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European financial elite prepares anti-dollar move

by William Engdahl

The Basel, Switzerland-based Bank for International Settlements has announced a radical expansion of what has been a closed, elite club for 65 years, controlled by Europe's most powerful central banks. The BIS will admit the central banks of China, Russia, and seven of the "emerging" Ibero-American and Asian countries, including Singapore, in the largest expansion in BIS history.

The move, widely touted as a sign of the conservative institution's effort to become "global," in reality, appears to be part of a broad power play by European financial and political circles, to strengthen what could soon become a rival bloc to the power of the U.S. dollar in world trade and business.

The implications of the little-understood move, according to European financial insiders whom *EIR* has contacted, are potentially "very ominous for the United States," as one City of London source termed it.

The BIS was set up in 1930 initially to collect Versailles war reparations from Germany, evolving after World War II into a powerful lobby for the interests of major European central banks in the world of international finance. Until now, the BIS has been a ponderable, but somewhat limited "club," dominated by the European central banks which comprise the so-called Group of Ten. The current head of the G-10 is German Bundesbank President Hans Tietmeyer. The general manager of the BIS, Andrew Crockett, comes from the Bank of England, and until two years ago, the United States was not even represented on the BIS board.

"The BIS today is the channel of the Bank of England and Swiss financial interests into the world," noted one influential City of London source, speaking on background. "This global move by the BIS should not be underestimated. It in no way portends anything good for the United States."

By drawing in the huge economies of China and Russia, according to these sources, the European central bankers hope to control the growing capital flows of that growing part of the world economy. The new members include the countries with the world's largest surpluses in trade and currency, including Hongkong, China, and Singapore. "Were that integration to occur, the Europeans would gain enormous advantage over the U.S.," our London interlocutor continued. The concept for the BIS expansion came from the Bank of England's Crockett.

End of the dollar era?

The BIS developments coincided with top-level discussions in the nearby Swiss resort of Buergenstock, at the annual Buergenstock Meeting, a private gathering of the world's major participants in the global derivatives market.

The Buergenstock talks focussed attention on the potentials of the coming European Union single currency, named the "Euro," as a potential rival to the dollar. The Euro is to come into use after January 1999. Much of the talk at the Swiss meeting dealt with details of this new Euro. "The talk is not, 'if' countries are able to meet the criteria for Euro membership, but 'how many,' " noted one participant. "All participants were clear that the new super-currency is now irreversible. The only question is how many of the 15 EU countries will be in. Bear in mind, these are the leading bankers and central bankers of Europe," he stressed.

"The power pushing for this single currency is not coming from mid-sized industry or European trade unions," he continued. "It is the elite global banks of Europe. And this includes the City of London, despite the fact that Britain has at least temporarily opted to remain outside the European Monetary Union process."

Under the terms of the Maastricht Treaty for European

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Monetary and Social Union (EMU), signed by EU governments in 1991 in Maastricht, Holland, a process was agreed upon to weld a major new supranational currency out of the national currencies of Europe. Thus, the Germans will lose their mark, the French their franc, the Dutch their guilder. Each will be replaced by a single new Euro, the name agreed to earlier this year.

As well, national governments will surrender any sovereign ability to control national monetary policy to a new supranational institution, the European Central Bank, whose charter mandates that it be "free from political interference."

To make the new Euro "credible" as a currency backed by strict financial and fiscal policy, the Maastricht Treaty specified that, for a state to qualify for EMU membership, it must impose strict Gingrich-like budget austerity. These are the so-called "convergence criteria." No EU member is allowed to qualify, if it has public debt above 60% of GDP or a public deficit above 3% of its GDP by the end of 1997. At present only tiny Luxembourg meets the criteria, whereas neither France nor Germany do, the two countries that form the core of the EMU. For others to enter, will now mean horrendous cuts in everything from spending in transportation infrastructure, to health and education, and this, at a time when unemployment throughout the Union is already at postwar highs, just under 20 million.

To meet the criteria by the December 1997 deadline, EU governments have begun to impose savage austerity and economic deflation. Belgium's parliament recently voted to dissolve, and to give the prime minister dictatorial powers over the state budget. Parliament has no say. Draconian further cuts promise to set off strikes and protests along with deeper economic recession.

In France, where the public deficit, at 5%, is well above the Maastricht target, the government will propose on Sept. 18 still harsher austerity. Severe budget cuts last fall triggered a wave of crippling protest strikes from French unions. With unemployment officially above 12.5% in France, and the economy in recession, further public cuts, in an economy where the state sector has been a major factor of GDP, will be self-defeating.

Germany also suffers an explosion of public debt and deficits, largely from colossal mismanagement of German unification. Despite this, Germany's Helmut Kohl and French President Jacques Chirac reaffirmed their determination to go ahead with the Euro, when they met in Bonn Sept. 1.

"Nobody dares say this openly, but the Euro is not coming for economic reasons," admitted a senior executive of one of Europe's largest banks. "The EU even has confidential estimates that the process to the Euro will add millions of unemployed. No, it is entirely for other reasons. But, that the single currency will come, I can assure you. There is far too much power behind it. Every major bank, every major financial trading exchange in Europe has invested hundreds of millions to prepare for the Euro. The power of European finance is dictating the agenda, and no politician at this point dares to challenge this."

Why bother?

With such a grim prognosis, and worse to come, one Swiss economist posed the obvious question at Buergenstock: "Why bother? After all, the individual economies of the EU need national deficit spending to invest in infrastructure and other areas, to reduce unemployment, and to get out of this recession." The answer came from Oliver Adler, of the powerful European bank, the Swiss-based UBS Bank. "Since the 1970s, the dollar has steadily declined in value against the European currencies and the yen. The dollar will continue to be weak, because Washington needs a cheap dollar to finance its chronic budget deficits. American voters obviously prefer growing deficits to increased taxes."

"The new European Central Bank, will demonstrate its rigorous determination, from the start, to control deficits in the EU," he added. "This will make it a strong alternative to the weak dollar. The present dollar reserves of European central banks will decline significantly, because, with the Euro, European countries will no longer need the dollar to settle bilateral trade balances. The Euro will emerge as serious competition for the dollar as world reserve currency."

Other participants pointed out the problem in challenging the dollar with 15 national EU currencies. "Obviously the German mark is one of the world's strongest currencies, but its share in world trade is small compared to the dollar's. Only when the combined trade weight of Germany, France and other EU countries is deployed as one, can we rival the dollar," one banker stressed. "The dollar still makes up more than 60% of all central bank reserves worldwide. Combined, the individual EU currencies only amount to 23-25%. Only as one currency is a major challenge possible."

The implications of such a rival currency, under present circumstances of the last quarter-century's bloated U.S. debt structures, would be financially and economically catastrophic for the United States. This, of course, barring a dramatic U.S. break with the British free-market economic dogma. A flight from the dollar into Euro would force the U.S. Federal Reserve to dramatically raise interest rates at least as high as the Paul Volcker levels of the early 1980s, only to retain some $1 trillion in foreign investment presently supporting the U.S. Treasury bond market. Such a high-interest-rate shock in the present weakened state of the U.S. economy, would detonate a depression worse than that of 1929-34.

The developments of the Euro inside the states of Europe is integral to the concept behind the enlarged BIS. "The BIS, with these large new central bank members will soon have the European Central Bank and the Euro forming its core. This BIS platform will potentially give Europe a power in world affairs it has lacked in the postwar period," concluded the City of London insider.