Germany OKs EU Rescue Fund Increase, Setting Stage for TARP Euro-Style

Today the German parliament voted overwhelmingly, 523-85, to increase the size of the European Financial Stability Fund (EFSF) from $335 billion to $600 billion, and to allow it to purchase sovereign bonds, lend to profligate governments, and strengthen banks hurt by holding risky government debt.

Protests over the move came primarily from Wolfgang Bosbach (left), a member of Chancellor Angela Merkel's own party and an initial supporter of the European Union. He pointed to the failure of the continuing Greek bailouts, observing, "The first medicine didn't work, and now we are simply doubling the dose. My fear is that when the big bang happens, it won't just be us who will have to pay for generations hereafter." He still favors the union, however: "I don't want to be co-opted into an anti-euro movement — the EU is an important political project. But what we promised the people was a union of stability, not a union of debt."

Bosbach reflects increasing discontent of German citizens who find themselves forced to give approximately $300 billion to the rescue fund which will then use the money to buy worthless Greek bonds and continue to extend credit to the bankrupt country. Discontent has built to the extent that German Finance Minister Wolfgang Schäeuble said that no further increases to the EFSF would be allowed without full public debate in the future in the Bundestag (the lower house).

But the members of the European Union find themselves in a burning building with no exits. As Gary Jenkins, credit analyst for Evolution Securities in London, put it: "There is no way you can help the weaker parties without hurting the stronger parties. Unfortunately for them, they're in a union. So they're either in it, or they're not. And they either have to have some kind of transfer of money, some kind of guarantee system or the whole thing's going to fall apart."

Meanwhile, Greek citizens continue to struggle with increasingly harsh austerity measures in order to satisfy the requirements of the European Union, the European Central Bank, and the International Monetary Fund (the "troika"). Another fifth of Greece's public workforce is being terminated, wages for the remainder will be cut by another 20 percent, and pensions are being reduced by four percent in addition to the 10 percent already imposed. The real estate tax imposed last year isn't raising the funds expected, and so it will be extended two years longer than originally planned.

Letting Greece depart from the union, or dissolution of the union itself, has received increasing attention as a result of the continuing crises. In a revealing article from the Associated Press, such dissolution is now being openly discussed, and then dismissed as unfeasible. According to Don Melvin, the Polish finance minister has raised the prospect that the EU might split apart and German Chancellor Merkel admitted that if the euro failed it would destroy the union. And time is running out. British Chancellor George Osborne has said there are only a few weeks left before Greece defaults and goes its own way.

While admitting that the union is in trouble, José Manuel Barroso, President of the European Commission, said "We're at a crucial moment in history. If we do not move forward with more unification, we will suffer more fragmentation." Taking the middle ground, Karel Lannoo, head of the Center for European Policy Studies, says he is "rather pessimistic" about the survival of the euro but he thinks its collapse won't end the union. British Foreign Secretary William Hague claims that the whole idea was doomed from the start: “It was folly to create this system. It will be written about for centuries as a kind of historical monument to collective folly.”

Ambrose Evans-Pritchard agrees, explaining that “the Euro itself is a machine for perpetual destruction [and] the Monetary Union is inherently poisonous…it is the existing status quo that risks bringing about economic depression, social collapse, street populism, nationalistic backlash, cross-border hatred and…violence…The EMU (European Monetary Union) should not be saved.” Speaking directly to the German Chancellor, Evans-Pritchard said, “Dr. Merkel, what we have is the crisis of a foolish monetary union that ought to be shut down but is being kept alive because the priesthood has endowed it with sacred significance.”

With the successful passage by the German parliament to enhance the rescue fund, it is now clear what will happen in short order: First, Greece will get the next $8 billion needed to pay its bills in October. Holders of Greek debt will be forced to take a haircut of at least 20 percent, perhaps as much as 50 percent as part of the deal to continue to fund the Greek profligacy.

But that won’t matter because the newly enhanced EFSF will be allowed to leverage itself through the magic of fractional reserve banking to many trillions of dollars, which will then allow it to recapitalize those banks that made foolish investments in Greek sovereign debt, as well as any other banks that might be affected when Italy, Spain, and Portugal go into default.

By turning the EFSF into euro-TARP, the euro will be saved. The European Union experiment will be validated. Greece will avoid default. All will be well.

It’s amazing what fiat currency, fractional reserve banking, fraud, and enforced austerity can accomplish.