

As Financial System Folds, Trans-Atlantic Officials Call New Silk Road ‘Mortal Threat’

by Harley Schlanger

April 27—An article in the German daily, *Süddeutsche Zeitung*, on April 16, about a request made by bank regulators at the European Central Bank (ECB) to Deutsche Bank (DB), “sent shivers down the spines” of financial observers, according to a prominent economic forecaster. “It was not totally unexpected,” he added, “as it is not a secret that the bank has been in trouble for a long time; however, seeing it in print caused a shock.” What the newspaper reported is that ECB regulators asked the bank to simulate what a “crisis scenario” would look like, should the bank’s capital market and derivatives business be hit with defaults, and asked what would be the cost to complete a “resolution” of its investment banking division. In other words, could the bank cover its losses and still survive, or would it require a bailout, a bail-in, or both, to stay in business?

Left unmentioned in the ECB request is an even bigger fear: If a default at Deutsche Bank were to occur, is there a strategy to prevent it from triggering a domino collapse of the other large speculative banks in the Eurozone, all of which have close trading relations with the bank, as well as portfolios filled with bloated derivative contracts?

How to successfully implement a bank “resolution” under conditions of spreading

defaults remains unclear for both U.S. and European banks, nearly a decade after the massive government bailouts prevented a collapse of the major “Too Big to Fail” banks, following the September 2008 Crash. While an increase in capital reserves was mandated,

and other—mostly cosmetic—measures were introduced, the speculative practices which caused the Crash of 2008 have not only continued, but expanded, due to injections of fresh liquidity by the “quantitative easing” (QE) policy of central banks.

This policy, from the U.S. Federal Reserve, the ECB, and other central banks, provided trillions of dollars of new liquidity to roll over derivative and other speculative debt, so that banks could keep assets on their

books at vastly unrealistic face values, and continue to trade them, even while no effort was made to determine whether or not there were any real underlying value of the assets being held and traded. The result is the creation of the largest debt bubble in history.

The liquidity injected by central banks has allowed U.S. and European banks to report large earnings, and to fuel a new stock bubble, even while the real economy is contracting, and economic growth, as measured even by phony GDP statistics, remains



Digimax 430/Kenox D430

Deutsche Bank is teetering. Deutsche Bank twin towers shown here.



historically low. This stock bubble, and the debt bubble which fueled it, has enabled politicians and bankers to proclaim the fake news that recovery from the 2008 Crash is complete, and the future is bright. Yet, even while this narrative is being pushed, growing concern is being expressed, even within Trans-Atlantic banking and financial circles, that the economy is heading for an even larger blowout in the near future.

That Deutsche Bank is a subject of ECB concern is not surprising. It suffered substantial losses in 2015 and 2016, and has been hit multiple times with significant fines, including a 5.9 billion euro fine imposed by U.S. authorities in 2016 over its handling of mortgage-backed securities. One of the world's largest banks, it has over 42 trillion Euros in derivative exposures. In 2016, the International Monetary Fund (IMF) called DB the "riskiest bank in the world." On April 8, following a rare Sunday night emergency board meeting, CEO John Cryan was dismissed, as the bank continues to experience falling revenues and its stock price has dropped

30% thus far in 2018.

But the ECB's concern is not limited to problems at Deutsche Bank. In addition to ongoing problems in the Italian banking sector, there is new attention focused on the problems with clearing houses, which supposedly safeguard both parties in derivative trades, insulating participants from the effects of a default. The ECB has demanded new powers over the clearing houses in the United States and Britain, insisting that they collect more collateral from clients and increase liquidity buffers. President Trump's former director of the National Economic Council, Gary Cohn, warned in October 2017 of problems of transparency and liquidity in clearing houses, saying that, as "we get less transparency and less liquid assets in the clearing house, it does start to resonate to me to be a new systemic problem in the system."

His comments added to concerns ECB regulators already had about liquidity problems with clearing houses, which first emerged following the Brexit vote, over fear that clearing houses based in London would no longer be under Brussels' jurisdiction, making euro-denominated derivatives trades by EU traders outside the euro-zone even more risky. The London-based euro-clearing house trade can top a notional figure of \$900 billion per day, and considerations from the ECB about reducing or eliminating the use of "non-EU" clearing houses posed a real threat to clearing house operators.

