Wall Street's and the City's Attempt to Destabilize the EU Banking System and the Euro

Growing Transatlantic Tensions on the Eve of the G20 Summit

By GEAB
Global Research, March 17, 2009
GEAB N°33 17 March 2009

Region: Europe
Theme: Global Economy

According to LEAP/E2020, there are only two options left for the G20 leaders who gather next April 2nd in London: either they rebuild a new international monetary system, creating the conditions for a new global system that involves all the main global players, and reducing the crisis to a maximum of 3 to 5 years; or they strive to prolong the current system, thrusting the world into a decade long tragic crisis starting at the end of 2009.

In this 33rd edition of the GEAB, we wish to describe the two ways forward that remain open until summer 2009. Beyond that, our team estimates that the "short-term crisis" option will be obsolete and that the world will be on the path towards global geopolitical dislocation (1), and a deep and decade-long crisis.

For this reason, due to the urgency, LEAP/E2020 has decided to publish next March 24th on a global scale an open letter to all the leaders of the G20. This will be our team's attempt to divert the system from the long and tragic crisis option.

The situation appears all the more worrying in that tensions are growing on the eve of the April 2nd summit. Indeed a number of thinly disguised threats on the part of some G20 leaders, as well as various attempts to manipulate public opinion on the part of others are to be observed.

We shall come back in detail on these aspects in this GEAB N°33 where the LEAP/E2020 team has also decided to engage in an exercise intended for all those (including the US where 20 percent of LEAP/E2020's readers come from) who are exasperated by the illusion fed by Western media about the state of the US as a cornerstone of our current system: anticipating the social and economic state of the United States in one year from now, in Spring 2010. Strong trends are already visible enough to enable this kind of forecast. Of course, a similar exercise will be conducted about the European Union, Russia and China in the following editions of the GEAB.

Synthetic graphic of US collective sentiment (in blue: sense of impending doom; in green: purchasing power sentiment; in pink: job concerns) – Source : Chart of Doom, 02/2009

In line with their concern for reliable information, the LEAP/E2020 team (which warned about housing risks in Central and eastern Europe as early as December 2007 in GEAB N°20 decided to study carefully in the present public announcement the reality of this so-called "Eastern European banking bomb" which has invaded the media in the last month.

If we found this a relevant theme, it is because it represents in our opinion a deliberate attempt on the part of Wall Street and the City (2) to make the world believe in some rupture within the EU and to instil the idea that some « deadly » risk is weighing on the Eurozone, by endlessly conveying phony news on a "banking risk coming from Eastern Europe" and by stigmatizing a "cold-feeted" Eurozone as opposed to the "voluntarist" actions initiated by the Americans and the Bristish. One aim is also to divert the attention from the increasing financial problems encountered in New York and London, and to weaken the Europe position on the eve of the G20 summit.

The idea is brilliant: pick up a current and "in the news" theme to ensure interest, add one or two striking analogies to guarantee that the media and internet are eager to circulate the information; then call on a few devoted men and organisations, always available to tell one more lie. With this kind of a cocktail, you can even make people believe for a while that the war in Iraq is a great success, that the subprime crisis will not affect the financial sector, that the financial crisis will not affect real economy, that the crisis is not really severe, and that, if it is, everything is under control!

In the present case, the theme is a classic; it is about the separation between the « Old Europe » and the « New Europe », between a rich and selfish Europe and a poor and hopeful Europe. From Rumsfeld on Iraq to the United Kingdom on EU enlargement, this is a common theme repeated endlessly over the past ten years by the Anglo-Saxon and related media, and on which some British media in particular have become specialists (3).

As to the analogies, there are two: Eastern Europe is the "subprime crisis" of the EU (understand: of course, everyone has its own subprime crisis (4)); and, a crisis in Eastern Europe will have the same terrible effect as the 1997 Asia crisis (probably because both are Eastward (5)).

