DRAGHI'S DOWNFALL

The Beginning of The End for the Euro

by Paul Gallagher

Jan. 24—The important event in Europe last week was not the money-printing outburst by the European Central Bank (ECB) Jan. 22, but the anticipation of the outcome of the election in Greece Jan. 25 (see *International* for our report on the historic Greek elections).

The announcement by ECB head Mario Draghi was another attempt on behalf of the Wall Street and trans-Atlantic megabanks, to cover up their bankruptcy; and again, it was done at the expense of the people of the sinking European economies.

The new government in Greece can begin the process of dealing with the mountains of unpayable bad debts sitting in those banks, if it is formed by the parties which have proposed to do this during their campaigns. This may potentially involve ending Europe's long nightmare of the euro "single currency."

The choices are another financial crash, further intensifying the threat of war with Wall Street's targets Russia and China; or the reorganization of that debt and those banks.

The Trouble Is Trans-Atlantic

Both the Wall Street and the City of London-centered European "universal banks" are in increasing trouble. With all the desperation of Deutsche Bank and the like for a "quantitative easing" even much larger than Draghi announced, we should not lose sight of the cracks opening on Wall Street. The collapse of oil and other commodity prices (which resumed again with Draghi's announcement) is slowly blowing a hole in those banks' $230-250 trillion in derivatives exposure, concentrated on the $10-20 trillion in exposure to commodity derivatives. It is also throttling back the one area of the U.S. economy which, since 2009, has been producing a net gain in skilled, well-paid employment. One bank analyst's estimate has been published, that the big banks may lose *$1.6 trillion* in revenue in 2015, due to the plunge in oil/gas prices and energy-sector economic activity.

When Wall Street banks reported fourth-quarter earnings, it was clear the "oil weapon" had struck them—although most of its effects are yet to come. Some of the big six reported increased profits (the "bottom line"), and some had "legal" excuses for reduced profits (large, tax-deductible regulatory fines to make their speculative crimes go away); but all of them reported reduced, and in some cases, sharply reduced, earnings (the much bigger "top line"). They were "led" in this regard by Bank of America, whose revenue fell by $2 billion, or 10%, and Citigroup, whose revenue fell by $1.7 billion, or 9%. Across the banks, it was their "trading revenue" which collapsed in the fourth quarter (Citi: down 16%; Bank of America: down 18%). This means revenue from those securities and derivatives operations which would not be allowed to them as "commercial banks" under a restored Glass-Steagall Act.

Only one of those banks, Morgan Stanley, acknowledged in its report what is threatening: The bank "excluded a $468 million charge from changing the valuation of some over-the-counter derivatives," according to Bloomberg's review of the bank's report. Had it not excluded that loss, its trading revenue for the quarter would have been reduced roughly to zero.

Wall Street banks had already laid off 50,000 employees in the fourth quarter of 2014, but beginning in mid-December, job losses related to the plunge in the price of oil began to catch up with them. The weekly report of the Labor Department on new claims for unemployment insurance began to show a steady rise as of that point; from a four-week average of 283,000 new claims/week as of Dec. 18, the level rose to an average of 306,000 new claims/week in the four weeks ending Jan. 15, 2015. In the "shale oil states," the rise was steeper: from 64,000 claims/week average up to Dec. 18, to 96,000/week in the four weeks to Jan. 15. And when one looks at the new claims figures before they were "seasonally adjusted" by the Labor Department, the increase is steeper still: from 300,000 average new claims/week up to Dec. 18, to a 400,000 average for Dec. 18-Jan. 15.

Some 40,000 "mass layoffs" (layoffs of more than 50 workers at once by an employer) have already been announced in January, led by Schlumberger, 9,000; Baker-Hughes (oil-field equipment) 7,000; Halliburton 3,500; and American Express 4,000.

During the first half of 2015, the oil price will either go rapidly back up, or these banks will rapidly go down.

Euro Free Fall

As for the euro, the *Wall Street Journal* on Jan. 24 characterized it as in "free fall, blowing past analysts' expectations for how low the euro can go"; and they note the looming possibility of euro parity (1 euro = 1 dollar) or an even lower value. The European single currency fell "farther than expected" in the 48 hours after ECB chief Draghi's announcement of a 1 trillion euro-printing and bond-buying scheme on Jan. 22, going from just under $1.16 to just over $1.11. A euro drop to parity with the dollar will impose a further significant drop in living standards across the Eurozone, which is already in the "third dip" of recession since the 2008 financial crash.

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ECB head Mario Draghi's latest venture into "QE land" cannot cover up the reality: The Eurozone banks are bankrupt, and the euro is plunging toward parity with the dollar.

The ECB's new "quantitative easing" bailout was less than the desperate banks wanted, and a Jan. 23 memorandum by Société Générale, speaking on their behalf, immediately said that the bailout had to be twice or three times as large as the EU1 trillion Draghi promised. But it will suffice to drive down the euro and further destroy the Eurozone economies.

