Royal panic breaks out in London financial center

by Our Special Correspondent

London's financial markets were the epicenter of a renewed round of volatility on international stock markets during the first week of October, as across-the-board plunges wiped out the effects of the short-lived summer rally, putting leading indexes at their lows for the year. As earlier in the year, Wall Street volatility, with the so-called summer rally undone, has been, thus far, on a somewhat lesser scale.

In market terms, Italy, France, and Germany have appeared to lead the way. But seasoned observers point to the tremors erupting in London as portending events of far greater significance.

As October opened, it was the shares of Britain's investment banks which took the biggest pummelling. The reason: successive announcements by S.G. Waburg and Hambros, two of the City's leading such houses, that their trading profits for the half-year would come in 50% below the levels they recorded just one year ago. Hambros chairman Sir Chips Keswick, in announcing the results, said they were not as bad as might be expected, since "bond markets have been rocked by the most turbulent conditions since the beginning of the First World War." Quite.

The investment banks' results reflect the underlying and ongoing collapse of the derivatives-dominated floating exchange monetary arrangements which have been in place since the early 1970s. As the Hollinger Corp.'s London *Daily Telegraph* put it on the morning after, "If you have tears to shed, prepare to shed them now. The good times in the City are drawing to a close." Shed them, the paper wrote, for the passing of London as an international financial center.

Monetary and market upheavals are not separate from the other eruptions which are racking the British elite these days, undermining the very existence of the institutions on which Britain's political, as well as financial, global influence has depended. The ruling Windsors, who failed to heed the lessons of their predecessor generations—i.e., "if you must do it, don't do it in public, and don't get caught"—are now about to learn another, older one: He who cannot rule himself or herself is not fit to rule others. And, Lloyds of London, which is nearly as old as the Hanoverians, and has been at the center of the City's global outreach for 200 years and more, the core of global re-insurance rackets, has now been found—by Britain's courts no less!—to have used deceit and fraud in its conduct toward certain individuals, known as "Names," who put up their money, with unlimited personal liability for losses incurred, to underwrite the insurance issued by Lloyds' syndicates. Lloyds has been ordered by the courts to pay $650 million to the members of its Gouda-Walker syndicate. This is the biggest legal settlement in British history, and, given the line of similar suits in the works, only the first of many to come.

'It can't go on forever'

An informed British source commented to *EIR* on Oct. 4 that "a lot of things are caving in simultaneously in Britain at this point. We have been propping up very frail institutions here for a long time, but it won't work much longer. The scandals around the monarchy (see p. 6, 9 below), around the Thatcher family, around Lloyds, these are the 'signs' of things—and there'll be more. This country is more exposed than most are, after the decimation of our manufacturing base over the past 15-20 years. We've tried to survive on North Sea oil and finances, it can't go on forever."

Ever since the "big bang" deregulation of the City of London financial markets at the end of 1986, London has become the center of international "funny money" circuits. Of the more than $1 trillion per day traded on foreign exchange markets, fully one-third of it goes through the City's computers and dealing desks. More than 30% of the shares traded on all European stock exchanges, on a daily basis, are traded through London. London's International Financial Futures Exchange is the center and reference point for derivatives trading during European time zone opening hours, and a close follower in terms of volume to the activities in Chicago.

Market volatility, and impending institutional collapse, reflect the reality that is threatening to pull down the speculative financial house of cards.

The Oct. 2 issue of newspaper mogul Rupert Murdoch's London *Sunday Times* published a scathing attack on the dangers of derivatives in its weekly financial supplement. The feature was entitled: "Derivatives—A Special Report into the Dangers of Financial Tools Designed by 'Rocket Scientists.' " One article in it went under the heading, "Bubble Bursts as Magic Hedge Loses Its Market Edge." Its author, Garth Alexander, wrote, "A crisis threatens the $12 trillion-a-year derivative market. Wall Street firms have quietly spent $500 million in the past few months propping up funds and paying off investors." He outlined the much-publicized series of derivatives-related losses including: the collapse of a Denver-based money market fund; the near-bankruptcy of Odessa College in Texas; the lawsuit of Gibson Greeting Cards Inc. against Bankers Trust for misleading them on derivative risk; and large losses by Paine Webber & Co., Kidder Peabody, BankAmerica, and ABN-AmRo, as well as numerous municipalities that have derivative-related losses.

