The Eurozone's Rescue Fund: German High Court Capitulates to Bankers

By Stephen Lendman
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As expected, the Court caved. On September 12, headlines reported it. The Financial Times said "German politicians declared the road clear for the creation of the eurozone's (500 billion euro) rescue fund after the country's constitutional court rejected a petition to block it."At issue is does it matter? More on that below.Two Eurozone rescue schemes exist. The European Financial Stability Facility (EFSF) is running out of funds. Germany's High Court approved the European Stability Mechanism (ESM).

Originally it was scheduled to take effect July 1. Germany's parliament was still debating it. Constitutional Court approval is required.

It could have linked passage to constitutional law change. Doing so would have required Germany's first post-war national referendum. It stopped short and approved what lacks legitimacy, and in the end won't work.

On the one hand, countries are running out of resources. On the other, the ECB has few bullets left. Everything it tried so far failed. Constitutional approval changes nothing.

With it came conditions. The Financial Times said those imposed appear less onerous than feared. The Court ruled Germany's maximum 190 billion euro liability can't be increased without its ESM representative approving it. According to Court President Andreas Vosskuhle:

"(No) provision of this treaty may be interpreted in a way that establishes higher payment obligations for the Federal Republic of Germany without the agreement of the German representative."

It also insures Bundestag involvement. Under German law accompanying ESM approval, the parliament must approve its representative's positions. It's unclear if full parliamentary or budget committee voting is required.

Another condition mandates that Bundestag and upper chamber Bundesrat (representing federal states) are kept fully informed about bailout fund activities.

Vosskuhle called the Court ruling provisional. Full proceedings will follow. A final decision is expected in December. The Court plans a full review of ESM's legality. At the same time, it said it won't accept ESM interpretations to permit direct ECB borrowing.

Germany is the only Eurozone country that hasn't ratified the treaty establishing ESM. Doing so is required to make it operative. It's likely rubber stamp. Again does it matter?

Serious internal opposition exists. The group Mehr Demokratie (More Democracy) sued the

High Court to halt ratification. It claims approval entails "unlimited and irreversible liability risks." It wants a referendum held to let Germans decide how their money will be spent.

Christian Social Union member Peter Gauweiler called accepting new liabilities irresponsible. Members of Chancellor Angela Merkel's Christian Democrats are skeptical. Wolfgang Bosbach has mixed feelings, he said.

Despite some advantages, he's greatly concerned about increasing potential liability beyond what's safe and sensible.

In June, Germany's Bundestag approved ESM. President Joachim Gauck is free to sign it. His signature is required.

ESM and EFSF will operate in parallel until mid-2013. At that time, ESM will be on its own. Germany must provide 27% of its funds. Critics warn amounts will end up much more than anticipated.

ESM will have 700 billion euros in capital. Only 500 billion maximum can be loaned. Troubled Spain and Italy need multiples that amount. Enough resources aren't available to provide it.

A push come to shove moment awaits. It's just a matter of time. It may arrive sooner than expected. Economic conditions are dire and worsening.

Brussels-based Bruegel think tank deputy director Guntram Wolff believes ESM will only provide short-term relief. He doesn't think it's enough. How can it be with member state resources inadequate to fund it.

ING economist Carsten Brzeski said today's ruling fell short. It doesn't resolve crisis conditions. It's more feel good than real good. What's next remains a big unknown. Clarity may arrive with a bang or thud.

Once again, time alone was bought, little else. Nothing fundamental changed. Perhaps fed up tax payers suffering austerity pain will have final say. If not them, expect economic reality to rain on today's parade. Severe problems remain unresolved.

On September 10, Goldman Sachs analyst Richard Ramsden called banking slowdown structural, not temporary. "The operating environment is unlikely to change any time soon," he said.

Morgan Stanley calls the global economy a "twilight zone" of uncertainty. Graham Summers has been spot on in past analyses. He calls so-called "unlimited" ECB bond buying "Super Mario's big bluff."

Market euphoria is based on his scheme and hope that ESM can work. Mario's plan replicates what he tried before that failed. Repackaging failure under a new name won't turn out better than before. It's old wine in new bottles gone rancid.

Conditionality is involved. Bailout help requires austerity. Imposing it negates "unlimited." Mario's plan is more bluster than bite. Spain and Italy reject it. Greece also balked. They want unconditional aid.

It's not automatic. Troubled nations must apply for it. EFSF funds will be used. With around

65 billion euros left, they're severely depleted. Spain and Italy are required to supply 30% of its resources.

How can they in effect bail themselves out? Draghi has good reason for concern. He's not sure what to do that works.

Neither does Bernanke. Hope springs eternal for QE III. Expect Super Mario bluff 2.0 instead. Bernanke's running out of bullets. Rhetoric has a short shelf life. It only reassures short-term.

St. Louis Fed president James Bullard said he's worried about central banking's future. His hoped for light at the end of the tunnel hasn't arrived.

Summers says central bankers are fast losing their grip on things. They'll never admit publicly what's discussed privately. They're scared stiff. Economic fundamentals are deteriorating. Consumer and business confidence are down.

Revenue and profit growth are disappearing. Earnings revisions show declines. Peak margins rolled over. Negative reads outnumber positive ones. Momentum is heading south.

George Soros believes Germany's heading for Depression within six months. "The policy of fiscal retrenchment in the midst of rising unemployment is pro-cyclical and pushing Europe into a deeper and longer depression," he said.

"This is no longer a forecast. It's an observation. The German public doesn't yet feel it and doesn't quite believe it. But it is all too real in the periphery and it will reach Germany in the next six months or so."

He added that Germany should develop a growth strategy, relax its austerity insistence, or leave the Eurozone by "an amicable arrangement."

Current policies are pushing Europe into depression, he said. He expects five to 10 tough years. China's heading for a hard landing. Doing so will reinforce depression conditions. The euro and EU are at risk. Soros spoke publicly on "The Tragedy of the European Union."

Since 2000, America and other Western economies declined. Instead of policies promoting growth and job creation, draconian austerity was imposed.

Corporate interests are prioritized. Popular needs go unmet. Economist Jack Rasmus notes a growing corporatization of politics and government in America. Democracy ends up the loser.

Most Americans don't understand how grievously they've been harmed. Imagine what may happen when they awaken. Bad as things are now, expect much worse ahead.

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His new book is titled "How Wall Street Fleeces America: Privatized Banking, Government Collusion and Class War" *http://www.claritypress.com/Lendman.html*

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