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Euro Currency Is Being Trashed in Order To Prop Up Wall Street

by Lothar Komp

EIR has documented the birth defects of Europe's new artificial, supranational currency, the euro, often enough over the past months. But the current monetary crisis which is now storming over Europe, has nothing whatsoever to do with the problems of the euro per se. Indications are accumulating that a calculated Anglo-American financial assault is under way, with the sole aim of diverting investors' capital from Europe into the U.S. stock markets, since that might be the only way to avoid a financial crash in the midst of the Presidential election campaign. This kind of cannibalistic maneuver is typical of the last phase of the collapsing world financial system.

On April 19, the U.S. Commerce Department published new and shocking figures on the U.S. trade deficit. While the deficit had already reached a historic record level of $27.4 billion in January, it increased again in February to $29.2 billion. Pure commodity trade, without counting services, was $36.0 billion in the red in February, 42% more than a year before. With imports rising unchecked to $113.4 billion in February, U.S. exports are dropping, especially in the categories of civilian aircraft, telecommunications equipment, and machinery. The U.S. trade deficit exploded in 1999 by 60% to $268 billion, and in pure commodity trading, the deficit was even $347 billion. In all likelihood, the year 2000 will yield a deficit which far outstrips that.

According to the usual textbook thinking, the publication of such figures is associated with a predictable effect on foreign exchange markets, namely, it exerts downward pressure on the national currency. But something miraculous happened on April 19: Instead of falling, the dollar shot up to a new record peak against the euro. The euro went into a tailspin with respect to the dollar, the yen, and the pound sterling, and the dive accelerated during the following days. In the week after Easter, the euro was positioned at 21% below its dollar value at the beginning of 1999. With the fixed exchange rate of the euro and the German deutschemark, the latter plunged to its lowest level in 14 years to the dollar and British pound. With respect to the yen, the euro lost 26% since the beginning of 1999, although the Japanese economy is officially said to be in recession, and has just gone through two quarters of negative growth. On April 27, the European Central Bank hiked its interest rates by a quarter percent, but the euro plunged again immediately following that announcement.

In the meantime, western Europe is in the worst monetary crisis since the events of the fall of 1992 and summer 1993. At that time, international currency speculators conducted a weeks-long currency war against Europe and burst the European Monetary System (EMS), which had been holding together successfully up to that point. Leading the pack of international speculators was British agent of influence George Soros, a portfolio manager for Queen Elizabeth II. The City of London itself steered the assault against the British pound sterling and the Italian lira, in order to wreck the EMS, and to begin the destruction of Italy's postwar political and economic institutions. (See article in this issue, p. 54.) Since the finance ministers and the heads of the central banks only considered, but did not implement, controls on capital transactions, they had nothing with which to counter the immense war-chest and leverage of the financial derivatives which the speculators were deploying against them. When a series of interventions on the exchange markets, in sums of two-digit billions, proved ineffectual, Britain and Italy left the monetary union, the margin of allowed exchange deviations for all the remaining member countries was drastically enlarged, and a process of replacing national currencies with the euro was set into full swing, in line with the Maastricht Treaty.

Today, however, currency speculators have set their sights on the euro itself. Bankers, finance ministers, and the economic media concede rather openly that they are "very surprised" by this development, or, as the *Frankfurter Allgemeine Zeitung* put it, that the "exchange-rate weakness of the euro cannot be satisfactorily explained with the usual rationale." And in fact, the recent collapse of the euro has nothing whatsoever to do with economic prospects or "slow reforms" in Europe. Even the inherent problems of the artificial euro currency currently play at best a secondary role. Instead, the easily incited gaggle of speculative funds and exchange traders, who behave like animals, following their

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herd instincts, are once again functioning as useful instruments for special, geopolitically motivated operations.

Financial triage

But this time, what is at stake is not some shenanigans on some proxy battlefield of the world economy, such as in 1992-93 in Europe or in 1997-98 in Southeast Asia. This time, the whole kitty is at stake: the short-term rescue of the largest speculative bubble in human history, which, if it pops, could bury the entire world financial system under the ruins of its collapse. In an attempt to postpone that cataclysm, no matter what the cost, at least until the end of the U.S. Presidential campaign, the crisis managers—with U.S. Treasury Secretary Larry Summers and Federal Reserve Chairman Alan Greenspan leading the pack—are pursuing a policy of cannibalistic destruction within the world financial system. And Europe's currencies have to be beaten to a bloody pulp.