In a typically sardonic press conference, the gimlet-eyed chief of the ECB announced an 18-month program, beginning in March, and continuing to September 2016, of buying EU60 billion/month of securities from the big banks—to give them cash, as he repeated several times, which he claimed—against all evidence—they would want to invest at least a bit of into the European economies. The great majority of the securities will be government bonds held by those mega-banks. *No* government should get the idea that this money-printing, virtually zero-interest-rate environment, means that they can *spend* any money, said Draghi; "structural reforms must be continued."

And Greek bonds, he replied to a question, would not be bought until "perhaps July," and then, only if a new Greek government does nothing to displease the ECB or IMF before then, so that the ECB's current "quality waiver" on Greek bonds could continue. Otherwise, other ECB board members have threatened, all credit to Greece and Greek banks will be cut off.

Thus, this governor thought to commute the megabanks' self-imposed death sentences, while condemning the nations and their citizens.

As prominent German economist Hans-Werner Sinn pointed out in a Bloomberg interview, the big European banks "will be glad to have the cash," but will invest it in Swiss, Danish, U.S., Chinese, and other currencies—not the Eurozone.

No fewer than six additional central banks around the trans-Atlantic world took panicky emergency moves against "out-of-control deflation forces" within a few days of Draghi's bank bailout, noted economic analysts Pam and Russ Martens in their perceptive blog "Wall Street on Parade" Jan. 23. The "surprise" moves were by the Swiss, Danish (twice in a week), Canadian, Turkish, Japanese, and Peruvian central banks. The Swiss National Bank move, in particular, caused massive foreign-exchange market losses, including losses of $100-150 million in one day by most big Wall Street banks, and also doubled, tripled, and quadrupled the interest rates of hundreds of municipalities' bonds in France, for example.

A Way Out

The Greek parties likely to form a new government in coming days, led by Syriza, propose to write down the unpayable debt of Greece—and other countries crushed under IMF/ECB/European Commission conditionalities—to create the possibility for growth and economic development. They propose to do this through a new version of the London Debt Conference of 1953 which wrote off 60% of Germany's debt, with an extraordinarily successful aftermath for the German economy.[1] The Greek parties are getting support from, and being closely watched by, anti-euro parties in Spain, France, and the U.K., Italy, the Irish government, and many leading economists in Europe.

The IMF and ECB have declared war on this Greek initiative. IMF Managing Director Christine Lagarde has made public statements of extreme disapproval; and Draghi has threatened outright financial warfare against Greece if a new government makes a move toward debt reorganization. This is not limited to refusing to buy Greek government bonds in his QE; it includes cutting Greece *and its private banks* off from ECB credit and even liquidity loans from the Greek national bank.

1. See Dean Andromidas and Paul Gallagher, "A Greek Proposal: Convene a European Debt Conference for 2015, *EIR*, Jan. 23, 2015.

Thus Syriza makes a proposal which its leaders believe could restore growth in Europe and even save the euro; the euro (Draghi) and IMF declare war on that proposal. The result, with a euro going to dollar parity or below, could be the breakup of the Eurozone.

The euro—the British imperial price exacted for allowing German unification—was imposed on Europe in 1999 at a target value of $1.18. It fell immediately to the 95-98 cent range, thus giving a strong inflationary whack to the countries which were replacing their national currencies with it. Since then, its major gifts to Europe have been the blocking or abandonment of major infrastructure investments planned after the fall of the Berlin Wall, and prevailing unemployment rates of 10% in many countries—higher in crises.

The euro was at $1.60 in 2008; at $1.40 eight months ago in May 2014; now it's heading for $1.00. A drop like this in the Russian ruble is universally called, in the financial press and by President Obama, a great defeat for President Putin; the drop in the euro, by contrast, is attributed to Draghi's great cleverness and called a triumph for his policy. The people of the Eurozone countries experience the opposite.

As Europe contracts and living standards fall, Draghi's apologists are forecasting a boom in European exports to countries outside the Eurozone, from an ultra-cheap euro. But Eurozone countries' exports now go only about 50% to countries outside the euro, while 60% of their imports come from those countries outside. Two of the three big export "target countries," Switzerland and China (the third is the United States), strongly protect their domestic markets. So while individual companies may benefit, the Eurozone nations' people will experience a disproportionate loss from more expensive imported goods.

If the ECB declares war on Greece's proposal to reorganize debt in Europe (which means reorganizing bankrupt banks in Europe), then Greece may have to leave the Eurozone in order to reorganize its debt and banks, and general credit for development by resuming its national currency, the drachma. Other nations suffering 20-25% unemployment will be watching, and strong national parties already opposing the euro, will be supporting Greece in doing so.

If the euro continues its "free fall" at the same time, we could finally see the end of Margaret Thatcher's and François Mitterrand's wretched "price" imposed on Europe for letting the Wall come down.