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financial dailies in recent days. Most notable has been the conservative Zurich, Switzerland bankers' daily *Neue Zürcher Zeitung.* For more than three weeks, the paper has run article after article with alarmist titles, such as "Warning of a Fall in the Stock Markets!" or other articles about phenomenal U.S. mutual fund growth, referring to the fund strategy as being, typically, "short-term and high-risk."

The Swiss banking community, one of the more sophisticated internationally, knows quite well the nature of the new speculation danger which threatens Europe's markets. The Zurich paper on Sept. 3 warned that the entire edifice of international speculation from the U.S. mutual funds was predicated on the difference in international interest rates and profits tied to such interest rate levels. "A 1% increase in interest rate levels of the U.S. 30-year Treasury bond," wrote the *Neue Zürcher Zeitung,* "would translate into an estimated liquidation of some 12% of investments in mutual funds. This in turn would translate into a fall of 455 points in the Dow Jones Industrial Average."

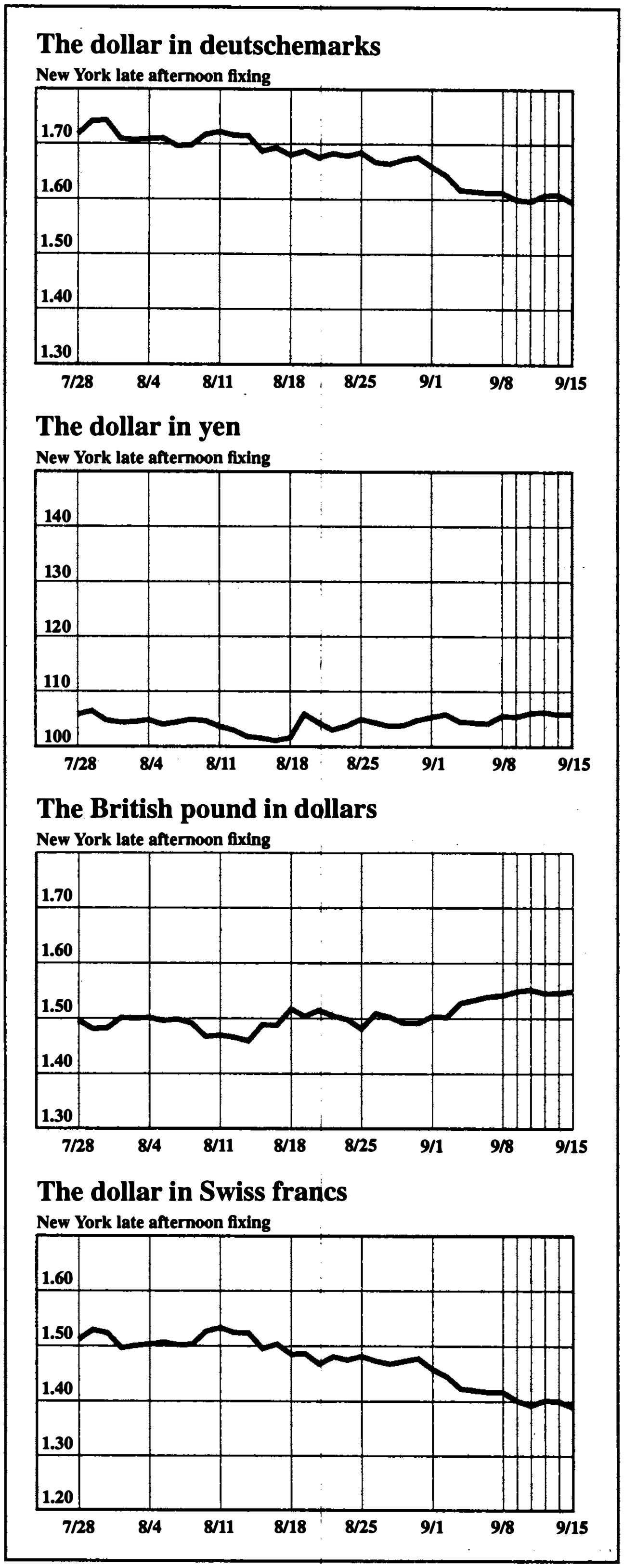
Detonating a panic

Today the Dow is at a high-water mark above 3,600, so the fall would be more than 12%. But this would not occur in isolation, and with the highly leveraged world of today's stock index futures and other derivatives, such a fall would detonate a panic selloff unlike even that of October 1987 when the Dow lost 30% in one day. Similar potential for a crash obviously now is building in the overheated European stock exchanges.

In this connection, a new study from the International Monetary Fund, "Monetary Policy, Financial Liberalization and Asset Price Inflation," is most remarkable, not the least because it comes from an institution whose policy for the past decade has been to promote the most destructive "free market" deregulation of national economies in the Third World and eastern Europe. The IMF study is sharply critical of the process of financial market deregulation of the past decade, asserting that governments, notably that of the United States, were "not fully prepared for the consequences of deregulation, and thus ignored until it was too late the fact that their deregulation of financial markets triggered an "asset price inflation" in Japan, North America, and much of Europe, including notably in real estate in the United Kingdom and in Scandinavia.

Central banks, says the IMF study, focused on traditional indicators of "inflation" which took no account of "asset price inflation," thus failing to halt the growth of the worst speculative bubble in history in real estate, stocks, and bonds. "The speed and scope of financial deregulation resulted in excessive risk-taking . . . [creating] systemic weaknesses arising from the insolvency of financial institutions." Certain sober European observers clearly worry that derivatives have brought the excesses of the U.S. financial system during the 1980s into Europe with a new vengeance.

Currency Rates



The dollar in deutschemarks

New York late afternoon fixing

The dollar in yen

New York late afternoon fixing

The British pound in dollars

New York late afternoon fixing

The dollar in Swiss francs

New York late afternoon fixing

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