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Putin's G20 paradox: Summit prepares to endorse bail-in

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Aug. 19—The annual Group of 20 (G20)[1] summit will convene in St. Petersburg, Russia on Sept. 5-6. The heads of state and government meeting would be a perfect opportunity to shift the international economic agenda in a healthy direction: against the City of London policy of pre-arranging "bail-in" of the next megabanks to face collapse because of derivatives and other speculative operations, and in favour of Glass- Steagall banking separation, which would protect the real economy and the population against the murderous fallout from that next, inevitable collapse of the financial- sector gamblers' wagers.

After all, the world has been able to see bail-in in action since last March in Cyprus, when deposits in failing banks were seized or frozen on orders from the Troika (the European Commission, the European Central Bank, and the International Monetary Fund).[2] What's more, individuals and businesses from this year's host country for the G20 summit took a direct hit in the Cyprus confiscations, because of extensive Russian use of the Cypriot banking system as an offshore tax haven.

Russian President Vladimir Putin himself spoke out dramatically against the financial oligarchy's worldwide bail-in policy, during the June 20-21 St. Petersburg International Economic Forum (SPIEF). During the question and answer session after his SPIEF keynote speech, Putin was joined onstage by German Chancellor Angela Merkel, who at one point complained that Putin sometimes "talks too loud." Then, after Merkel gave a long and intricate, but not very substantial, reply to a question about too-big-to-fail banks, Putin demanded the microphone and said, "Madame Federal Chancellor has said that she doesn't know how the banks will be recapitalized. She also said that I sometimes talk too loud. So, let me say this in a whisper: [slowly and sotto voce] 'I hope it won't be at the expense of their customers!' "

Putin's disclaimer notwithstanding, Russian Finance Minister Anton Siluanov joined his 19 counterparts at a July 19-20 meeting of G20 finance ministers in Moscow, in signing a joint statement that fully endorsed the Financial Stability Board (FSB) guidelines on bail-in procedures. Paragraph 22 of the statement announced: "The FSB will report to the St. Petersburg Summit [in September] on the progress made and next steps towards addressing the 'too big to fail' issue. We strongly support the work to establish robust resolution regimes and resolution plans consistent with the scope and substance of the FSB's *Key Attributes of Effective Resolution* for any financial institution that could be systemically important beyond the banking sector, and look forward to pilot assessments by the FSB, IMF and World Bank using the Key Attributes' assessment methodology. We will undertake any legislative and other steps needed to enable authorities to resolve financial institutions in an effective manner, including in a crossborder context."

The FSB's "Key Attributes"[3] *are* the framework of the bail-in policy, which is defined explicitly in Key Attributes, 3.5.ii, as including conversion of "all or part of unsecured or uninsured creditor claims" into equity in the entity undergoing "resolution." These shareholders, then, take the hit for the

Chancellor Angela Merkel and President Vladimir Putin at a press conference at the St. Petersburg International Economic Forum on June 21. Replying to Merkel, Putin spoke out against the bail-in policy: "I hope [bank recapitalization] won't be at the expense of their customers!"

failed bank, thus "bailing-in," as opposed to "bail-out" with government funds. The financial oligarchy's propaganda says that this will protect taxpayers. But the inability of national deposit insurance funds to cover eligible bank deposits in the event of failure[4] means that the pool of involuntary contributors to bail-in is de facto enlarged to include all depositors—a set of people and businesses that greatly overlaps taxpayers. Such a scheme was tested in the case of Spain's Bankia bank.[5] As reported in this issue of *EIR*, Switzerland's banking regulator, FINMA, places all uninsured depositors on the chopping block, under that country's already-adopted bail-in regime.

Bankers' dictatorship

In the same month as Putin delivered his anti-bail-in remark at the SPIEF, Russian Central Bank deputy head Mikhail Sukhov told a banking conference, also held in St. Petersburg, that the Central Bank fully supports bail-in. "Major creditors" need to be docked in order to "save" problem banks, said Sukhov. The Russian economic weekly *Expert* took note of his speech, reporting on it June 7 under the headline "Creditors to Replace the State." According to *Expert*, Sukhov "stressed that the Central Bank will be able to impose a special supervisory regime. . . . Conversion of debt into equity, Sukhov believes, will create 'a kind of buffer, so that state funds will not serve as the source for dealing with financial problems.'. . . Essentially the Bank of Russia is proposing to use the scheme that European authorities have proposed to their lending institutions, whereby the state and taxpayers will become the financial rescuers only of last resort for troubled banks. The EU project is being discussed by the various national parliaments. Mikhail Sukhov noted this fact, commenting that the international community is now moving to prevent the use of state funds for resolving banks' financial problems."