All of these and more were the subject of Oct. 5 hearings before the House Banking Committee (see article, p. 17). The terse conclusion of the article is a quote from a Chase Manhattan banker defending derivatives and blaming the users: "Without an adept driver, a turbo-charged Porsche 917 racing car may not outperform a 1980 Chevrolet." To which the *Times* commentator retorted, "It could also get you killed."

Hollinger's *Telegraph* picked up this refrain as it bemoaned threats to the City financial center coming from financial losses, the disaster at Lloyds, the bungling incompetence of the stock market, potential future damage coming from the Frankfurt, Germany-headquartered European Central Bank, and European Union regulations on financial adequacy which threaten the very existence of Britain's undercapitalized market-making stockbrokers, such as Smith New Court and Cazenove.

A derivative by any other name . . .

The Oct. 1 issue of the *Economist* financial weekly added its own twist to all this, with a novel proposal for dealing with the growing international controversy over the dangers associated with derivatives: Why not just stop using the word "derivatives"? The *Economist*'s editorial, titled "A Risky Old World: Financial 'Derivatives' Can Make It Safer, But the Word Itself Is a Suitable Candidate for Banning," defends the idea of derivatives, arguing that "To concentrate on the instruments themselves is to miss the wood for the trees. Derivatives are nothing more than risk-management tools. . . . Further, there is a strong case for doing away with the term 'derivatives' altogether. This word misleadingly lumps together different classes of instruments. . . . Worse, the term has allowed scaremongers to create and sustain a financial bogey."

Deutsche Bank's Chairman Hilmar Kopper echoed the *Economist's* words at the semi-annual meeting of the International Monetary Fund in Madrid. Kopper denied that banks are responsible for any of the volatility that has roiled financial and other markets, and claimed instead that banks are merely responsbile for managing such volatility. How do they do it? Through derivatives, of course!

Both Kopper and the editors of the *Economist* ought to apply to take over the public relations department at Buckingham Palace. It might be fun to see how well their efforts would succeed where others had failed. "Let's just change all the names, and, as with the world of high finance, everything will be okay." Would that the adventures of a mere "Mr. and Mrs. Windsor" attracted such public attention!

The French daily *Le Monde* put a spotlight on the real danger that the *Economist* and Kopper are obfuscating. In an article titled "The Threat of Derivatives Markets," by senior African Development Bank official Sanou Mbaye expressed concern that a generalized "payments and insolvency crisis" could erupt in the event of a major bank failure, the which crisis governments would be unable to handle, given the massive level of derivatives speculation.

Much as Lyndon LaRouche has done on several recent occasions, Mbaye linked the development of derivatives directly to the circumstances of the 1971-73 period. "The climate of instability which characterizes the international monetary system since the abandonment in 1971-73 of the convertibility of the dollar into gold and of fixed exchange rates, has led to the creation of new financial instruments," i.e., "derivatives." Mbaye warned, "The specter of such a crisis can not be rejected, despite the pacifying declarations of an Alan Greenspan, boss of the U.S. Federal Reserve, and the reassuring conclusions of a study on the derivatives markets of the 'Group of 30' published in the U.S. in July 1993." He itemized some of the "derivatives disasters" of the recent period, such as Germany's Metallgesellschaft, the Japanese oil company, and Procter and Gamble in the United States.

"Given the interaction of commitments on the capital markets," Mbaye predicted, "the major default of a bank would lead, automatically, to a generalized insolvency. In a situation of generalized insolvency, the role of lender of last resort would devolve on the central banks. But the magnitude of sums involved makes one doubt their capacity to stem a massive payments default."

