

# The European Stabilization Mechanism (ESM), Financial Insolvency and the Bailout of Europe's Mega Banks

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*After watching Europe's performance last week the only thing they really were after was an ESM, European Stabilization Mechanism, to tie down all EU nations to a tighter regional set up. As it turns out England and others did not agree. Britain obviously does not want to become part of a new treaty that deprives them of their sovereignty. This regional government concept appeared in the early 1960s and is now going to be pushed in Europe with the US to follow. Our question, is England just trying to protect the advantages of the "City of London," or is the disagreement deeper than that? A new treaty will take two years for ratification, but in the meantime an agreement will hold forth on what can be called a handshake. Evidence is still out on whether this is an attempt by Germany to break up the euro zone and the EU or a genuine effort to set up a platform for world government. We know that since WWII that the internationalists have been setting up Europe as the foundation for world government. On the other hand we know that 65% to 70% of the German people want no part of it from any standpoint.*

The main players in the end treated the debt crisis as a secondary problem, probably because the Federal Reserve had it covered for them. The only main player that displayed real nervousness was France's Sarkozy. France had to have its banks bailed out and had to avoid one or two rating downgrades. Not only would those downgrades entail higher costs, but also they would impair France's ability to help bailout the six unsound economies. The Fed is bailing out French banks short-term. Once the situation is more stable American short-term bond buyers will return and the Fed can concentrate aiding in other areas. That, of course, is if stability returns. Bailouts can only emanate from central banks and governments and any such operations in and of themselves are inflationary and if persistent will lead to hyperinflation.

This means all of the banks in the solvent countries will have to be nationalized, all or in part. At the same time these same banks and countries have to bail out the dreaded six countries. That will be a tall order, as some are not even cooperating. That could mean three or more of these countries could default leaving sound countries and their banks with big holes in their balance sheets. Overall none of this has been solved, because France and Germany were more interested in changing treaty rules than addressing the debt problem. These massive bailouts are on the way for the sound and the unsound, accompanied by higher inflation. Needless to say, all of this solves nothing on the short to intermediate term. It is another temporary respite. All we see is avoidance. Von Mises has told us only purging the system works. The bankers, politicians and bureaucrats do not want to see that happen, because the key to their power lies in the banking system and once purged their power is

lost and countries are free to survive on their own. That is why the world has wars to keep the elitist bankers as our overseers. Under such circumstances nations are forced to amalgamate to bring order and to provide for the common defense. None of us are on the inside, so we do not know which avenue will be taken. Both choices mean lots more trouble ahead. The EU and the euro zone structures do not need to be changed, but the debt problem certainly needs to be addressed.

The quest for more power via the ESM is obvious to those in favor of world government. There will be nothing democratic about the ESM and most players will be appointees. Someone should tell these elitists bigger is not better and that more than half of Europe knows what they are up too. Whether it is called the EU, or Soviet Union, National Socialist Bund or the North American Union, they are all the same. They are totalitarian governments within one form of socialism at its core. This is government by appointment and regulation, which has no intention of letting the public participate. Every move or change will require no input from the people, only edicts from above.

That brings us to the position that England has taken. PM David Cameron is an elitist and one directly chosen at the Queen's request. His position at last week's meeting was surprising as he wanted guarantees of protection for the "City of London," which supplies 40% of London's jobs and 10% of jobs in England. This is the gang that was deeply involved in Bear Stearns, Lehman Bros., AIG and the Madoff scandals.

Among other things, Britain has objected and threatened to veto any kind of tax, even 1%, which on a compound basis would be far higher. Cameron believes this would cause financial sector business to move to Frankfurt. This rebellion within the EU ranks has far reaching implications. Cameron is no conservative and is part of the elitist operatives; obviously few of these characters trust each other. This is why England never committed to the euro. Cameron's action has finally set Britain apart from the EU, never to join the euro, and cuts England off in part from the attempted consolidation on the Continent. That means it will have difficulty in fronting for American interests, and such interests will become more transparent.

Such a new treaty could take years and in the meantime Germany expects an agreement to do the very same thing. You have to wonder if there really are any rules here. This is why Britain said no to the treaty. At the last minute Hungary, the Czech Republic and Sweden agreed to the arrangement. National parliaments have to approve such a treaty in Denmark, Latvia, Poland, Lithuania, Romania and Bulgaria. Remember, this is not what this was to be about. It was about providing funds for the six unsound economies, all of which was shunted into the background, as a sort of afterthought. There is no question this was the plan from the beginning. Change the treaties, moving European power to Germany and deal with the debt as they go. The US and UK are not going to like that. The US could withdraw support from the financial perspective. Germany is saying we want more centralized power if we are going to pay all these debts. It would demand balanced budgets. If not feasible then raise taxes. The agreement would give the EU power over each legislative action, which means sovereign nations would lose their sovereignty.

These central planners believe they will lose a number of euro zone members along the way and that does not concern them. They'll just absorb the debt for their government and their banks, nationalizing them in the process. From the very beginning, years ago, we saw this coming, and it is here. The formation of a hardcore socialist bloc controlled by bureaucratic

technocrats (bankers) with the public having little to say about proceedings.