Sukhov is one of Russia's three *ex officio* representatives to the FSB, the institution under whose auspices the bail-in policy has been developed for global application.

Another Russian emissary to the FSB, Deputy Finance Minister Sergei Storchak, has likewise contradicted statements by leading Russian officials, in order to promote the FSB's G20 agenda of bail-in. By contrast, on April 13, the daily *Izvestia* publicized a letter addressed to Putin by Deputy Prime Minister Dmitri Rogozin, who urged that the Strategic Defense of the Earth be placed high on the agenda of the G20 summit in September. According to *Izvestia*, Rogozin stated: "The scale of the task of neutralizing the asteroid threat requires the concentration of global intellectual resources and the scientific potential of Russia, the United States, and other countries. . . . Such a program of cooperation will increase trust between the nations and at the same time create the conditions for ending the confrontation over the missile defense program."

Storchak, however, speaking to the FinMarket news service on June 11, said that the G20 agenda had "expanded too much" already, and that the only notable success of the Russian G20 chairmanship to date had been "solving the problem of government rescues of 'too big to fail' banks"—through endorsing the bail-in policy. In September, Storchak promised, the G20 leaders would issue a "special announcement," saying that "the problem of 'too big to fail' has been solved, once and for all. . . . We hope that in St. Petersburg the leaders will close the book on this problem, seconding their [finance] ministers' agreement that this problem has been solved. And that was the key problem from the standpoint of the 2008-2009 crisis."

Who are these deputy ministers of finance or deputy Central Bank chairmen, who freely override the agenda proposals and policy heads of state or deputy prime ministers? In the case of Russia, the phenomenon is well known. Fifteen years ago, on Aug. 17, 1998, the events known as "the default" took place. The scheme of issuing increasingly short-term government bonds for the benefit and amusement of international speculators, a scheme foisted upon Russia by the band of London-trained radical free-marketeers who had seized power there in 1991-92, came to a crashing halt. In the wake of Russia's freezing of its government securities market in GKOs (short term bonds) and OFZs (other federal loan paper), the ruble was devalued by two-thirds. Attempts to install a foreign Currency Board dictatorship were beaten back, and the Yevgeni Primakov-Yuri Maslyukov government, formed in September 1998, undertook emergency actions to revive the economy.

Putin, coming to power in 1999-2000, inherited not only the beginnings of a recovery launched under Primakov, but also a large and ramified network of financial officials, who had become deeply embedded in Russian institutions during the 1990s, and did not leave office.[6] They are still there, in the person of Storchak, Sukhov, and many others, to this day. In June of this year, Putin appointed one of them, long-time Deputy Central Bank Chairman Alexei Ulyukayev, as minister of economics. One of the calling cards of this circle is the claim that they alone have the experience with international financial institutions, necessary for navigating in the current global crisis.

Such London-trained functionaries are the mechanism through which a bankers' dictatorship is imposed. The same practice crops up in many countries, not only Russia. A recent investigation of an ongoing plot to sneak bail-in legislation through the Australian parliament identified at least 11 executives of Australian financial regulatory agencies, who have, either simultaneously or just prior, chaired or served on committees of the FSB and its superior organization, the Bank for International Settlements (BIS).[7]

Likewise noteworthy, amid an intense drive by the BIS, FSB, and the Bank of England to make the EU as a whole, and France and Germany foremost among individual European nations, adopt bail-in (as France has now done, through the Banking Reform Law passed on July 18), is the recent appointment of Jon Cunliffe as deputy governor of the Bank of England. Cunliffe, currently the U.K.'s permanent representative to the EU, has been closely involved in negotiations towards an EU banking union, Bloomberg reported July 26. For four years ending in 2011, he had been an advisor to the British government on European affairs and international finance. Mark Carney, the Canadian veteran of Goldman Sachs who has chaired the FSB since 2011 and now, as of July 1, heads the Bank of England, was quoted by Bloomberg about Cunliffe: "He brings an important European and international perspective. That will be vital in *ensuring that the Bank of England can shape both the U.K. and international financial systems*" (emphasis added).

What is the G20?

It is one thing for City of London and Wall Street agents to be inserted into national governments, individually, but how did the G20 come to serve as a consolidated vehicle for the financial oligarchy's agenda— one through which such vigorous advocates of sovereignty as Putin, or Argentina's President Cristina Fernández de Kirchner, or Chinese President Xi Jinping, may be brought to sign on to bail-in?