Suspects are not missing. In the first place, a rating agency – in this case Moodys (6), which, like the rest of them, first of all, is completely devoted to Wall Street, and then is incapable of seeing "an elephant in a corridor" (they missed the subprimes, the CDS, Bear Stearn, Lehman Brothers, AIG, ….). But, for some mysterious reason, the financial media keeps on repeating their opinions, probably generously applying the principle that they could be right some day purely out of statistical chance. In this case, Moody's prediction has been largely echoed: they saw a major « bomb » in the backyard of the Eurozone (as of course, it is the Euro we are talking about here)… about to devastate the European financial system.

Then, to make the idea more credible, you select some virulently anti-Euro media (such as the UK's Telegraph, for instance, which, despite the fact that they also produce some very accurate analyses of the crisis, are currently blinded as regards the Eurozone by the collapse of the British economy and Pound Sterling) and you circulate a news item that you soon retract (because it is inaccurate) so that it gains credibility by virtue of its retraction, of the secret (7) revealing some unfolding "financial tsunami" due to Old European banks' liabilities within the New European financial sector (8). Continue the story each day in the main US and UK financial media, knowing the others will follow out of habit (it is so easy as regards the EU, slow as it is to understand and even slower to react, with the inevitable dissent that makes it possible for the manipulation to gain momentum). This time, Hungarian Prime Minister, Ferenc Gyurcsany, is the one playing the role of the « poor little new European martyr ». For the record, the Hungarians have vainly been trying to get rid of him ever since he involuntarily admitted two years ago that he lied to his citizens in order to be reelected, and confirmed in the same breath that he indebted his country beyond any reasonable limit. Now, he is the one announcing crazy figures for a bailout plan of the Eastern European financial system, giving the Old Europeans the role of the « bad » or « cold » guys. The latter's refusal is pinpointed by the entire US and UK press, coming to the natural conclusion that European solidarity has failed,… and understating (or completely forgetting) the fact that the Polish and the Czechs were the most virulent against the absurd claims of Hungarian Prime Minister (9). The attempt to weaken the EU and Eurozone from the East could have gone on further until the Eurozone leaders decided to make a number of strong statements and announced a substantial financial support plan (compared to the real risk), and political leaders and central bankers of the regions resorted to publishing tough press releases so that finally the manipulation began to lose momentum. But it has not disappeared yet, and the analogy between the subprime crisis and the housing crisis in Eastern Europe remains vivid in the mind of the media; as if Hungary was equivalent to California, or Latvia to Florida.

Ths is indeed the core of the problem: in economy and finance, size matters… and the tail never wags the dog, contrary to what some people would like us to believe.

As early as December 2007, at a time when our « current experts of the Eastern European crisis » showed no awareness whatsoever of the problem, LEAP/E2020 highlighted the fact that a considerable housing risk weighed on these European countries (Latvia, Hungary, Romania,…) and on their creditors (Austria and Switzerland in particular). However they always found obvious that these problems were limited to the concerned countries. There are indeed problems ahead for these countries and those commercially and financially involved with them, but these problems are no more serious than the average problems encountered by the global financial system; and they certainly do not compare with the problems faced by the financial markets of New York, London or Switzerland. Let us remind ourselves that the bank most often cited as being the "detonator" of this "Eastern-European bomb", i.e. the Austrian bank Raiffeisen, increased its profits 17 percent in 2008; a result beyond the wildest dreams of most US and UK banks today, as William Gamble noted, one of the rare analysts who studied what the story was really about (10).

GDP of the European Union, Eurozone and Member-States – Source: Eurostat, 2008

For those who are not familiar with EU geography, a headline like « Hungary in bankruptcy » or « Latvia defaults on its debt » can compare to one like « California goes bankrupt ». For those who lose their jobs as a consequence, the problem is indeed similar. However, in terms of impact on a larger-scale, they have nothing in common. California, severely affected by the subprime crisis, is the most populated and richest state of the United States, while Latvia is a poor country with a population corresponding to 1 percent of the EU population (versus California's 12 percent of the US population (11)). Hungary's GDP represents less than 1.1 percent of the Eurozone's GDP (in the case of Latvia, this figure is 0.2 percent) (12), that is to say the equivalent of Oklahoma (1% of US GDP (13)) rather than Florida. Eastern Europe is far from being able to bring problems of a similar magnitude to the subprime crisis. All the new Member-States put together comprise less than 10 percent of the EU GDP (among them, the biggest and richest ones, such as Poland and the Czech Republic, are hardly affected at all). As a worst-case scenario, the amounts at stake for the European financial system, are around EUR 100-billion (USD 130-billion) (14), that is to say a very modest sum on the scale of the EU financial system (15). In fact, the EU has taken the lead of a consortium which has already injected EUR 25-billion (i.e. 20 percent of the worst-case scenario) to stabilize the situation (16), and whose severity has already been diminished by the recent fall in value of the Swiss Franc.

