Bankers fiddle, while London burns

by Richard Freeman

During the last 90 days, the world's news media have been gripped by three financial earthquakes: the collapse of the Orange County, California derivatives bubble, the new Mexico debt crisis, and the bankruptcy of the most famous of the British royal family's bankers, Barings Bank. These are only samples of much worse financial explosions already visible on the near horizon.

The present global monetary and financial system is gripped by the worst crisis of the 20th century. Every currency in the world has been losing value against the German mark and the Japanese yen. The U.S. dollar, the world's principal reserve currency, has suffered repeated periods of virtual free fall. Yet despite these grim warnings, official Washington clings to the delusion that nothing is happening which can not be controlled by shrewd administrative measures.

Leading the silliness parade in official Washington, is U.S. Federal Reserve Chairman Alan Greenspan, a former board member of British-controlled J.P. Morgan Bank. On March 9, Greenspan insisted that President William Clinton had caused the dollar's decline, by blocking the Balanced Budget Amendment. On March 15, the dollar plummeted from 99.45 yen on Feb 7 down to 89.45 yen. In testimony before the House Budget Committee, Greenspan asserted that the fall of the dollar was caused by the "apparent concern in the international financial markets" over America's lack of "resolve . . . in coming to grips with the balanced budget issue."

"Hot Money," the cover story of *Business Week* magazine's March 20 issue, echoed the Greenspan mantra, arguing that the ongoing breakdown of the world's financial and economic system's stemmed only from an unbalanced federal budget. It writes: "The dollar is crashing. Mexico is in meltdown. The European currency system is collapsing. One force driving it all: global money traders voting thumbs-down on the deficit." Joining the pack is Lazard Frères' Felix Rohatyn, the investment banker who pioneered in "pain and agony" for New York City, back during the 1970s, Rohatyn threatens: "The collapse of our currency will force us to balance the budget." Morris Offit, head of Offitbank, adds: "If [countries] don't discipline themselves, the world market will do it."

Detached from the physical economy

Greenspan's current life of not-so-quiet hysteria reflects a generation of bankers whose practices and minds have become increasing divorced from contact with economic reality.

Since the August 1971 take-down of the post-war Bretton Woods system of monetary stability, the world's finance has become divorced increasingly from those physical realities upon which the achievements of all modern European civilization have been premised: increase of the productive powers of labor through investment in scientific and technological progress in agriculture, infrastructure, and manufacturing. With the introduction of the floating-exchange-rate monetary system, the petrodollar swindle of the 1970s, Federal Reserve Chairman Paul Volcker's lunatic interest rates in the early 1980s, the junk bond swindles of George Bush's buddies, and the derivatives lunacy of 1989-94, the real economy of the world has been contracting, while financial income has skyrocketted.

Symptomatic: Of the average daily financial turnover in leading world centers, only about 2% involves trade. The remainder represents either finance charges or gambling in an international futures casino centered around the giant derivatives bubble. The major market most divorced from economic reality is the London market, where only a little more than half a percent of daily turnover reflects trade, as contrasted with a figure of approximately 5% for Germany's Frankfurt financial center.

A report recently prepared by the London Business School for the Corporation of London confirms, with stunning figures, how deeply Britain, and in particular, its financial center, the City of London, is involved in the speculative markets. Britain does not just benefit from the fruits of speculation; without speculation, it would be nothing. The March 13 London *Financial Times* favorably summarizes the LBS study:

"No other financial center in history has enjoyed such success *while being semi-detached from the domestic economy*. . . .

"Finance and business services, widely defined, account for around a fifth of U.K. gross domestic product. Within this, the LBS reckons that mainly City-based international wholesale financial services generate employment for 150,000" (emphasis added).

Author John Plender goes on to provide statistics for London's world market share for various financial markets: Eurobond underwriting, 65-75%; secondary market Eurobond trading, 75%; global equity trading conducted outside home country of equity traded, 64%; worldwide activity in swaps, 35%; foreign exchange, 27%; and management of European assets for institutional investors outside Europe, 81%.

The same issue of *Business Week* that has the cover story on "Hot Money," also has a second feature, "Singapore: Can It Really Be Asia's Financial Capital?" This article discloses that 13.5% of Singapore's Gross Domestic Product comes from financial services, and that Singapore's main speculative center, the Singapore International Monetary Exchange, is the *third-largest foreign exchange market in the world*. If one puts this together with the staggering levels of control that London has over world speculative markets, demonstrated above, as well as the contraction of the world physical economy, one can now understand why and how the Barings bankruptcy of Feb. 25-26 had to happen, and why many more will follow.

In light of these facts, there should be no mystery as to why Morgan-trained Greenspan's thoughts are removed so hysterically distant from economic realities. The most gigantic speculative balloon in history is leaking ominously, threatening to blow. Only the raiding of the treasuries of governments, including the U.S. Federal budget, might just possibly provide Wall Street and London the means to stagger through the current round of crises. After that, who knows?

Little wonder the Greenspan's thoughts are far removed from the real world.

Building firestorms

Meanwhile, from every corner of the globe, economic and financial conflagrations flared up, demanding action:

- In France, Crédit Lyonnais Bank, one of the world's 25 largest commercial banks, is threatening to go under. On March 14, the French financial daily *La Tribune* leaked the fact that Crédit Lyonnais, which has massive bad loans, will attempt to save itself by selling off 130 billion French francs of good and bad debt, through a new financial institution created for this purpose. The French government will pump in an emergency loan of 130 billion francs, more than $20 billion, for this operation.
- In Ibero-America, the speculative "emerging markets miracle" hoax built by London, is crashing down: In Brazil, over the week of March 6, the stock market lost more than one-quarter of its value. In the same week, the Brazilian central bank spent $5 billion of its reserves—one-seventh of its total reserves—to protect its currency. In Argentina, the Carlos Menem government has attempted to borrow $2.7 billion from the International Monetary Fund, as part of a $7 billion emergency rescue package to attempt to stave off collapse. On March 16, Mexico's 15-day treasury bills shot up to an incredible 92.5%, which will set a floor under all interest rates, threatening to implode the Mexican banks and economy.
- Speaking from at the United Nations' "Social Summit" in Copenhagen, Denmark on March 13, Nigerian Finance Minister Anthony Ani called on Nigeria's creditors to grant the country interest-free rescheduling of its $29 billion debt over a 75-year period, as well as a 5 to 10 year moratorium on payments.
- In the United States, on March 12, the *Washington Post* disclosed the explosive information that in 1994, U.S. commercial and investment banks generated $5 billion in profits from derivatives trading, but derivatives-buying customers lost an amazing $12 billion. The dollar continues to plunge.

Some souls, particularly in Europe, do see what is going on. On March 13, the German daily *Frankfurter Allgemeine Zeitung* estimated that, globally, the week of March 6, paper losses in stocks, bonds, foreign exchange, and derivatives had amounted to a stunning $3 trillion. The newspaper's analysis is perceptive up to a point; but ultimately, the authors recommend a series of reforms that merely stay within the policy axiomatics by which the British govern the world financial system. They refuse to do what must be done: All the rules of the last 25 years must be tossed out the window, and the world must put through financial and economic bankruptcy reorganization, geared around great projects in infrastructure. As economist Lyndon LaRouche has said: Prepare for life beyond the deaths of the International Monetary Fund and Federal Reserve System. Should the world be too paralyzed with fear to pursue such a change, the prospect of a global financial firestorm lurks around the next corner.