The Group of 20 has its roots in the aftermath of that same August 1998 Russian default. Within weeks of the GKO freeze, the Connecticut-based Long Term Capital Management (LTCM) hedge fund, whose founders were Nobel prize-winners for their computerized derivatives- trading formulas and whose chief strategist, Alberto Giovannini, was an architect of the euro experiment in the EU, collapsed. LTCM's derivatives-trading contingency models evidently had not included the possibility that the GKO market would be shut down altogether. The LTCM collapse nearly brought the entire global financial system to a standstill, a fact that then-IMF Managing Director Michel Camdessus acknowledged one year later.

At that time, an assembly called the Group of 22, or the Willard Group, existed for the discussion of changes in the international financial architecture. Members of the Asia-Pacific Economic Cooperation (APEC) forum, including then-President Bill Clinton, had initiated it at their November 1997 Vancouver summit, in the wake of the 1997 currency crises in Asia—the first round of the hedge-fund-precipitated 1997-98 phase of the global crisis, the phase culminating in the GKO default and LTCM's collapse. By the time the Willard Group met in April 1998, it had become the venue of calls for a New Bretton Woods to replace the post-1971 speculation-dominated world order, and some G22 members, notably Malaysia and Thailand, were campaigning for the idea of "saving the nations, not the banks."[8]

Speaking Sept. 14, 1998 at the Council on Foreign Relations, President Clinton called for urgent deliberations on "ways to adapt the international financial architecture to the 21st century."[9] His proposals were far from perfect, but they provided a basis for discussions with G22 members at the then-upcoming APEC summit in Kuala Lumpur, Malaysia in mid-November. On Sept. 1, Malaysia, under Prime Minister Dr. Mahathir bin Mohamad, had overturned the rules of the globalization game, after a year of hedge fund attacks on his nation's currency and its economy: Mahathir declared strict currency controls, the repatriation of share trading in Malaysian stocks, and a fixed exchange rate.[10]

Just then, however, the operation to impeach Clinton went

British Prime Minister Gordon Brown and U.S. President George W. Bush at the G20 summit, Nov. 15, 2008. Brown took the lead in pushing through financial crisis-management measures, but nobody had anything to say about unemployment or the real economy.

into high gear, and Clinton could not attend the APEC summit. In his place went Vice-President Al Gore, who took the occasion to lace into Mahathir as a dictator and to openly solidarize with the *reformasi* movement which was out to overthrow him; one Malaysian Cabinet member called Gore's "the most disgusting speech I've heard in my life."[11] No breakthroughs on international economic and financial matters were made.

In 1999, after an interim forum called the Group of 33 came and went, the international financial architecture discussion was shifted from the G22 to a new body, formed at Canada's initiative: the Group of 20. The difference in membership between the G22 and the G20 was slight, but important. Malaysia and Thailand—the advocates of "saving the nations, not the banks"—were among the G22 members dropped from the new forum, while those added included the European Union as a whole, and Saudi Arabia, with its history of providing piggy-bank services for some of British Intelligence's nastiest operations.

The G20 was not to become highly visible until 2008, but 1999 also saw the creation of the key to the G20's future role: the Financial Stability Forum (FSF). The FSF was commissioned by the Group of 7 (G7)[12] and was housed and managed by the BIS in Basel, Switzerland, as is its successor, the FSB, today. BIS archives readily show that already in 1999, these circles were beginning to bat around schemes that would become today's bail-in policy.[13]

2008: London takes over

The G20 had been meeting at the level of finance ministers and central bank chiefs, until the urgent convening of a heads-of-state summit in November 2008. Lehmann Brothers had gone bankrupt in September, international markets and lending were frozen up, and the first round of bail-outs of a new, gigantic magnitude had been unleashed with the forced-march passage of the U.S. Troubled Assets Relief Program (TARP) in October.

Many understandably hoped that the heads of state assembling in Washington for the Summit on Financial Markets and the World Economy would make changes for the better. *EIR* editorialized on Oct. 31, 2008, under the headline "Expect the Unexpected," that "the heads of state of the Group of 20 leading nations . . . will gather . . . for the first of what are expected to be a series of conferences, to consider a New Bretton Woods. Already, a number of leading participants in that conference . . . are seriously promoting the need to return to a fixed-exchange-rate system, to wipe out the role of speculators in world currency arrangements. While the outcome of the Nov. 15 and subsequent conferences is unknown, the mere fact that [Lyndon] LaRouche's proposal is on the table, has the City of London financier oligarchy running scared."