Last but not least, the value of new houses in Eastern Europe will not fall dramatically (even if the value will be less than in 2007/08) because, after 50 years of communism, there is a shortage of modern buildings. In the US on the contrary, an excessive number of houses were built during the last housing bubble, of variable quality and already depreciating in value in the most affected states. There, there is a real destruction of wealth for landowners, creditors, banks and the economy altogether.

The complexity of the ongoing crisis requires being extremely vigilant in identifying the trends and factors conveying real serious dangers, instead of being sidetracked by rumors and phony news.

We hope that this detailed explanation will contribute to debunk the lie orchestrated around a so-called « Eastern European financial bomb » (17) ; and that it will provide an illustration enabling each and everyone to see through first appearances, seek true facts hiding "behind the mirror" presented by mainstream media, and make up their own mind.

If the G20 Summit fails to prevent the world entering into the phase of geopolitical dislocation, similar operations of manipulation and destabilization will increase in number, each regional block trying to discredit their opponent, like any zero-sum game (18) : a player gains the other players lose.

Notes

(1) See GEAB N°32

(2) Circulated by everything that counts among financial media and experts, most of whom did not have the faintest idea of a housing/financial problem coming in some Eastern European countries when, in December 2007, LEAP/E2020 described the risk.

(3) No wonder then that Marketwatch mentions in an article on this subject the accusations made against it by the Czech Republic's central bank. Source: Marketwatch, 03/09/2009.

(4) Which of course is wrong: no other country than the US and the UK presents such a convergence of disasters.

(5) Knowing that the Central and Eastern European countries hit (Hungary, the Baltic States, Bulgaria and Romania) are completely marginal in the global economy, contrary to South-East Asian countries, key-players of globalisation in the 1990s.

(6) Source: Reuters, 02/17/2009

(7) Due to which, even the most informed websites hesitate to give an opinion on that story, thus giving it more credit. See Gary North, 19/02/2009, on LewRockwell.com.

(8) Source: Telegraph, 02/15/2009

(9) Source: EasyBourse, 03/01/2009

(10) Source: SeekingAlpha, 02/26/2009

(11) Source: 2007 Statistics, US Census Bureau.

(12) Source: 2008 Statistics, Eurostat. The Baltic States are overprotected by Scandinavian countries, Sweden in particular who is very careful that an uncontrollable spiral does not begin in the region. Source: International Herald Tribune, 03/12/2009

(13) Source: 2008 Statistics, Bureau of Economic Analysis, US Department of Commerce.

(14) Source: Baltic Course, 03/05/2009

(15) A ridiculously small sum compared to the hundreds of billions repeatedly injected by the US and UK governments into their banking system.

(16) Source: European Investment Bank, 02/27/2009

(17) We prefer not to waste our time with the confusion about Ukraine (a confusion that even Nouriel Roubini, usually better informed, contributed to foster – Source: Forbes, 02/26/2009), not only a country which does not even belong to the EU, but clearly a pawn on Washington's and London's chess board since the "orange revolution". The unfolding collapse of the Ukraine, if it can indeed create problems for the EU as can any instability on its frontier, mostly illustrates the collapse of the "dollar wall" at the expense of US positions and in favour of Russia's regained influence in that country. At the precise moment when in Wall Street and the City, large banks collapse or are being nationalized, this recent manipulation is an attempt to hide the Anglo-Saxon forest behind the Eastern-European tree. Some people have honestly been fooled, the story was so credible: « si non è vero è bello », as the Italians say.

(18) What the world will become from the end of 2009 onward, if a new system is not initiated next summer.