Bank can do that, and precisely such action has been ruled out by the Maastricht Treaty.

This could be the reason for Steinbrück's refusal to participate in the Paulson plan. Because, since Germany handed sovereignty over its currency over to the European Central Bank, the Bundesbank has lost its role as the "lender of last resort," nor does the ECB see this as its responsibility. There is therefore no basis in law for the creation of a German rescue plan along the Paulson model. The only thing Steinbrück could do under current circumstances, would be to burden the budget with a new issuance of credits to the money markets, in order to rescue the banks, and that, in ludicrous dimensions. It will very quickly become obvious, if it has not already, that herein lies one of the errors in construction of the European Monetary Union.

If what the *Süddeutsche Zeitung* pointed out is true—that even Left Party chairman Oskar Lafontaine not only approved the Paulson plan (and thus the hyperinflationary rescue of the speculators at the taxpayers' expense!), but also demanded that the German government participate in it, then Lafontaine has "outed" himself as more economically incompetent than Steinbrück himself—and that's saying something.

The fact is, that in a systemic crisis such as we are experiencing today, only national governments are capable of handling the situation. Sarkozy has clearly recognized this, and announced that the state will play a very much greater role in French policy, from now on.

In Germany, the government would be well advised to recognize that all its members have sworn an oath of office to protect the German people from harm. Concepts of how to do that, in the face of the international conflagration of the financial system, have not been put forward in any way.

Liko-Bank, equipped for insuring deposits in an emergency, was already nearly depleted by the losses of the German subsidiary of Lehman Brothers, shedding further light on how inadequate the allegedly so secure protection of savings deposits is in Germany. When the Paulson plan hit the skids politically, the European central banks, the ECB, the Swiss National Bank, and the Bank of England reacted by making available to the investment banks, as they had before, seven-day loans of about Eu74 billion, thereby demonstrating that they are apparently still determined to keep refinancing the interbank borrowing and swaps with credit derivatives.

In the face of the fact that the world finds itself in an advanced state of meltdown, the flap over the transfer by KfW of over Eu500 billion to Lehman Brothers, after the news of its insolvency was out, was, if anything, a diversion from the real problem. And surely, there was a certain degree of negligence, as well as a certain automatism in play, in which the seven-hour time differential between Europe and the United States played a role.

But such ill-advised money transfers are happening more often. Chase Manhattan transferred money to Herstatt Bank, which had gone bankrupt back in the 1970s. After a protracted legal battle, the Bundesbank stepped in and refunded the sum, for reasons of goodwill. It would thus be only fair, if today the Fed would likewise refund the money to KfW, for reasons of goodwill.

On a more fundamental level, one thing must be clear: Only if the decision is made in time, to put the hopelessly bankrupt financial system into an orderly bankruptcy proceeding, and to establish a Bretton Woods system such as that which Franklin Roosevelt conceived in 1944, and Lyndon LaRouche represents today, will we emerge from this crisis.

Helga Zepp-LaRouche: LaRouche Was Right!

On Sept. 22, 2008, Helga Zepp-LaRouche, the Federal Chairman of the Civil Rights Movement Solidarity (BüSo), issued the following press release to the media news departments, concerning the current financial crisis:

The host of financial policymakers, experts, economic journalists, and commentators, who, in recent days, have undertaken to mutually attest that no one could have foreseen the presently exploding systemic crisis, have, by doing so, announced one thing above all: that they should all definitely find a new profession.

Now, Nadine Oberhuber has written in the *Frankfurter Allgemeine* newspaper of Sunday, Sept. 21, in an article headlined "Collapse or Rescue," concerning a scenario circulating among economists, that "the central core of the system is threatened. The process has long since begun, and can no longer be stopped. When Lyndon LaRouche, the opponent of the financial system, presented this thesis, everyone laughed. But, in the meantime, also distinguished economists have said this."

I'll venture another scenario: The laughter will soon vanish, if it hasn't already stuck in the throats of those who were laughing. Moreover, Ms. Oberhuber should get some coaching in her grammar, as she used the modal adverb "also" incorrectly. For throughout the entire world, among those persons who have a concept of the real economy, Lyndon LaRouche is esteemed as the most distinguished economist, who in fact has always been right in his forecasts, while the entire host of free-trade PR men failed pitiably.

Unlike the ideologues of "free-market economics," LaRouche does not make his analyses as a variant of tea-leaf reading, but uses a scientific method rooted in that of Leibniz, Riemann, and Carey. I recommend in addition, to Ms. Oberhuber and all others, to watch Lyndon LaRouche's webcast of July 25, 2007, at www.larouchepac.com, in which he correctly forecast the future of the financial system, *three days before the beginning of the subprime crisis in the U.S.A.*