Sovereign Governments Are the Order of the Day

by Helga Zepp-LaRouche

Helga Zepp-LaRouche is the chairwoman of the German Civil Rights Solidarity party (BüSo). Her article has been translated from German.

In my article dated Jan. 16 of this year, titled, "The End of 'Free' Market Economy: We Need To Save the Common Good in Germany!" (*EIR*, Jan. 18, 2008), I pointed out that the entire architecture of the European Union bureaucracy, from the Maastricht Treaty to the European Monetary Union and the European Central Bank (ECB), has a serious design flaw which, under conditions of great stress, could render the entire supranational edifice impotent, and could, once again, put national interests at the top of the agenda.

That is exactly what has come to pass. On Sept. 29, there was a run on six Irish banks, and the stock of the Anglo Irish Bank lost 46% of its value. The heads of the six banks stormed into the Prime Minister's office, sounded the alarm that their banks would be bankrupt within 24 hours, and demanded, and received, the Irish government's promise that it would henceforth guarantee these banks' deposits and obligations. The London *Times* reported that Irish officials had labored through the night to work up a credible plan, and that there had been no time to even consult with other governments, the EU Commission, or the ECB.

The same scenario was repeated in Greece with a run on banks in Athens and Thessaloniki, when panicked depositors attempted to pull out their savings, whereupon the Greek Cabinet likewise had to guarantee all assets—once again, without asking Brussels. On Thursday, Oct. 3, Finance Minister Alogoskoufis declared that the banking system was completely secure and reliable, despite the global financial crisis. And whereas on Monday, Sept. 29, the EU Commission was still threatening to "examine" the German government's decision to give government guarantees for the private action to save the Hypo Real Estate

Bank, by Thursday the Commission had admitted that it had been "the right decision."

Maastricht No Longer in Force

France's original proposal to create a pan-European fund with Eu300 billion for troubled banks, along the lines of U.S. Treasury Secretary Henry Paulson's bailout plan, has meanwhile suddenly come up against strong resistance. None other than German Finance Minister Peer Steinbrück, by no means known as a critic of the Maastricht Treaty, told the *Wall Street Journal* that "German citizens should not jump into the breach to stabilize situations for which other countries have been responsible. Germany is extremely wary of such grand designs. . . . I see no German interest in it whatsoever." If German interests suddenly once again take priority, then the European Union's Maastricht Treaty is de facto no longer in force.

Henri Guaino, French President Nicolas Sarkozy's special advisor, has reached the same conclusion, and told French TV that the Maastricht criteria no longer have any priority. And Jean-Pierre Jouyet, France's Minister of State responsible for European Affairs, remarked that, in this crisis, there had indeed been cooperation among national governments, but not on the level of the Commission. Small wonder, since the congenital defect called the euro prevents precisely that from happening.

EIRNS/James Rea

Europeans are beginning to face the fact that they are not immune from the effects of the global financial meltdown. Shown, members of the LaRouche Youth Movement organize in Berlin. The sign says, "Is your bank also bankrupt?"

In my January article, I wrote that, "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."

Understandably, Steinbrück has his doubts about rescuing foreign banks by borrowing funds from private markets—funds which would then show up as debts in the federal budget. And in Article 103 of the Maastricht Treaty, it states 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." Article 104a further specifies that private banks are not permitted to provide credit to governments and other public institutions at discounted rates.

In my January article, I further wrote, "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."

The developments of the past few days prove that only sovereign states are capable of acting in a systemic crisis. It is, therefore, of the utmost urgency, that governments, as sovereign representatives of their respective nations, help to put the old financial system through a regular bankruptcy procedure, and to erect a new financial architecture in the tradition of Roosevelt's 1944 Bretton Woods System.