The European Central Bank Fiddles While Rome Burns

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"To some people, the European Central Bank seems like a fire department that is letting the house burn down to teach the children not to play with matches."

So wrote Jack Ewing in the New York Times last week. He went on:

"The E.C.B. has a fire hose — its ability to print money. But the bank is refusing to train it on the euro zone's debt crisis.

"The flames climbed higher Friday after the Italian Treasury had to pay an interest rate of 6.5 percent on a new issue of six-month bills . . . the highest interest rate Italy has had to pay to sell such debt since August 1997 . . . .

"But there is no sign the E.C.B. plans a major response, like buying large quantities of the country's bonds to bring down its borrowing costs."

Why not? According to the November 28th Wall Street Journal, "The ECB has long worried that buying government bonds in big enough amounts to bring down countries' borrowing costs would make it easier for national politicians to delay the budget austerity and economic overhauls that are needed."

As with the manufactured debt ceiling crisis in the United States, the E.C.B. is withholding relief in order to extort austerity measures from member governments—and the threat seems to be working. The same authors write:

"Euro-zone leaders are negotiating a potentially groundbreaking fiscal pact . . . [that] would make budget discipline legally binding and enforceable by European authorities. . . . European officials hope a new agreement, which would aim to shrink the excessive public debt that helped spark the crisis, would persuade the European Central Bank to undertake more drastic action to reverse the recent selloff in euro-zone debt markets."

The Eurozone appears to be in the process of being "structurally readjusted" – the same process imposed earlier by the IMF on Third World countries. Structural demands routinely include harsh austerity measures, government cutbacks, privatization, and the disempowerment of national central banks, so that there is no national entity capable of creating and controlling the money supply on behalf of the people. The latter result has officially been achieved in the Eurozone, which is now dependent on the E.C.B. as the sole lender of last resort and printer of new euros.

The E.C.B. Serves Banks, Not Governments

The legal justification for the E.C.B.'s inaction in the sovereign debt crisis is Article 123 of the Lisbon Treaty, signed by EU members in 2007. As Jens Eidmann, President of the Bundesbank and a member of the E.C.B. Governing Council, stated in a November 14 interview:

"The eurosystem is a lender of last resort for solvent but illiquid banks. It must not be a lender of last resort for sovereigns because this would violate Article 123 of the EU treaty."

The language of Article 123 is rather obscure, but basically it says that the European central bank is the lender of last resort for banks, not for governments. It provides:

"1. Overdraft facilities or any other type of credit facility with the European Central Bank or with the central banks of the Member States (hereinafter referred to as 'national central banks') in favour of Union institutions, bodies, offices or agencies, central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of Member States shall be prohibited, as shall the purchase directly from them by the European Central Bank or national central banks of debt instruments.

"2. Paragraph 1 shall not apply to publicly owned credit institutions which, in the context of the supply of reserves by central banks, shall be given the same treatment by national central banks and the European Central Bank as private credit institutions."

Banks can borrow from the E.C.B. at 1.25%, the minimum rate available for banks. Member governments, on the other hand, must put themselves at the mercy of the markets, which can squeeze them for "whatever the market will bear"—in Italy's case, 6.5%.

The Real Reason Eurozone Countries Are Drowning in Debt

Why should banks be able to borrow at 1.25% from the E.C.B.'s unlimited fountain of euros, while the tap is closed for governments? The conventional argument is that for governments to borrow money created by their own central banks would be "inflationary." But private banks create the money they lend just as government-owned central banks do. Private banks issue money in the form of "bank credit" on their books, and they often do this *before* they have the liquidity to back the loans. Then they borrow from wherever they can get funds most cheaply. When banks borrow from the E.C.B. as lender of last resort, the E.C.B. "prints money" just as it would if it were lending to governments directly.

