
Euro Banking Crisis: Financial System on the Brink

Megan Beets: I would like to ask a question, turning to the issue of this bankrupt financial system. Underscoring the fact that we are at the moment of total blowout of the trans-Atlantic system, in the recent week, we've seen some very significant developments, significant shocks in the banking system of Europe.

As a certain kind of prelude, we saw in the last days of June, a run on the banks of Bulgaria; we saw an announcement on July 3 by Austria's Erste Bank, that they expected losses of EU1.5 billion *this year*. Both of which events set off a series of shocks throughout the Eurozone banking system, but also hysterical denials, that there are any systemic implications to these developments, including a reaction from the assistant editor of London's *Daily Telegraph*, Jeremy Warner, who ner-

vously insisted that Erste Bank's announcement was "not quite the Kreditanstalt," the Austrian banking collapse that marked the beginning of the Great Depression, but he said it was still very worrisome in terms of the future of the entire European banking system.

Now, that's the prelude.

In just the past couple of days, the picture has become much, much more dramatic, with the announcement of the insolvency of Portugal's flagship bank, the Banco Espirito Santo, as well as its holding company Espirito Santo International, to which not only the Portuguese banks, but the major banks of Spain, the banks of France, including Cr dit Agricole, have serious exposure.

Now, despite the denials of the bank, of the Portuguese government, and of the European Central Bank, that this has any systemic risk, the announcement of Banco Espirito Santo has already set off major tremors throughout the European banking system, including yesterday, the collapse of the bank's stocks by almost 20%, which induced the shutdown of trading; you have government bond yields, not just of Portugal's bonds, but of Greek bonds, and across the continent, having skyrocketing interest rates, also the wide discussion of the imminent threat to the entire system. So the genie is out of the bottle.

Also last week, on July 3, we saw the announcement of ECB head Mario Draghi, that the ECB would be unleashing an unprecedented amount of monetary expansion, liquidity pumping, which was expected to surpass the liquidity pumping of the U.S. Fed at the height of the bailout. So, I think it's clear that we really are at the end of blowout of the entire system, as Mr. and Mrs. LaRouche have been warning.

Germany Asserts Its Sovereignty

Now, I want to add something else to the picture here, on the breakdown of the trans-Atlantic system, which is what we saw come out of Germany yesterday: the announcement that the German government, at the request of the German Parliament, has asked that the CIA station chief at the U.S. Embassy leave the country, in the wake of the identification of not just one, but two spies, passing information to the U.S. intelligence ser-



Hewlett-Packard

A freight train travels the modern-day "Silk Road" from Congqing, China, to Duisberg, Germany, 2013. Germany is interested in economic cooperation with China and Russia, but is being blocked by the British Empire and Obama, Small said.

vices. *Der Spiegel Online* described that request of the German government as follows: "On a diplomatic level, it is no less than an earthquake and represents a measure that until Thursday would have only been implemented against pariah states like North Korea or Iran. It also underscores just how deep tensions have grown between Berlin and Washington over the spying affair."

This move obviously is unprecedented, and it demonstrates that there is a very rapid breakdown of the trans-Atlantic system, so the question I'd like to ask you is: What is driving and determining the breakdown? And what does this have to do with the coming financial blowout?

Small: Well, if you don't want to be called a "pariah state," we should get rid of our pariah President, and things would change very significantly!

These German developments are extremely significant, and we did have an opportunity to discuss them today with Helga Zepp-LaRouche, who said, speaking as a German political leader, that the perspective that they have is that the United States has absolutely nothing to offer Europe, today, other than spying, coercion, blackmail, and wars. Oh, and an economic collapse, too! So, this spy case, this particular development with the expulsion of the head of the CIA desk in Germany,

could well be the straw that breaks the camel's back, in terms of developments in that country. She said that Germany, despite Chancellor Angela Merkel, is actually interested in economic cooperation with China and Russia and the rest of the world, but under the British Empire's control and under Obama, that is impossible. In other words, that is not available in the trans-Atlantic sector.

Now, to that evaluation of Mrs. LaRouche, I can add that there is good reason to believe—we could at least call it a probability—that the handiwork of what's going on in Germany, not only this current case of spying, but also the previous disclosed activities of the NSA and spying on Chancellor Merkel's own cell phone, really does appear to be the handiwork of CIA Director John Brennan. Brennan is very close to the Saudi government, in ways that I do not wish to describe on this webcast program, in case children are listening, and that means he's very close to the British, because that's who the Saudis are. Brennan has played a role in the cover-up, at least, if not more than that, of every one of the 9/11 atrocities carried out against this country in 2001, as well as the 2012 attack in Benghazi—and he's played a principal role in these activities.

