The Mega Banks: Goldman Sachs, JPMorgan Chase, et. al. Control Europe's Political Landscape

By Bob Chapman
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In Europe each time a new player is presented we find he is a Goldman Sachs' alumnus. Recent entries are Mario Monti "appointed" PM of Italy, Lucas Papademas "appointed" PM of Greece and Mario Dragahi "appointed" President of the European Central Bank. The banks blatantly control governments and agencies presenting us with an oligarchy, which controls most of the nations on the planet. In America politicians are bought and paid for. In Europe there is a different mind set, a shared worldview of bureaucrats, technocrats, politicians and the elite bankers of world government and domination. What has happened in this process is that Goldman Sachs, JPMorgan Chase and other mega-banking has retained power for decades. They control all the players in the field, so the outcome is always in their favor. The bankers and others in turn are paid via billions of dollars in bonuses. Banks are now bank holding companies having become that to avoid failure as brokerage firms. That is the case in the US, UK and Europe.

One of our subscribers in Brussels sent us a copy of "A European Mechanism for Financial Stability." The present danger is seen in sovereigns heavily in debt and the heard effect of hedge funds. They say they won't allow speculators to govern their societies. If they are serious why don't they ban them from their markets? A universal ban would be even better and they could throw in derivatives for good measure.

Europe still does not have a longer-term structural solution to their debt crisis and none is in the offering. Germany cannot sell its total tranche of bonds and Mrs. Merkel says that if Germany can only sell 65% of its bonds how can Eurobonds or bonds of the six insolvent nations sell theirs? The debt crisis is burrowing even deeper like a large worm undermining the entire continent. Worse yet, we just found out that the Bundesbank usually holds back bonds for market making operations, thus, they only sold about half of the issue. If the crisis continues to deepen Germany and the other euro zone nations will have to reexamine where they are headed. As we know all currencies and debt rates are increasing, which ties the banks of all the participants, including the solvent ones. Even with the German bunds, who is going to want to hold debt in a country that will have to guarantee one-half or more of the debt of other countries? At the same time the call goes out for strict supervision and enforcement of budget discipline. We have lived in these countries and that is not possible for any sustained period of time.

The Spanish election turned out as well as could be expected Calling for a vote on November 20th, the anniversary of Generalisimo's death, turned out to be the kiss of death for Socialist PM Joe Luis Zapatero. There are too many people who liked Franco. The PP is a pro business party and already governs 11 of 17 of the country's autonomous regions. If PP beats the Socialists in their stronghold in March, the PP will be in power for a number of years. Zapater's legacy to the PP will have its work cut out for it with 22% unemployment and almost 7% yields to contend with. They will have to also try to restore the country's AAA rating. Many voted for the lesser of two evils.

In France we have another case of government bailing out the banks and other euro zone members. These efforts could cost France its AAA rating. We'll know in mid-January, but it does not look good.

Funding costs on a 10-year bond level are up and they look like they are going to stay there. Major countries are still paying close to 7%, which is the highest funding cost since the creation of the euro. The spread between French and German rates is about 2%, which is unheard of. The euro continues to be hammered vs. the dollar and the same is happening worldwide in stock markets. Most two-year paper has risen in yield over the past month. France is paying close to 4% versus .40% in Germany and in the US .28%. In Europe these bond markets could not function without the assistance of the ECB and the money and credit creation of sovereign governments, some banks are showing desperate signs. The biggest bank in Italy, Unibank, has to refinance $51 billion of bonds shortly. Their bond yields are now over 10%. Only the ECB can bail them out like the Fed bailed out banks in the US and Europe three years ago.

While this transpires 70% of Americans are unaware of the seriousness of what is taking place in Europe. Wait until 2012. Banks alone have to raise $660 billion of maturing debt, most 10-year paper is selling above 7-1/4%, which is a sign that they all need the help; Greece, Ireland and Portugal has already received. Remember, we are talking $6 trillion just to bail these countries out and to keep their economies going sideways. The solvent countries cannot come up with that kind of money without failing themselves. You have to ask why did the bankers let things go so far? They deliberately impeded the system, because they cannot be that stupid. Then there is the matter of capital flight. This year Greek banks have lost 20% of their deposits. We hope they bought gold and silver. We ask are Italian and Spanish deposits next? Over in Hungary Moody's has cut their debt to non-investment grade. In the wake of that announcement France's Sarkozy and Germany's Merkel tell us that the ECB will act appropriately, whatever that means. These leaders do not know what to say or what to do. The situation is unsustainable, but we wouldn't be surprised if this phase lasted into late January. Remember, Europe virtually closes down from December 7th until January 10th. This while the future of the European banking system is in dire trouble. While this transpires we wonder how many derivative failures there are and what their consequences could be? At last we heard from the US government, US bank exposure was $670 billion, mostly in credit default swaps. If the six European countries default on their debt, US banks cannot possibly stay solvent. The knack on contagion could take the US banking system down with it. In Europe there is no question that all European banks will have to be recapitalized by the countries in which they do business. In fact, it has already begun, just as it did in the US three years ago. That makes their currencies worth much less and gold and silver worth much more.

This is the greatest risk the EU has ever faced and as yet no one has any solutions. The euro and the entire 27-country union are at risk. This as we predicted has no solution. The weaker states have to be cut loose and the euro has to be phased out. Article 123 of the EU Treaty, prohibiting monetary financing or central bank funding of government, is illegal. That certainly is a stopper. That means the euro zone and the EU are trapped by their treaty and would have to change the treaty and, of course, the outcome would be massive inflation. If they stick to the treaty the euro will collapse. What it comes down to is that desperate violators do not care about the law. All they want is survival. On the other hand, Germans are unwilling to sacrifice their credibility or to abandon the legal path. Crisis or no crisis there is no reason to break the rules for those who have already broken them. Monetary inflation is the direct result of bailout and purging the system is the only solution for the long-term. We do not think Germany will abandon the rules and their principals. That means they are prepared to cut loose the six insolvents and hope the core euro nations can hold together. It is not only inflation, but credibility and trust as well.

Monetary financing only extends the problem; it is illegal and destroys the credibility and trust in national institutions.