What both sides are choosing to overlook, is that there does exist a sane solution to this crisis: the New Bretton Woods reorganization of the bankrupt financial and monetary system, which Lyndon LaRouche has proposed. That would mean putting the speculators out of business, shutting down the enormous financial derivatives market, and restoring fixed parities among currencies. It would also mean shifting the resources of sovereign national banking systems toward industrial and agricultural production, and the development of infrastructure. This, the central bankers, and the financier oligarchy generally, are rejecting.

In order to survive, in the current insane speculative mode, the U.S. economy and the U.S. stock markets need a continuous flow of fresh capital from abroad, and the volume of flow that is needed can be gleaned from the record high U.S. current account deficit: $336 billion last year. Last year alone, a net $150 billion left Europe for the United States. The maintenance of this flow of capital from Europe and Asia requires that alternative investment opportunities in other parts of the world be undermined. The U.S. government has thus exerted immense pressure on the government of Japan, to continue its zero interest rate policy introduced in the summer of 1995, despite the fact that the ostensible purpose of Japan's policy—stimulation of domestic demand—has not shown the slightest hint of success. The dramatic events on the financial markets since mid-March made another expansion of the flow of foreign capital to the United States necessary, so there is hardly anything more obvious than a speculative assault on the already weakened euro to achieve that desired effect.

The most recent drop of the euro to the dollar, the pound, and the yen began immediately following the spring meetings of the Group of Seven, International Monetary Fund (IMF), and World Bank, together with finance ministers and heads of central banks, on April 15-16 in Washington. Just prior to that meeting, the U.S. Nasdaq new-technologies market went through the worst collapse in its history, losing one-fourth of its market value within five trading days, from the April 10-14. Over the same week, $2 trillion of U.S. market capitalization disappeared. Topping it all off, was an avalanche of margin calls and forced selloffs of stocks bought on credit. Fear of a "Black Monday" on April 17 dominated all the reports in the weekend media.

The assembled finance ministers and heads of central banks in Washington put on a public show of unity and confidence. But, as the German edition of the *Financial Times* reported on April 17, there was a bitter altercation over a proposal made by Larry Summers to emphasize the euro's weakness in the G-7 final communiqué. "U.S. Treasury Secretary Larry Summers had insisted in vain already in Tokyo, that the weakness of the euro should be cited as an indication for fundamental imbalances in the world economy. The three G-7 members, Germany, France, and Italy, rejected that proposal, and pointed to the inner strength of the common currency. In their view, mention of the euro in the communiqué would be tantamount to admitting that there were problems with the new currency."

The following week, it was chiefly London and Wall Street funds and exchange traders who began the attacks on the euro, which then, within a few days, dropped from 96 cents to 91 cents. Continental European diplomats as well as financial experts in London, asserted to *EIR* that it is an open secret on the markets that the current punitive action against the euro is actually a desperate "charm offensive" on behalf of the dollar, because the battered U.S. stock market urgently needed new liquidity. The hypothesis was being raised, that certain London-directed, U.S.-linked central banks, including those of Britain, Canada, Australia, and several Latin American countries, could be directly involved in the operation, spearheading the assault on the euro.

Norbert Walter, the chief economist of Deutsche Bank provided a taste of the anger in west European financial circles. On April 26, he said the Europeans ought to take a stance of threatening the U.S.—meaning Larry Summers—and "pushing through the relocation of the IMF from Washington to Paris," or else using the $250 billion obsolete currency reserves of European central banks to make an impression "on international speculators." Echoing Walter, the chief economist of HypoVereinsbank, Martin Hoefer, said the time had come for a political intervention, because the situation had deteriorated into a "real crisis of the exchange markets."

In France, fears are spreading about a possible wave of bankruptcies in the banking sector, because the French are highly exposed in euro investments, and can not handle another drop of the euro. But now, even these problems are considered peripheral.

The mutual slaughter of the operators on the financial markets highlights the fact that the final phase of the systemic collapse of the world monetary and financial system has begun.