So what's happened in the case of Germany, is that a crisis has broken out onto the surface now, that was brewing underneath. And this could well go in various directions, especially because of the economic catastrophe now going on, that you were just describing. I'd like to recall for our listeners that Mr. LaRouche, in the immediate aftermath of the EuroParliament elections a couple of months ago, had said that his forecast was that we would be witnessing a triad of nations in Europe, breaking, or showing signs of breaking, or leaning towards breaking, from the British Empire's trans-Atlantic alliance, and he pointed to Germany, in particular, because of its historic tradition; as well as France, which showed it very clearly in the elections; and he also spoke about Italy, although the signs there at the time were somewhat weaker.

There Is No Middle Ground

In addition to the German developments, this week in Europe, there are another two cases which I'd like to point to, which I think are exemplary of the same process under way: First, you should know that on July 1st, Helga Zepp-LaRouche issued a [statement](#), an

“Urgent Appeal to the Governments of Europe: Do You Support Argentina, or the Criminal Speculators?” And in that statement, she says, “The crucial question here is: Is international law, as it evolved from the Peace of Westphalia in 1648, and as expressed in the UN Charter, still valid, or not? Can and must a sovereign government defend the general welfare of its citizens, or do criminal speculators have the right to use all means, as Shakespeare depicted so vividly in *The Merchant of Venice*, to demand the debtor's “pound of flesh,” even if that means that the person dies?” And she concluded: “The only thing that the trans-Atlantic camp has to offer is the sacrifice of the common good, of the happiness and the life of its people, in favor of a Frankenstein monster, ‘the stability of the market,’ to which anything and everything should be sacrificed, but which is itself hopelessly bankrupt. This system does exactly what Pope Francis says: It kills. You could also call it satanic.

“In the struggle between Argentina and the hedge funds, there is no middle ground. Which side are the European governments on? We want an answer! We want official statements! Now!”

Now, with the vast majority of the world's countries and governments supporting Argentina in this life-and-death battle against the vulture funds—the G77, which is 133 nations; China, Russia, now, all of the nations of South America, all of the OAS, except for the United States and Canada, which voted against it—totally supporting, Europe has up until now been somewhat quiet, kind of caught in the crossfire, as Europe generally feels under these circumstances. So in that regard, I think it's of some note that the Democratic Party of Italy, which is not some small party; this is the ruling party of Italy—and it's generally not a very good government! But the Democratic Party of Italy went on record as the first major such institution in Europe, in support of Argentina under these circumstances. So it kind of broke the barrier.

We'll see what comes next, but I'm very confident that Zepp-LaRouche's call is going to find a significant response on the European side.

The Banking Crisis

Now, let's just take a quick look at some of the economic backdrop of this which you were mentioning, Megan, which has to do with this banking crisis: The misnamed, “Espirito Santo” (for those who don't

speak Portuguese, that means the Holy Spirit, of which there is undoubtedly *none* in that bank!) is really quite bankrupt. But it's not just Espirito Santo, it's the entire European banking system, as Mr. LaRouche has been saying over and over again. It's Bulgaria, it's Austria, it's Portugal.

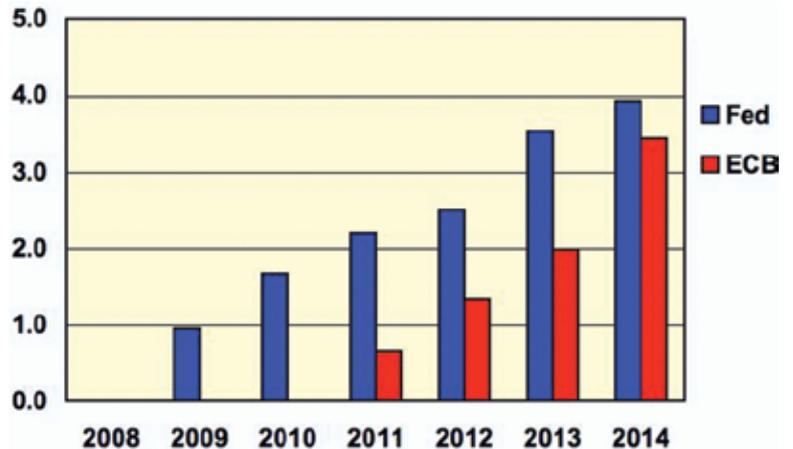
The principal creditors of Portuguese bank debt are *Spanish* banks, which are probably more bankrupt than the banks they're trying to collect from! The whole thing is falling apart, and what LaRouche said earlier this week is that the "big one" is upon us. This thing is melting down *now*, and we must prepare *in time*: We have to have the bankruptcy reorganization in place, now through Glass-Steagall, *and* the other three laws which LaRouche has proposed: establishing a National Bank, and issuing credit in the national credit system, as Hamilton did, and then driving the economy forward with high-technology, scientific breakthroughs, as in the case of thermonuclear fusion power—these are the things that have to be done immediately.

