
Interview: André Kostolany

Munich speculator hits casino economy

After the collapse of Barings Bank, Mr. Kostolany, a Munich-based "traditional speculator" and stock exchange expert of Hungarian origin, informed the German public in TV interviews about the prospects facing thousands of greedy, young derivatives dealers: They may soon have to leave their computer screens and go back to selling vacuum cleaners. This interview was conducted by Lothar Komp.

EIR: What do you think about the "loan assassin" theories, according to which Nicholas Leeson, the director of Barings' Singapore-based derivatives trading operations, was solely responsible for the firm's losses?

Kostolany: The responsibility for the collapse of the Barings Bank lies entirely with the bank. They hired this young man, gave him hundreds of millions of dollars for no other reason than to gamble on the futures markets of Osaka and Singapore. He went into the casino room, he gambled, and he lost. *Basta!*

EIR: What are the roots of such a casino economy?

Kostolany: Greed among financial institutions, and big industrial companies that have nothing to do with financial business.

EIR: What is the role of derivatives in this?

Kostolany: It's not the derivatives per se, but the dimensions involved. The most popular derivatives, that is options, were traded already by the Amsterdam stock exchange in the 17th century. I myself traded as a young man, 70 years ago, with different kinds of options, of course, in a limited volume.

There are derivatives and derivatives: There are "call" and "put" options, warrants, etc. They are not at all dangerous for the person who buys them. Here, the risk is not bigger than the money you paid for it. What is dangerous, however, is the selling of "put" and "call" options, because the seller of options is obliged to sell or buy assets at a special price. That was the case for Barings, which had sold huge amounts of "put" options and therefore had to take over huge amounts of [stock] index-oriented contracts. In effect, these options had not been based on stocks, but on "index-oriented contracts." These "index-oriented contracts" are a new instru-

ment, which has only existed for 20 years.

The options trade is, in effect, advantageous for the financial market, because it makes the market more liquid, and that is, from an economic standpoint, always an advantage. However, the perversity of the trade comes with the immense dimensions, and with the fact that there are hundreds of thousands of participants, with exposures in the billions. That has been the case at Barings.

EIR: What are the effects of recent foreign exchange speculation on the real economy, for example in Germany?

Kostolany: The gambling in foreign exchanges has caused unexpected and economically unfounded variations, which will result in considerable problems for industry and international trade. In Germany, this is all the more harmful because more than 30% of the German economy is based on exports, and major foreign exchange fluctuations threaten the transaction in goods.

EIR: In spring 1994, Lyndon LaRouche predicted the early disintegration of the worldwide financial system, coming in the form of a "mudslide" process. What is your opinion of this?

Kostolany: I don't know what Mr. Lyndon LaRouche means by "mudslide." However, I can confirm that the financial markets have been transformed into a gambling hell.

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