In the event, President George W. Bush, fresh from his supposed success with the TARP bail-out, pretended to preside, while British Prime Minister Gordon Brown (who had been Chancellor of the Exchequer for the previous decade) took the lead in pushing through a pseudo-consensus for more free trade, increased powers for the IMF, and other supranational measures. The November 2008 G20 summit declaration, issued just when millions of people were being thrown out of work around the world, said almost nothing about employment or any other realsector issues, addressing only financial crisis-management acrobatics.

Russia, having experienced the shock of 1998, might have made a positive contribution to the 2008 G20 discussion, but then-President Dmitri Medvedev took his guidance chiefly from then-Finance Minister Alexei Kudrin, famous for being adept in the ways and requirements of the London markets. On the eve of the summit, Kudrin proclaimed his opinion that the cause of the crisis was that entire nations were attempting to "live beyond their means," and that a "global Maastricht" agreement was needed, to enforce fiscal austerity upon governments the way the EU's founding Maastricht Treaty had done in 1992. Kudrin, LaRouche observed in a LaRouchePAC release on Nov. 10, 2008, was "reading from a London script." LaRouche continued, "Cooperation among the USA, Russia, China, and India, as leading partners, is the key to a working solution of the problem." He called for those four powers to put the collapsing post-1971 monetary system through bankruptcy, and write off the enormous speculative, parasitical derivatives obligations, in order to clear the way not for a new monetary system, but for a *credit system*. The new credit system should revive and promote real economic development on a national and international level, as U.S. President Franklin Roosevelt had proposed at the 1944 Bretton Woods conference, for decolonializing the post-war world, the LaRouchePAC release said.

The second G20 summit was set for April 2009 in London. Kudrin gave a preview of how it would be shaped, in his Feb. 9 briefing to then-Prime Minister Putin, after a trip to London. Kudrin reported that he was "conducting a financial dialogue" with the British government, on the topic of "financial market regulation." As of that moment, he said, Russia was already participating in four G20 working groups for the April summit, on "financial market integrity," IMF reform, new banking oversight standards, and improved accounting practices.

The main decision of the 2009 G20 summit was to upgrade the Financial Stability Forum to become the Financial Stability Board. FSF Chairman Mario Draghi, called "Mr. Britannia" at home in Italy for his leadership in implementing the shock-privatization of Italian industry and banking, pursuant to the infamous 1992 meeting he attended aboard the British Royal Yacht, took the helm of the new FSB. He ran it until November 2011, turning the reins over to Carney when he (Draghi) became head of the European Central Bank.

In an April 2, 2009 statement on the chartering of the FSB, Draghi boasted that it would possess "stronger institutional ground" and an "enhanced operating structure," to implement its decisions. He emphasized "contingency planning for cross-border management, particularly with respect to systemically important firms"—a whiff of bail-in. Indeed, the mammoth set of recommendations[14] unveiled the previous year by the

FSF under Draghi, had already included a sketch of the bail-in principle on its list of 67 regulatory changes, supposedly needed for preventing a repeat of the 2007- 08 derivatives blowout. The introductory paragraph to Section 2 of the recommendations, "Arrangements for dealing with weak banks," specified the germ of a bailin policy: "Private sector solutions to resolve weak institutions are preferable wherever possible, and shareholders should not be protected by the authorities from losses."

The BIS's FSB's agenda

As *EIR* has documented in recent months, bail-in rapidly came into play internationally from the 2009 London summit onwards.[15] In June 2010, the FSB issued the first draft of its recommendations to the G20 on *Reducing the Moral Hazard Posed by Systemically Important Financial Institutions (SIFIs)*. The passage of the Dodd-Frank Act in the United States, with explicit bail-in provisions, and its signing into law by President Barack Obama in July 2010, was an important inflection point.

Speaking at the Peterson Institute in October 2010, Draghi called for legislation modelled on Dodd-Frank to be adopted everywhere, in order "to resolve SIFIs without disruptions to the financial system and without taxpayers' support"—a universal bail-in policy. In May 2011, FSB chairman and soon-to-be ECB head Draghi called for a new EU law on dealing with failing banks, under which "any such toolkit should include bail-in powers to ensure that the costs of such failures are met by shareholders and creditors, rather than taxpayers or the wider financial system." On Nov. 4, 2011, the FSB published the aforementioned *Key Attributes of Effective Resolution Regimes for Financial Institutions*.

