In March, the Granite Partners hedge funds run by David Askin failed. Askin specialized in buying the "toxic waste" left over when mortgages are turned into collateralized mortgage obligations, or CMOs. The liquidation of the Askin holdings—whose value had been decimated by rising interest rates—threw the entire CMO market into a tailspin, causing hundreds of millions of dollars of losses to holders of mortgage derivatives, and some $3 billion in losses at Kidder Peabody, which did not survive the year.

The losses continued to mount throughout 1994, culminating in the December bankruptcy of Orange County, California, whose $2 billion loss signaled a phase change in the derivatives collapse. The crisis shifted to Mexico, where it was temporarily calmed by an emergency $50 billion rescue package, then moved to Asia, where it brought down the British Empire flagship Barings Bank.

As of this writing, more than $35 billion in derivatives losses have been reported, including $13.8 billion in losses to financial institutions, $12.1 billion in losses to corporations, and $9.3 billion in losses to governments. These losses are just the tip of the iceberg; the worst is yet to come.

Criminal enterprise

The derivatives market is essentially a criminal enterprise designed to loot people and their governments in order to save the bankers, in much the same way that casinos loot the public for the benefit of the mob. It isn't a game, and the bankers wouldn't be doing it if it weren't profitable. But that profit is illusory. In the world of derivatives, the profits are "paper" profits, mere pieces of the bubble, while the losses are real.

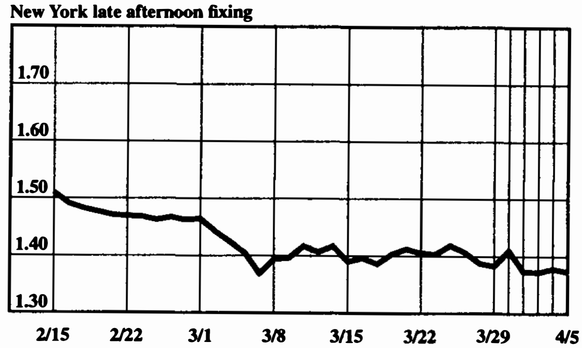
Take Orange County, California, where the county investment fund reported hefty profits over the past few years. These profits have evaporated, leaving 187 government entities and over 2 million residents to deal with the losses. The residents of Orange County face higher taxes and fees, reduced government services, and a lower standard of living, courtesy of their county's foolish gambling in the derivatives casino. Industrial companies have been looted, as have their employees, through derivatives; their employees pay the price through layoffs, salary cuts, longer working hours, and other forms of austerity. Our world has become a meaner place, as more and more people are sacrificed to the bubble.

The whole thing is a racket. First the international bankers induce the governments to abandon fixed exchange rates for currencies, then they manipulate the values of those currencies in order to profit from the fluctuations. Having caused the fluctuations, the bankers then create derivatives to sell to their customers, to help them protect themselves against losses due to the fluctuations. It's quite similar to the type of extortion racket favored by organized crime: Throw a rock through somebody's window, and then sell them "insurance" against vandals. This is a system which needs to be put into bankruptcy reorganization.

Currency Rates

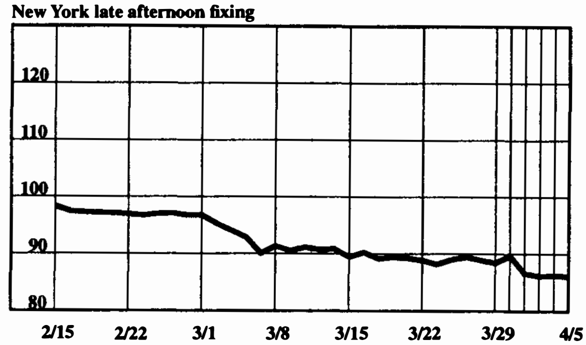
The dollar in deutschemarks

New York late afternoon fixing



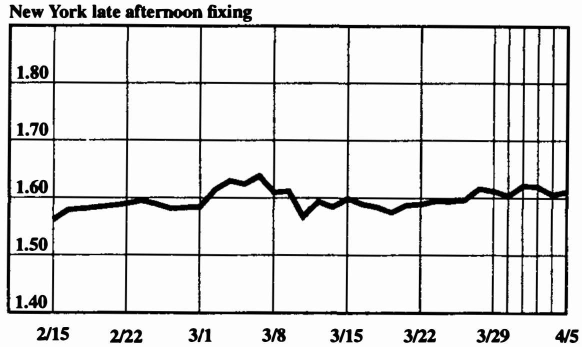
The dollar in yen

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