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EIR Economics

European leaders demand defense against speculators

by Richard Freeman

On Aug. 4, the *New York Times,* with most uncharacteristic candor, published as its lead business story an article with the startling headline, "Turmoil in European Markets Is Made to Order for Trading by U.S. Banks." The article stated plainly that the currency turmoil is great for American banks' derivatives and currency trading profits.

This article appeared only 48 hours after the French franc plunged below the allowable floor value parity within the European Monetary System of 3.43 francs to the deutschemark. On Aug. 2, exhausted European ministers changed the range of the trading bands of the EMS's rate mechanism, within which currencies move, expanding it from 2.25% to 15%. This followed three tumultuous weeks, in which speculators pummeled the French franc, forcing France's central bank to intervene. It was revealed on Aug. 14 that the Bank of France had spent 305 billion francs during the weeks of currency turmoil, in an unsuccessful effort to defend the currency's value. The central bank exhausted substantial reserves of 125 billion francs, and now has a negative reserve position of 180 billion francs, which it owes primarily to the German Bundesbank.

During the first week of August, the six largest derivatives-trading American banks—J.P. Morgan, Citibank, Chemical, Chase Manhattan, and Bankers Trust, all of New York, and Bank of America of California—announced that they had made $900 million in profits during the second quarter of this year from derivatives trading, an all-time record, representing 40% of their overall profits for the quarter. Thus, in effect, the Aug. 4 article in the *New York Times,* which speaks for Anglo-American finance, was a celebration of the victory of commercial bank speculation against the EMS nations. The *Times* quoted Marcus Meier, the co-director of Morgan bank's trading group, saying that if economic and monetary policy could ever be "perfectly coordinated"—that is, if the EMS system were ever to work—then Morgan bank would have to shift business out of currency trading.

But the Anglo-American bankers have gone too far. The very cause of their public celebration, the temporary shattering of the EMS, may have woken up European heads of government to take long overdue action against speculation.

Europe speaks out

It should be said that the EMS, though badly hit, is not by any means dead: Its survival will depend on the next actions of Europe's leaders. Nor is Europe the only area to be concerned about speculation, as remarks by the Japanese make clear.

Not surprisingly, the most stinging attack against speculation came from the French government, led by conservative Prime Minister Edouard Balladur. In a television interview, he said: "We must reform the world monetary, financial, and credit [systems] and act so that the prosperity of nations is protected from purely speculative movements. It is a sort of duty, both economic and moral, that weighs upon all civilized nations. There are, all over the world, a group of speculators who have considerable means and who would like [a situation] in which all the currencies of the world would float as much as possible, in order to be able to make the most profits. . . . These are the excesses of liberty. I am a [free-market] liberal, but I have always said that liberty must be ordered."

Balladur's call was taken up the next day by Belgian Finance Minister Philippe Maystadt. In an interview Aug. 14 in *La Libre Belgique* newspaper, he called for "weapons of defense" against speculation. Speculation, Maystadt said, "is a type of transaction which does not know any rules,

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no costs, and no taxes." Maystadt alluded to "safeguards" against speculation that should be adopted as Europe returns to the EMS's rate mechanism. He proposed that such safeguards be taken up at the European Commission meeting in Brussels on Sept. 13.

A worried *Financial Times* of London on Aug. 14 elaborated that Maystadt's use of the term "safeguard" most likely refers to Article 3 of the European Community's capital movement directive of 1988. Under this article, member states of the EC, acting collectively or individually, can take protective measures. "Where short-term capital movements of exceptional magnitude impose severe strains on foreign exchange markets and lead to serious disturbances in the conduct of national monetary and exchange rate policies." The mechanism clearly envisages exchange and/or capital controls, whereby a nation strictly limits the amount of currency and/or capital that enters and leaves the country.

The *Financial Times* went on to quote an unnamed European Community official who warned that reimposing capital controls "is like using a nuclear weapon." Quite right.

