

Draghi visits the Bundestag

Although Mario Draghi's visit on Tuesday of last week to us members of the Bundestag was intended as a confidence-building measure, nothing really substantial not came out during the two-hour meeting with the President of the European Central Bank (ECB). Draghi vehemently defended the government bond purchases of the ECB on the secondary market. No word of the fact that the Federal Constitutional Court found in its judgment on the ESM of 12th September: "The purchase of government bonds on the secondary market by the European Central Bank, which is aimed at the financing of the budgets of the member states independently of the capital markets, is also prohibited as circumventing the prohibition of monetary budget financing." In addition to myself, about a hundred other members of all factions were also present. I had noted down many questions, but could address only the target problem in the 60 seconds of question time granted to me.

The Target 2 System represents the movement of capital between the member states via their respective central banks in the Euro zone. Before the outbreak of the crisis, the target balances were close to zero. Only in the course of the banking crisis, which grew relatively seamlessly into an economic crisis, and later the Euro crisis, did the target balances grow to astronomical levels. Because banks of solvent countries declined to make any further loans to debtor countries, countries such as Greece, Spain and Portugal obtained funds "on the slate". Now the Bundesbank has around € 700 billion in claims on its books. Greece alone is now over € 100 billion "in the red", while the figures for Italy and Spain are almost € 300 billion and € 400 billion respectively. Portugal is in debt to the tune of around € 70 billion. The main burden of this internal transfer system of the European Systems of Central Banks (ESCB) is being borne by Germany. The only other significant commitments have been made by the Netherlands, Finland and Luxembourg.

It is a great credit to Hans-Werner Sinn, the President of the ifo Institute, that he has discovered all this. I can recommend his latest book the "Target-Falle" ("Target Trap") to anyone who is interested in this subject. Professor Sinn points out what huge potential for blackmail lies behind the Target claims. Because if a debtor country goes bankrupt or leaves the Euro – and therefore also the ESCB –, the other countries will simply be left sitting on their claims. The claims would then have to be written off and the losses realised.

It order to prevent this, money continues to be pumped into the debt cycle: through loans via the ESM or via the secondary market programmes of the ECB. The Target balances continue to increase in parallel. A vicious circle, which is continuing to grow in size and power. I wanted to know from Mr. Draghi what possibilities he sees of again reducing the Target imbalances in the Euro zone. Professor Sinn had made the suggestion of applying the settlement system of the US Federal Reserve System to the Euro zone. The depositing of gold reserves as collateral also seems a plausible possibility to me.

Such a system can of course not be applied 1-to-1. The conditions and circumstances in the USA are different than in the Euro zone. However, if problems are identified, they must be resolved. I do not have the impression that the ECB is working on the closure of the target loophole. The Federal Government is unfortunately also playing down the target problem. And it would also have been the right signal if the members had made it unmistakably clear to Mr. Draghi last Tuesday that the German Parliament stands as one man behind our Bundesbank President Jens Weidmann. In the end however, Weidmann's position on the ECB

Council was further weakened. It would have been important to make clear to Mr. Draghi that the independence of an institution is justified only if it adheres to applicable law.

Regarding independence: I also asked Draghi whether it is true that he also receives large pension payments from Italy in addition to his earnings as ECB President. The background: The salary of the Italian Central Bank President in 2011 was € 757,000. As ECB President, Draghi's basic salary amounts to "only" € 371,000 per year. As my colleague Manfred Kolbe has researched, Draghi is supposed to receive a compensation payment from Italy in the amount of € 200,000. Draghi admitted that he received a pension, just like any other retired civil servant. The fact that Draghi actually receives a remuneration from his previous tenure at the Italian Central Bank is particularly controversial because Italy is one of the main benefactors of the policy of the ECB. Italy benefits not only from the Target-2 System as described above: of the € 211 billion which the ECB has purchased so far on the secondary market, a large proportion must have come from Italy – even if the ECB keeps the actual figures secret. The ECB must have put around € 70 billion on the table for junk government bonds issued by Italy.

By the end of 2014, Spain and Italy will have a refinancing requirement of almost € 1 trillion. It is beyond doubt that these two countries will not be able to manage this without the ESM and ECB. A realistic scenario of the "Institut der deutschen Wirtschaft Köln" forecasts that the ESM will purchase at least one-third, and perhaps even as much as half of the bonds on the primary market. The loan volume of the ESM will then be almost as good as exhausted, and the rescue package will already have lost its often-touted "firepower". In parallel, the ECB will also make massive bond purchases on the secondary market, in order to suppress interest rates. Draghi had already announced this in September. The situation continues to worsen. The communitisation of debt is proceeding apace. In the medium term, a topping-up of the ESM will be inevitable, in order to postpone the explosion of the bomb on which the ECB is sitting. But discussions have not yet gone so far. At the top of the agenda at the moment are the "rescue packages" for Cyprus, Spain, Slovenia and Greece.

It will be a hot autumn. And I hope that I can continue to rely on your support in the struggle against this madness.