Cyprus, Greece and Beyond: The "Bail-in" and Confiscation of Bank Deposits: The Birth of the New Financial Order

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In the light of recent developments in Greece, we bring to the attention of our readers this April 2013 GRTV report on the confiscation of bank deposits by major creditor institutions.

The recent bail-in in Cyprus has given the world a glimpse at the future of the banking landscape. Now, as Canada gets set to hardwire the bail-in process into law, analysts like Michel Chossudovsky are warning how the big banks can use this template to further consolidate their monopoly of economic control. This is the GRTV Backgrounder on Global Research TV.

Those who follow the markets closely know that, at base, the current financial system is founded not on the bedrock of sound economic principles but instead upon the quicksand of public perception. All it takes is one large bump in the road to upset even the largest of economic bandwagons and usher in a new financial paradigm.

In the ongoing meltdown of the European Union, perhaps the greatest single bump in the road so far just took place in Cyprus. In the immediate aftermath of the dramatic bank holiday and bail-in events of last month, many in the financial media began asking whether Cyprus represents a template for future bail-ins across the European Union or elsewhere around the globe.

If we are going to seriously ask this question, however, it is vital that we understand exactly what happened, and what kind of template this might represent.

The crisis in the Cyprus banking sector has been building for years, as the small island nation's banks began to account for a greater and greater share of its economy. The trigger event causing the recent crisis, however, was—appropriately enough—the result of a meltdown elsewhere in the Eurozone, in Greece.

After months of negotiations, the government of Cyprus announced it was on the verge of a 10 billion Euro bailout deal with the so-called "troika" of the EU, the ECB and the IMF. But when details of the plan emerged, including the fact that it had the confiscation of both insured and uninsured bank deposits baked into the cake, protests erupted around the country.

The final deal ended up keeping deposits under 100,000 Euros untouched, but uninsured deposits were restructured, wiping out the savings and cash flow of foreign depositors and local businesses alike.

For many, the question is whether this will be a template for future banking crises in the European Union and elsewhere. When Jeroen Dijsselbloem, president of the Eurogroup, intimated this was something that would be considered in future bailouts in an interview with Reuters and the Financial Times, markets panicked, causing Dijsselbloem to issue an immediate retraction of his recorded statements.

The truth, however, is that this idea has already been discussed for years in the highest circles of the international banking sector. In 2010 the Bank for International Settlements issued a white paper on possible bail-ins of Tier 1 and Tier 2 bank capital in the event of future banking crises. The proposal was discussed in further detail by groups like the Financial Stability Board and private sector entities like KPMG, which issued a July 2012 report on the possibility of future banking bail-ins.

During the midst of the Cyprus scandal, the government of Canada released its own proposed budget for the coming year, including language that suggests a bail-in regime:

> "The Government proposes to implement a "bail-in" regime for systemically important banks. This regime will be designed to ensure that, in the unlikely event that a systemically important bank depletes its capital, the bank can be recapitalized and returned to viability through the very rapid conversion of certain bank liabilities into regulatory capital. This will reduce risks for taxpayers. The Government will consult stakeholders on how best to implement a bail-in regime in Canada."

In response to public furore over the proposal, Canada's Finance Minister was forced to come out last week to deny that the nebulously defined "certain bank liabilities" includes consumer deposits, but refused to clarify precisely what liabilities would be covered by such language.

As Michel Chossudovsky—professor of economics at the University of Ottawa—explains, the real danger of the Cyprus example is not that this will be a common way of dealing with future bank stresses, but precisely the opposite. With the bail-in procedure in their arsenal, bankers and their political cronies will be able to use this weapon of financial destruction not against the "too big to jail" of the big six megabanks in America or their counterparts around the world, but against smaller credit unions and independent banks that threaten their monopoly of power.

As Professor Chossudovsky goes on to point out in his article on the subject, "The Confiscation of Bank Savings to 'Save the Banks'," it is no coincidence that this bail-in regime is being formalized first in Canada.

The Financial Stability Board which has been working on institutionalizing the bail-in process is an international body coordinating the work of national and international standard setting bodies for the financial sector. It sprang from the earlier Financial Stability Forum, itself a creation of the G7 in 1999, and includes bodies like the Bank for International Settlements among its member institutions.

The FSB is currently chaired by Mark Carney, the current Governor of the Bank of Canada who is set to take the reins of the Bank of England in July of this year in a highly unusual move. Before beginning work for the Canadian Department of Finance, Carney spent 13 years at Goldman Sachs, where he was involved in a 1998 Russian financial scandal, with Goldman advising the Russian government at the same time as it was betting against the country's ability to repay its debt.

As critics like Matt Taibbi and others have exhaustively documented, Goldman Sachs has been at the heart of every major market manipulation in the US since the Great Depression, and has been the key cheerleader for the austerity measures that are currently tearing the Eurozone apart and creating the banking crises in Cyprus and other European countries.

The path forward on the highway toward the coming economic collapse is needless to say, perilous. Worse yet, all of the off-ramps that are being constructed to lead depositors and investors to "safety" during these difficult times are themselves false roads leading to dead ends themselves constructed by the financial oligarchy.

But as with every such fork in the path, there is an opportunity for the public to educate themselves about what is really happening and discover a genuine alternative route on this economic road map. The entire existence of the bail-in paradigm makes plain an uncomfortable truth that the banking establishment has tried to obscure for generations: that bank deposits are not piles of money sitting in bank vaults to be drawn upon as needed, but unsecured loans being made to banksters who use that money to gamble on exotic financial instruments that themselves are threatening to destroy the world economy.

Once that plain fact has been squarely confronted, the public has a decision to make: whether to continue to put their faith in the big banks that has brought this world to the economic abyss, or whether to use their money to build up genuine, thriving local economies through credit unions, alternative currencies and other financial alternatives.

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James Corbett is a Film Director and Producer based in Okayama, Japan. He started The Corbett Report (www.corbettreport.com) website in 2007 as an outlet for independent critical analysis of politics, society, history, and economics. It operates on the principle of

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