The issue of a derivatives tax

The comments of France's Balladur and Belgium's Maystadt struck a nerve. By Aug. 18, in an interview with the German daily *Frankfurter Allgemeine Zeitung,* an official of Ireland's Finance Ministry proposed a tax on foreign exchange transactions. At this point, the defenders of speculation on both sides of the Atlantic Ocean denounced the tax in the strongest terms. It should be stressed that a good part of the behind-the-scenes opposition against a derivatives tax is directed against the founding editor of this magazine, Lyndon LaRouche, even though his name has not been cited yet by either City of London or Wall Street press. On March 9 of this year, LaRouche proposed a beautifully simple way to puncture and wipe out currency and derivatives speculation: a 0.1% tax, paid by the seller, on the notional value of each derivatives or currency transaction. This proposal has circulated widely among policymaking circles in the United States and Europe.

In fact, the attack on a currency/derivatives trading tax started even before the Irish Finance Ministry floated its trial balloon on Aug. 18. On Aug. 17, the *Financial Times,* in a front-page article entitled "Speculators as Scapegoats," warned that a "global tax on foreign exchange transactions" is "infeasible in practice and questionable in theory." It also called capital controls "perverse."

Japan joins the attack

As the $1 trillion a day speculative trading in currencies forces nations to take sides, Japan joined the fray on the side of the Europeans. On Aug. 12, Japan's newly elected prime minister, Morihio Hosokawa called for "international intervention" to calm the currency markets. The Japanese yen's problem is different than that afflicting the French franc recently, and the Italian lira and British pound last September. Whereas the other currencies fell, the Japanese yen, under speculative pressure, is rising uncontrollably. Since the start of this year, the yen has soared nearly 20% against the dollar, slashing the yen value of overseas sales of Japan's large trading companies. The Sony group, for example, reported that its overseas sales for the first quarter, because of the appreciation of the yen, were cut in half. According to Japan's Economic Planning Agency, only two-fifths of Japanese companies say that the currency's appreciation has led to lower prices for imported goods.

On the evening of Aug. 18, Japan's new cabinet held an emergency meeting to decide what to do to halt the rise of the yen. Before the meeting, there were unsubstantiated rumors on the Tokyo foreign exchange markets, that Japan planned to impose exchange controls. At the emergency meeting, Japan's government decided to establish an "emergency council" to monitor the situation, but took no further action.

Decisive moves are needed

Many of Europe's government officials are on holiday until the end of August; but come September, they will have to make serious decisions. Europe's leaders cannot limit themselves to verbal assaults against its global speculative enemy, but not back the words up with firm action adopting a derivatives/currency trading tax and/or exchange controls; otherwise, the enemy will devour them.

This current intense round of speculation during July and the first days of August, involved, of course, superspeculator George Soros, but Soros did not play the dominant role. Soros is just a frontman for the Rothschilds, albeit an important one. To shut down the speculation, governments will have to take on the Big Six U.S. commercial banks, as well as the Goldman Sachs and Morgan Stanley investment banks in the United States, and such banks as Hongkong and Shanghai, Midland and Hill, and Samuel in Great Britain, and Crédit Lyonnais and Banque Paribas in France.

Currently, France has lowered its 24-hour lending rate to 9.25%, but held its 5-to-10-day lending rate at 10%, in an attempt to attract funds into the country to replenish its depleted reserve position. With unemployment officially at 11.6%, and heading toward 12.5%, France, the world's fifth-largest economy, cannot afford to maintain high interest rates. To bring rates down, it must crush the speculators, and as French President François Mitterand emphasized Aug. 16, France must upgrade its alliance with Germany, which is the key to European development. Such an alliance must be pivoted around the Productive Triangle infrastructure development plan for Eurasian development, formulated by LaRouche.

Either that is done, and Europe prospers, or the next time the New York banks report their profits from currency trading, the European financial system may not exist.