That takes us to the other side of the equation – the six problem countries, led by Greece. Greece is a banker looting operation and when their man Papandreou couldn't get the job done they had their man Lucas Papademos appointed to do the job. He is a Trilateralist and Bilderberg. In spite of Papademos' position he is accomplishing very little. The Troika seems to be running in circles. It won't be long before Mr. Samaras is in charge, perhaps 2-1/2 to 3 months. Polls show him with half the votes in a three party race. The people are enraged and rightly so. On September 20th almost \$11 billion is coming into Greece and all but \$1 billion will go to pay bankers' interest, which means this coming year taxes will rise to pay the bankers even more interest. The financial treadmill Greece is on is running ever faster. At the same time the Troika wants government to fire even more people. This group is making no effort to create jobs, only to save banks and large corporations. The Troika wants to destroy Greece and pick up the pieces for 10 cents on the dollar. The result domestically is that crime is running rampant. People on the edge, who normally would never commit crime, have been forced to become criminals just to live. The police have even become criminals, because they cannot support their families on much lower salaries.

Mr. Samaras has put Mr. Papadimos on notice that real elections have to come quickly. If elections do not come soon it certainly will lead to serious trouble.

Those in office and those who have been in office are at great risk of being charged civilly and criminally. The politicians, bureaucrats and bankers have almost totally destroyed the country. Many could go to jail including Papandreou and Papadimos and then again Mr. Samaras could end up dead. These people are playing for the highest stakes and they should remember there is real trouble headed their way.

Next we expect there is a chance that Greece will enter the nether world of selective default; you might say they'll follow the path of 199 to 2002 Argentina. It seems Greece will get the \$157 billion to cover their in house debt which means they will be losers all around. There then will be not only default in Greece, but among the other failing countries as well. Is debt repayment going to be extended in whole or in part? The answer is probably. The interest rates will probably be 3 to 4 percent. It looks like help is on the way and the EU is going to bail out those in trouble no matter what the cost. That is \$6 trillion or more, which will be created for the most part out of thin air, which will be very inflationary. Owners of debt may have it phased out over three years and may end up getting 80%. That is if the Greeks agree. We do not expect them to agree.

We find it amusing that the Bundesbank finds financing the Greek government unacceptable, while they have no trouble funding Greek banks. Germany is trying to reinterpret the Maastricht and Lisbon Treaties and fit in the EFSF and next the ESM, whatever it takes to change things to their satisfaction, just as Germany did in the Rhineland and Saarland starting in 1936 in violation of the Treaty of Versailles.

This push by Germany to dominate other euro zone and EU members could lead to serious political problems in France. The economy in France is weakening. Strauss-Kahn looks to be out of the race. Germany's power is visualized in France as to turning France into a German satrapy and that has the French very upset. France was a very big buyer of toxic bonds and faces a rating reduction and perhaps even a double reduction. That will cost the French; it's Bank of France, its banks and citizens more to do business with higher interest rates. These events have set the stage for the National Front's, Marine Le Pen to improve her poll

percentage currently at about 21%, up to 26%, which would put her into round two.

French voters have stepped further from the center since the late 1980s when Jean-Marie Le Pen garnered 21% of the final vote and lost the election, as head of the National Front. Traditional parties continue to lose ground in France whereas in other countries major parties hold their ground and third parties continue to find the going difficult. People in Europe see more clearly that with the exception of Germany, the Netherlands and Finland that their countries are being mismanaged. In France can a change come via Marine Le Pen? We think so, she has much common sense and the first thing she would do is leave the euro. She has stated this and many French agree. Like the average German many of the French want out. We have lived in both countries for an extended period of time, speak both languages, and deeply understand their cultures, which are like night and day. We see it amazing that the euro has held together as long as it has. Le Pen is acutely aware of these differences. She reflects national feeling far better than any French leader. She should be able to siphon off enough votes from Sarkozy to enter the finals, which she could win setting a whole new course for France. We must state here that we are friends of the Le Pen family and have known Marine since her teens, so we express favoritism in this case.

As we have stated for more than 15 years, the euro zone and the EU are unnatural associations that can never hope to work.

Britain's approach is a perfect example of the dichotomous situation. The main mission of PM Cameron was to make sure there were no treaty changes that were detrimental to England. He accomplished that at a great price. The Monarchy and all its defenders, such as the "City of London" were proud he stood his ground. Germany and others were unwilling to accept such impertinence from a country they believe shouldn't be in the EU in the first place. England is not against more spending to delay the inevitable - it had to protect the greatest wealth center in the world, the City of London. They also know just as the other members do, that they'll be no meaningful reforms and more debt has to be created to service current debt, until the system collapses. Via this system the UK and US control the world and intend to continue to do so. This is a UK-US holding action until another series of wars, or a major war can be put in place to take the blame for the current financial failures. Just look at history. That is how it works and has worked for centuries. For the UK and US, Germany is the problem and France just tags along. That is something Marine Le Pen is well aware of and she wants to change that. French bankers hate her, because she knows exactly what they have been up too.

Treaty changes require unanimous consent, so there are not going to be any changes until the City of London is exempt from additional taxation. There are still several countries that have to approve by Parliamentary consent in their countries, so Mr. Cameron may have some company in bolstering his position. In fact whether they have their meetings or not, Britain has cast the die and now Germany must respond. It is either let's make a deal or the EU and the euro zone breaks up. Who knows, perhaps that is what Germany is after?

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