The burgeoning debts of the Eurozone countries are being blamed on their large welfare states, but these social systems were set up before the 1970s, when European governments had very little national debt. Their national debts shot up, not because they spent on social services, but because they switched bankers. Before the 1970s, European governments borrowed from their own central banks. The money was effectively interest-free, since they owned the banks and got the profits back as dividends. After the European Monetary Union was established, member countries had to borrow from private banks at interest—often substantial interest.

And the result? Interest totals for Eurozone countries are not readily accessible; but for France, at least, the total sum paid in interest since the 1970s appears to be as great as the French federal debt itself. *That means that if the French government had been borrowing from its central bank all along, it could have been debt-free today*.

The figures are nearly as bad for Canada, and they may actually be worse for the United States. The Federal Reserve's website lists the sums paid in interest on the U.S. federal debt for the last 24 years. During that period, taxpayers paid a total of *$8.2 trillion* in interest. That's more than half the total $15 trillion debt, in just 24 years. The U.S. federal debt has not been paid off since 1835, so taxpayers could well have paid *more* than $15 trillion by now in interest. That means our entire federal debt could have been avoided if we had been borrowing from our own government-owned central bank all along, effectively interest-free. And that is probably true for other countries as well.

To avoid an overwhelming national debt and the forced austerity measures destined to follow, the Eurozone's citizens need to get the fire hose of money creation out of the hands of private banks and back into the hands of the people. But how?

Governments Cannot Borrow from the E.C.B., but Government-owned Banks Can

Interestingly, Paragraph 2 of Article 123 of the Lisbon Treaty carves out an exception to the rule that governments cannot borrow from the E.C.B. It says that *government-owned banks* can borrow on the same terms as privately-owned banks. Many Eurozone countries have publicly-owned banks; and as nationalization of insolvent banks looms, they could soon find themselves with many more.

One solution might be for the publicly-owned banks of Eurozone governments to exercise their right to borrow from the E.C.B. at 1.25%, then use that liquidity to buy up the country's debt, or as much of it as does not sell at auction. (The Federal Reserve does this routinely in open market operations in the U.S.) The government's securities would be stabilized, keeping speculators at bay; and the government would get the interest spread, since it would own the banks and would get the profits back as dividends.

Taking a Stand in the Class War

In a November 25th article titled "Goldman Sachs Has Taken Over," Paul Craig Roberts writes:

"The European Union, just like everything else, is merely another scheme to concentrate wealth in a few hands at the expense of European citizens, who are destined, like Americans, to be the serfs of the 21st century."

He observes that Mario Draghi, the new president of the European Central Bank, was Vice Chairman and Managing Director of Goldman Sachs International, a member of Goldman Sachs' Management Committee, a member of the governing council of the European Central Bank, a member of the board of directors of the Bank for International Settlements, and Chairman of the Financial Stability Board. Italy's new prime minister Mario Monti, who was appointed rather than elected, was a member of Goldman Sachs' Board of International Advisers, European Chairman of the Trilateral Commission ("a US organization that advances American hegemony over the world"), and a member of the Bilderberg group. And Lucas Papademos, an unelected banker who was installed as prime minister of Greece, was Vice President of the European Central Bank and a member of America's Trilateral Commission.

Roberts points to the suspicious fact that the German government was unable to sell 35% of its 10-year bonds at its last auction; yet Germany's economy is in far better shape than that of Italy, which managed to sell all its bonds. Why? Roberts suspects an orchestrated scheme to pressure Germany to back off from its demands to make the banks pay a share of their bailout.

Europe is in the process of being "structurally readjusted" by a private banking cartel. If its people are to resist this silent conquest, they need to rise up and, using the ballot box and public banks, throw out the new banking hegemony before it is too late.

Ellen Brown *is an attorney and president of the Public Banking Institute, http://PublicBankingInstitute.org. In Web of Debt, her latest of eleven books, she shows how a private cartel has usurped the power to create money from the people themselves, and how we the people can get it back. Her websites are http://WebofDebt.com and http://EllenBrown.com.*

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