It is not only ECB officials who are uneasy about the present financial situation. While U.S. Federal Reserve officials are projecting an air of calm, the rise of interest rates to nearly 3% in defaults on corporate debt, leading to an increase in bankruptcy filings, which is already occurring. Further, one Fed Governor, Lael Brainard, expressed concern about the stock market bubble, albeit in a mild formulation. On April 2, she said "Valuations in a broad set of markets appear elevated relative to historic norms, even after taking into



Department of Treasury
One Fed Governor, Lael Brainard, is concerned about the stock market bubble.

account recent movements.”

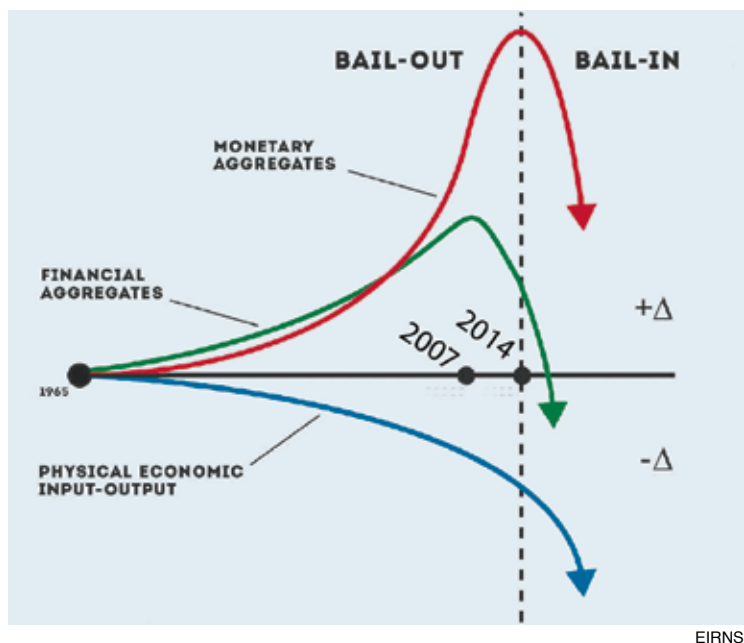
‘Unintended Consequences’ of Cheap Money

One commentator not constrained by Brainard’s “Fed talk” understatement of the problem of bonded debt and the stock market bubble, is Nomi Prins, author and former investment banker, who warned in her “Financial Road Map for 2018” that the stock market “will continue to rush ahead on the reality of cheap money supply until the debt problems tug at the equity markets and take them down.” The financial and capital market system, she said, depends on “co-dependencies and cheap money policies of the central banks.” Stock prices have benefited from more than \$14 trillion of QE money, which flowed to U.S. banks. In turn, the Fed and other central banks are now holding more than \$22 trillion of bond and other debt instruments, with much of the debt they are holding being of dubious value.

Despite brave talk of “unwinding” these holdings and “tapering” cheap money flows, Prins writes that central bankers know this is a problem, but “have no exit plan.”

It would help to sharpen this discussion if Prins and others openly referred to a subject raised by economist Lyndon LaRouche in 1995, when he first presented his “Triple Curve,” a heuristic device to explain what he called a “Typical Collapse Function.” LaRouche’s Triple Curve analyzes the interrelationship between three aspects of an economy, that is, financial instruments, monetary aggregates, and real physical production. He showed that what was called the “new economy” emerging in the 1990s exacerbated the problem he identified in 1971: that the triumph of monetarism in the field of economics in the trans-Atlantic region was driving a deindustrialization, while producing speculative financial bubbles.

When he presented the Triple Curve, western economies were characterized by an accelerating increase of financial instruments, an increase in the acceleration of monetary aggregates, and an accelerating collapse of real physical production. LaRouche said this *is* a bubble economy characterized by a financial system that supports itself by hyper-expansion of financial aggregates while collapsing the physical economy by aggressively cutting back lending to the “less-profitable” real, physi-



LaRouche’s “Triple Curve” Typical Collapse Function.

cal economy.