All of this frenetic activity to impose the bail-in regime globally is closely supervised by the FSB and its host organization the BIS, along with the mother of the BIS itself—the Bank of England. The BIS, the so-called central bank of central banks, was set up in 1930 for the announced purpose of enforcing the collection of the reparations being exacted from Germany under the Versailles Treaty since the end of World War I. Its guiding lights were long-time (1920-44) Bank of England Governor Montagu Norman and his friend Hjalmar Schacht, head of the German Reichsbank in the 1920s and then again for Hitler in 1933-39. The BIS was almost abolished at Bretton Woods on Franklin Roosevelt's initiative, but its preservation was supported by John Maynard Keynes and approved by the Harry S Truman Administration.

"Today, history is repeating itself," former French Presidential candidate Jacques Cheminade warned this past June about the BIS's enforcement of vicious austerity through bail-in.[16]

After five years of budget-sapping bail-out packages for the international banks and unlimited money-printing by the U.S. Federal Reserve, Bank of England, and European Central Bank under mega-trillion-dollar "quantitative easing" programs, the London-centered global financial oligarchy is desperate to put its enhanced looting methods in place, as the world plunges into the next phase of financial crisis, which insiders expect to erupt in the near future. Bail-in means unlimited stealing from businesses and the population. At bottom, the bail-in policy is a weapon for achieving the British Crown's intention, expressed with increasing vehemence over recent decades, and invariably under a "green" cover, to reduce the world's population from almost 7 billion, down to 1 billion people, or even fewer.

The FSB deems it essential for every major nation to adopt individual enabling legislation for bail-in. It publishes periodic reports on the status of reforms instituted in each nation whose banks include one or more G-SIFIs. The FSB's April 2013 *Thematic Review on Resolution Regimes*, for example, contained a chart titled "Annex B: Selected Features of Resolution Regimes in FSB Jurisdictions." There one could read that in Russia one of the "missing powers" is "bail-in within resolution," but "Annex C: Planned Reforms to Resolution Regimes in FSB Jurisdictions" welcomed Russia's current "internal policy discussion" of reforms to "introduce bail-in powers" and "remove restrictions on cross-border information sharing."

One of the most important measures demanded by the FSB for every country is the endowment of a regulatory agency with dictatorial powers over the bail-in process. In the technocratic jargon of the revised *Core Principles for Effective Banking Supervision*, issued by the BIS Basel Committee on Banking Supervision in September 2012, there must be "no government or industry interference that compromises the operational independence of the supervisor." In the FSB *Thematic Review* last April, Russia earned a black mark for having "multiple authorities" and "no lead authority for resolution of entities."

In the next review, Russia will no doubt get a star of approval on this point, since the dictatorial-supervisor principle is the secret behind Russia's creation of a socalled financial market "megaregulator," when the Federal Financial Markets Service was dissolved into the Central Bank this year. That reform followed precisely the model of the U.K.'s Prudential Regulation Authority (PRA), created by the Financial Services Act of 2012 as a unit of the Bank of England. According to the BoE website, the PRA will have "close working relationships with other parts of the Bank," particularly the BoE's Special Resolution Unit.

Thus the "internal policy discussion" among Russian officials who collaborate tightly with the BoE/BIS/ FSB nexus continues to move towards full integration with the latter's global bail-in regime, despite the objection against bail-in which the Russian President stated to Chancellor Merkel.

The Long-Term Investment dimension

The final communiqué of the July 19-20 G20 finance ministers' meeting contained 37 points, besides Paragraph 22 on the bail-in. Most of them were yawninducing statements of commitment to "improve transparency," fight tax evasion, and so forth, or double-talk combining "our near term priority . . . to boost jobs and growth" in a single paragraph with "reducing financial market fragmentation [and] moving ahead decisively with reforms towards a banking union in Europe." One well-known Russian analyst dubbed the document as a whole "a mixture of delusions of grandeur and profound incompetence."

One other section deserves special comment in connection with Russia: paragraphs 15-17, grouped under "Financing for Investment." Making reference to "the importance of long-term financing for investment, including in infrastructure and small and medium enterprises," this section would appear to be more real-sector oriented and to address a problem felt with painful urgency in Russia: "Where will the money come from?"—for what really needs to be done. The three points of the G20 document, however, betray the influence of a Europe-based and City of London- friendly operation called the Long Term Investors Club (LTIC), which promotes an agenda in harsh opposition to the generation of national credit for development. The LTIC's basic argument is that since, under Maastricht and similar fiscal austerity programs, governments cannot create sovereign credit, and since the banking system's lending capabilities have become doubtful since 2008, the only hope for