London prepares for derivatives horror

by John Hoefle

A "nightmare" is looming in the international derivatives markets, which "could knock over some very big institutions," the London *Sunday Telegraph* warned in its City Editor's Comment on March 9. The Comment, by Neil Bennett, noted that, "if and when world stock markets fall," a "domino effect" could hit large banks with "vast" derivatives losses.

The column, titled "The $55 Trillion Horror" (see page 31), claimed that "the total value of derivatives in the world today is $55 trillion . . . twice as large as the world's Gross Domestic Product." That figure, albeit huge, is a dramatic understatement of the actual size of the international derivatives exposure.

Over the past several years, Lyndon LaRouche and his associates have repeatedly warned that the global financial system is bankrupt, and that a chain-reaction implosion of the derivatives market is inevitable, unless emergency reorganization measures are taken. LaRouche's warnings have been echoed by a number of continental European financiers and economists, while the City of London—the base of operations for the international financial oligarchy which created the derivatives bubble—has insisted that the system was not in danger.

What the *Sunday Telegraph* statement signals, is that the British Establishment insiders know that the conditions are ripe for a major international financial crisis to erupt at any moment. It is an admission, from the heart of the beast, that LaRouche was right, and that all of their vaunted regulatory and market-discipline measures, which were supposed to prevent such a crisis, have failed. It is an admission, that the system is out of control.

LaRouche's Ninth Forecast

"The presently existing global financial and monetary system will disintegrate in the near term," LaRouche warned in his Ninth Forecast, published in *EIR* on June 24, 1994. "The collapse might occur this spring, or summer, or next autumn; it could come next year; it will almost certainly come during President William Clinton's first term in office; it will occur soon. That collapse into disintegration is inevitable, because it could not be stopped now by anything but the politically improbable decision by leading governments to put the relevant financial and monetary institutions into bankruptcy reorganization."

Chain reaction

The *Sunday Telegraph* points to the danger of a "reverse leverage" collapse, a British fund manager told *EIR*, comparing the situation to a volcano. While only agreeing to talk on background, "precisely because the situation is so risky, anything you say, can have an effect," the fund manager did stress the importance of the remarks Federal Reserve Chairman Alan Greenspan made in Florida on Feb. 21.

"There have been occasions when we have been on the edge of a significant breakout," Greenspan said to a meeting of the Atlanta Fed in Coral Gables. Thus far, he said, the Fed's response has "turned out to be adequate to stem the atomic erosion."

"We can all guess what he meant by the term 'atomic erosion,' " the fund manager said.

"It is perfectly understandable that such an article would be published in a newspaper that is close to the British Tories," an influential European told *EIR*. "They fear that a major financial crisis could be an added element in pushing the Tories out of power, between now and Britain's general election," scheduled for early May. "My reading of that article," the source continued, "is that there is a fear among such people that such a crisis could occur at any time, and they want to avoid creating the circumstances for it to happen so soon."

"It's a cry, an appeal for some kind of regulation of all deregulated markets," the European source stated. "Of all the markets, the derivatives one is the most deregulated. In fact, I wonder where they ever got this figure of $55 trillion. It is very hard to come by figures for derivatives trading." The article reflects a "general unease about the financial markets, that we are seeing around the world," he said. "The most public indications of this, are the statements of Greenspan, who clearly is worried about dangers in the markets. Obviously, people feel there is a need for some kind of regulatory mechanism."

"There is no question that Mr. LaRouche was the first to warn us of this problem, some years ago," responded a Japanese Finance Ministry official, briefed on LaRouche's reading of the *Sunday Telegraph* article. "He was right, and we were wrong," the official said of LaRouche. "This is why we've more recently made every effort to warn Japanese banks against derivatives," he said, "and, in fact, the ratio of derivatives to total assets of Japanese banks, is the lowest ratio for banks of any major banking nation in the world. . . . But you are right, we're just talking about different stages in the disease of 'financial AIDS.' "

"The Tokyo meeting last week [March 4] of the Group of Six Pacific financial officials was called for precisely this