Documentation

The impending fall of the House of Windsor

"We are extremely close to the end of the House of Windsor," declared Harold Brooks-Baker, publishing director of *Burke's Peerage,* the catalogue of the British nobility, in a statement to the London *Guardian* published on Oct. 4. Brooks-Baker, one of the most renowned experts on royalty in the United Kingdom, gave his assessment of the effect of the latest scandal book hitting the royal family, entitled *Princess in Love,* which contains the memoirs of Maj. James Hewitt, who claims to have been the former lover of Princess Diana. The book, written by Anna Pasternak (great-niece of the late Boris Pasternak), has been published by London's Bloomsbury Publishers, and was released on Oct. 4.

In a discussion, Brooks-Baker expressed his evaluation that the institution of the monarchy will be terminated in Britain early in the next century, but that the House of Windsor itself will be in an end-game situation before that. "The House of Windsor is definitely on a road to self-destruction," he affirmed. "It is what I would call a *nosedive* situation."

Brooks-Baker said the monarchy was paying the price for certain calculations made by the late King George V around the time of World War I, when the name of the royal house changed from "Hanover" to "Windsor." George V decided that the monarchy should remodel itself as "the perfect middle-class family." This "worked" until about 10 years ago, but is no longer working. "That was the beginning of the slippery slope," Brooks-Baker complained, adding that the House of Windsor is now hostage to "public approbation," and more and more Britons are getting fed up with the constant scandals, and evidence that "the monarchy is like the rest of us, warts and all."

Brooks-Baker pointed to British Labour member of the House of Commons Anthony Wedgwood-Benn as one key culprit in the moves against the Windsors, and accused him of plotting a *coup de grace* against the royal house. "The possibility looms before us of a referendum on the monarchy. That's Wedgwood-Benn's doing. He *instigated* the whole referendum ploy some years back, nominally on the [European] Common Market question. But his real intent, when the time would be ripe, would be to have a referendum against the monarchy. This could be most unfortunate. The British monarchy is not like the six royal houses that still exist on the European continent, which are mostly symbolic, and have little day-to-day importance. In Britain, by contrast, the monarchy is *very* important."

From both left and right sides of the political spectrum, British newspapers solicited commentaries from influential figures in England and elsewhere:

A worldwide laughingstock

"I don't see how this can go on. It is making the royal family a worldwide laughingstock," said one unnamed top aide to the House of Windsor, as reported by the *Guardian* on Oct. 4.

A BBC radio broadcast on Oct. 4 described the Hewitt revelations as a "huge embarrassment for the monarchy, very very damaging to the royal family." Even though the book's contents were panned as ridiculous, commentators speculated that "the end of monarchy" could be looming in the not-distant future.

"Europe Feels Repercussions of Fall of the House of Windsor," reported the *Guardian* on Oct. 5. Spanish royalty expert Juan Balanso wrote: "This apparently never-ending string of scandalous revelations leads to a loss of prestige for all Europe's monarchs which could have very severe implications. The English royals have always been the model other countries looked to and sought to model themselves on. That was certainly the case with our monarchy, but now the exact opposite applies. This once solid institution is crumbling before our eyes. Other royal families consider them a negative force and fear the adverse publicity could affect their own standing."

Guardian commentator Martin Woollacott wrote on Oct. 5 that "getting rid of a monarchy is always a bloody business." Europeans must be mystified by the upheavals around the British monarchy, which is courting disaster, he wrote. European nations understand better "that when kings are brought down, they have almost always been the victims of societies that have lost cohesion" through war, economic collapse, or civil strife. "There are no examples in modern history of a monarchy passing peacefully from the scene." Such events are usually the product of disaster and portend worse to come, Woollacott wrote. He described the turmoil of the 20th century in which so many monarchs were ousted, and the attempt after 1848 to create stable constitutional monarchies in northern Europe. The ousting of monarchs "in every country has been a deadly serious and dangerous business."

In the *Daily Express,* a pro-Tory London tabloid, Prof. Keith Middlemas of Sussex University wrote on Oct. 5 that "in the monarchy's stock, the bottom must be fairly close. . . . The rancid, remorseless accumulation of five years' gossip and scandal has produced an ugly public mood in which it is just possible that the monarchy's future may be in doubt." There are historic precedents: "Republicanism . . . was not a little thing" in Queen Victoria's later years, nor were the events which toppled the Greek monarchy and almost toppled the Belgian one in the postwar years.