Now, if we take a look at **Figure 1**, what you'll see is that the hyperinflationary expansion of financial instruments, which Megan was describing before, has really taken off over this recent period, and particularly, the role of the ECB, the European Central Bank, is filling in, *and then some*, for the so-called "tapering" going on at the Fed. But the combined level of the two is \$8-\$9 trillion created since the blowout of 2008.

Now, the argument, of course, is that money is necessary, because it's going to go to banks which in turn are going to lend it, and that's going to lead to development, and businesses are going to prosper, and people are going to consume, and you're going to have a chicken in every pot, and everything is going to be wonderful!

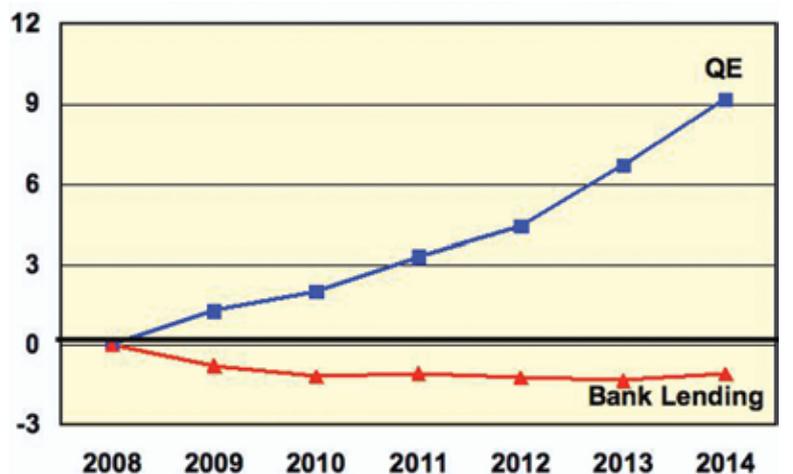
Is there bank lending going on (**Figure 2**)? No. There's no bank lending going on: As quantitative easing has increased across the trans-Atlantic sector, to more than \$9 trillion—this includes, Europe, the U.K., and the U.S.—over this period, actual bank lending has gone south, *negative*, over this entire period. And that's

FIGURE 1
Quantitative Easing: Fed and ECB
(\$ Trillions, Cumulative)



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FIGURE 2
Trans-Atlantic QE and Bank Lending
(\$ Trillions, Cumulative Change)



LPAC

because all of the money is going to bail out the bankrupt financial system, which it's not going to be able to do with this bail-out approach; the bail-in approach which the British Empire is proposing, of basically looting everyone till they're dry, to bail out a handful of banks which they choose to salvage, is also not functioning. And you have a situation, where this thing is actually at the blowout point.

Now, let me emphasize a point here: The problem is not the issuance of credit. Nine trillion dollars issued by

the trans-Atlantic sector—the problem isn't that they issued a lot of credit. The problem is that they issued a lot of credit which went to speculation! China, during the same period, since 2007, has issued approximately \$6 trillion in credit—that's two-thirds as much as the entire trans-Atlantic sector—but its credit went as specified in the American System of political economy—there are better Hamiltonians in China, than there are in Washington! Because what they are doing, is they are building canals, they're building railroads, they're building the Silk Road, they're participating with Africa, they're participating with Central America, all of Asia, they're offering it to Europe—and they're even offering it to the United States.

So this gives you an idea of what the Hamiltonian concept actually is, and the kinds of measures that need to be taken. The United States has got to get onboard with this! And the way to do that, is get Obama out, and get our country back to the policies on which it was founded.