LaRouche’s analysis proved to be accurate in forecasting the popping of successive bubbles, beginning with the Asian crisis in 1997, the Russian GKO bond crisis the following year, the collapse of the dot-com bubble in 2000, and in his July 2007 forecast, of the coming collapse of the mortgage-backed securities bubble. As each bubble popped, hundreds of millions of lives were affected, through an increase in *avoidable* deaths from famine and disease, made worse by banker-dictated austerity measures, and by hopelessness (e.g., the U.S. opioid epidemic) and wars related to economic collapse. The unwillingness to reject such obviously fraudulent monetary theory, which continues to be the driving force of western economies, puts us again on course for a new, even bigger collapse today, LaRouche stated recently.

The growth in all categories of debt is the Achilles heel of the system. Public debt, corporate debt, financial debt, credit card debt, and student loan debt are all soaring, while the means to pay these debts are contracting. In the United States, wage growth and productivity are stagnant, job growth has slowed, and the real labor participation rate (the percentage of those employed who could potentially work) is at a four-decade low. The debt of non-financial corporations in the United States at the end of 2017 was more than \$14 trillion, according to statistics from the U.S. Federal Re-

serve, while corporate profits on average are stagnant or declining. The IMF has estimated that when interest rates hit 3%, more than 20% of U.S. firms will face bankruptcy, as once the ability to borrow is curtailed, interest payments will go into default.

William White, the former chief economist at the Bank for International Settlements, identified the massive flows of liquidity as a new destabilizing factor in finance, which makes all the old models of handling debt useless. In an essay published in April 2018 in the book, *The Changing Fortunes of Central Banking*, he describes this problem as one of “unintended consequences,” with today’s bailouts adding to future debt, without generating the means to cover the new debts. The failure to address the wild speculation that culminated in the 2008 Crash and bailouts has convinced many CEOs and investors that the only option, in the face of a debt crunch, is to seek ever more risky investments, hoping for a big enough return to cover the spiraling debt costs. He has argued, since 2008, that nothing short of a massive debt write-down can save the system, a point of concurrence with Lyndon LaRouche.

The New Silk Road vs. London

While happy talk about a “robust recovery” dominates public statements from bankers and regulators, and is featured in most media, the fear among financial oligarchs is not only a fear of an uncontrolled collapse in the trans-Atlantic region. Stoking their fears is the emergence of an alternative system in Eurasia, centered around China’s impressive New Silk Road global infrastructure development plan, the Belt and Road Initiative (BRI). The growing involvement in BRI projects, on the part of nations in Europe, Africa, and South and Central America, raises the specter of the most feared scenario among those who view the world from the standpoint of classical British geopolitics: that the privileged position held by London-centered banks is about to be eclipsed, and ended, by alliances formed by Eurasian nations with Europe and the United States!

There is an intense economic/diplomatic revolution underway, with new financial institutions, such as the Asian Infrastructure Investment Bank and the BRICS bank, along with large Chinese state and private banks, providing massive amounts of credit for projects. Nations which previously had no option but to subject themselves to looting by London-centered banks, being denied credit, and forced to adopt murderous austerity



Institute for New Economic Thinking

William White, former chief economist at the Bank for International Settlements.

measures, are now turning to this New Paradigm, which China’s President Xi Jinping identifies as one based on a win-win perspective. When President Trump showed interest in U.S. participation in the BRI, the neocon/neo-liberal networks in the trans-Atlantic community saw this as an existential threat, which must be countered at all costs, including the risk of new wars.

That is why British imperial interests and their allies have engaged in regime change operations against Trump, launched provocations against Russia and President Putin including the “chemical weapons” frauds of the Skripal affair and faked videos from Douma, Syria, and have made so many hysterical statements characterizing China’s development of the New Silk Road as a cover for alleged imperial intentions.

During her weekly webcast, Helga Zepp-LaRouche, founder and President of the Schiller Institute, commented on the rapid consolidation of the BRI, saying that instead of supporting wars against this New Paradigm, its emergence should be embraced by the people of the United States and Europe. “The future of civilization is in Asia, and any country of the West that wants to be part of that future, should find a good relationship to this new dynamic, because this is the forward-looking one, and not the old paradigm as represented by some of these European powers that just think in terms of the past.”

This new dynamic, which is taking place in Asia right now, she concluded, “will shape history for the better.” The imperial geopoliticians will not like it, but their demise is long overdue.