

QE and the nature of the standoff between the ECB and Syriza

Norbert Haering - norberthaering.de

On Thursday the ECB's Governing Council will decide on whether to start a large bond buying program. I am afraid the decision is clear, though not for economic reasons. A few days later, the Greek will probably vote for a left leaning government under the Syriza-party, which wants to renegotiate the terms of the huge government debt, and is opposed to the EU-imposed austerity program which impoverished the country. There will be a standoff, a game of chicken, in which Brussels, Frankfurt (the ECB) and Berlin

threaten to throw Greece out of the euro, causing the people even more suffering, and Athens counting on this being an empty threat, because any country leaving might easily lead to more countries being pushed out by speculative attacks on their bond markets. If the ECB has a free hand to buy as many government bonds as it wants from any government that follows the ECB's commands and fulfils their conditions, this danger is very significantly reduced. In such a situation, Greece can be forced out if needed (by cutting of ECB financing for Greek banks, which can be done any day at the ECB's discretion). The experience would be made as harsh as possible to the Greek people to scare of the voters of other crisis countries, who might consider voting for similar parties, like Podemos in Spain.

If this sounds like a conspiracy theory for you, just consider what Hans-Werner Sinn, President of the Ifo economic research institute, one of the politically better connected economists in Germany, let slip in a guest comment in "Handelsblatt" October 7, 2014 ([in German](#)) about the true rulers of Europe. In this piece he confides that in autumn 2011 Italian prime minister Silvio Berlusconi wanted to solve Italy's economic problems by leaving the Euro and devaluating. *"To that goal, he had already had some preliminary talks with other governments of the euro area. He had an agreement with the Greek prime minister Papandreou, who had wanted to make his people chose in a referendum between exit and a hard austerity policy"*, Sinn informs us and continues: *"Both had to step down in November 2011, almost at the same time"*. He gives the following reason: *"An exit was going against higher-ranking political interests, but also against the interest of the banking system."*

Such "conspiracy theories" we are used to hear only from the far left. If the interests of the banking system are at stake, the interests of the "fifth power", as the former head of Deutsche Bank, Rolf Breuer, or the former chief economist of the Bundesbank and the European Central Bank, Otmar Issing, named it, then the citizens of European countries have nothing to decide any more. In such cases, they are given a government which does what suits the "higher-ranking interests and the interest of the banking system". Democracy takes a break. Everybody is invited to figure out for themselves what the "higher-ranking public interests" are and, above all, whose interests these are.

How this was done in Greece, we have read occasionally, for example in an article series in the Financial Times titled "[How the Euro was saved](#)". The articles say that in November 2011 the president of the EU-commission, Barroso, behind the back of prime minister Papandreou, brokered a deal with finance minister Venizelos and then-opposition-leader Samaras a cancellation of the referendum on the euro, as well as a unity government under the "technocratic" leadership of Lucas Papademos, whose term on the ECB Directorate had just expired. When Venizelos drafted a press statement on the flight back from the summit in Cannes, declaring the cancellation of the referendum, while Papandreou was sleeping, the political fate of the prime minister was sealed. We also learned from the FT that Italy was the

QE and the nature of the standoff between the ECB and Syriza

Norbert Haering - norberthaering.de

other problem child besides Greece at the Cannes-meeting, that he was pressured very hard, there. The next week, Italian bond yields skyrocketed above seven percent.

The ECB's active role in the Italian regicide is fairly well documented now. In August 2011, ECB-President Trichet and the President of the Bank of Italy, Draghi, had written a [threatening secret letter](#) to Berlusconi, with a laundry list of economic and social measures he was to take if he wanted the ECB to buy Italian bonds and thus help stave off the speculative attack on Italy. The letter found its way into the public in late September, which put Berlusconi under great political pressure at home and the Italian bond market under renewed speculative pressure, which the ECB and the Bank of Italy refused to resist. Only after Berlusconi had stepped down did bond yields go down sharply. My suspicion is that the Bank of Italy sold Italian bonds and bought other euro area bonds then they wanted to put pressure on Berlusconi and reversed this after he had stepped down. However, this cannot be proven, since the Bank of Italy does not provide any information about the structure of its huge bond portfolio or about its dealings in bonds. The little information it had provided in its annual reports up to the one on the year 2011 it dropped after I used it for some newspaper reports in Handelsblatt. I had investigated that in 2010, the year that Italian bonds first came under pressure, the Italian central bank had significantly REDUCED the share of Italian bonds in its portfolio. In 2011 it raised this share again, though it is not known whether it did so before or after Berlusconi stepped down.

The ECB has recently bowed to pressure from Spain and published a similar threatening letter that Trichet had sent to the Spanish prime minister Zapatero and Zapatero's servile response, in which he expresses the hope that the government's decisions and assurances will be enough to make the ECB buy Spanish bonds. The ECB sunk the exchange, on the last Friday before Christmas in 2014, in the depths of its website, without any public alert, such that media outside of Spain did not take any notice.

The citizens of Ireland have had their experience with the power of finance a year earlier already. When the big Irish banks, which had grotesquely overextended themselves under the watch of the central bank, were threatening to go bust in 2010, ECB-President Trichet wrote blackmailing letters to the government, which the ECB kept strictly secret for years, until it finally published the ensuing exchange under pressure from the Irish parliament in November 2014. In his [second letter](#), Trichet, making reference to an [earlier letter](#), openly threatens to cut off Irish banks from all ECB financing if the government did not immediately ask for a large European financial assistance program, which was to be used to keep the large Irish banks from going bust and thus saving their continental European creditor banks from large losses. Another condition was, unsurprisingly, the passage of a structural reform program (i.e. cutbacks in social security and public employment and public wages) and expenditure cuts. In an emergency meeting over the weekend, the demanded measures were taken and the minister of finance Lenihan told Trichet [in a letter](#) that Ireland had surrendered, making it quite clear that this was done under massive pressure, only. This ECB-enforced bank bailout was the source of the vast government debt that Ireland has today. Ireland's citizens will have to pay for it for generations and suffer from the structural reforms that decimated their incomes. They were never asked for approval.

Greece is in big trouble. They are up against the most powerful foe imaginable.

QE and the nature of the standoff between the ECB and Syriza

Norbert Haering - norberthaering.de

This text is based on a text I first published in German in October [here](#).