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Halifax summit becomes a focus of economic debate

by Chris White

With the June 15-17 meeting in Halifax, Nova Scotia of the heads of state of the Group of Seven nations fast approaching, the bureaucratic caste which runs the world financial system is out in force to spread its view of what ought to be done about the global financial crisis.

The summit has become such a focus for two principal reasons: First, last year's event, held in Italy, adopted a proposal from U.S. President William Clinton that the functioning of the so-called "international institutions," namely, the World Bank and the International Monetary Fund, be subject, in this, the 50th anniversary year of their founding, to review; and, second, because of what is becoming, daily, more undeniably evident: that the world is staggering deeper into a crisis which none in present official leadership positions have addressed. In consequence, "the functioning of the international financial system" was added to the agenda of the upcoming summit.

So we find, issued on May 17 from, of all places, Windsor, on the banks of the Thames, moth-eaten and scorched seat of the U.K. monarchy's very own theme park, a declaration intended, in the presumption of its authors, to lessen the risks of financial market crises. Market regulators representing 14-16 countries gathered at a hotel near Windsor Castle, at a conference organized by the U.S. Commodity Futures Trading Commission Chairman Mary L. Schapiro and Andrew M.B. Large, chairman of Britain's Securities and Investments Board, for the purpose.

Schapiro, according to her own description, worked "night and day" after the February collapse of the 200-year-old Barings Bank, to collaborate with her counterparts to "coerce" other countries and financial institutions to accept Barings accounts, in order to "preserve liquidity" and prevent "systemic" breakdown.

The signatories to the "Windsor Declaration" agreed to promote initiatives to deal with similar crises.

The initiatives include, according to the paraphrase supplied by the *Washington Post:*

- Establishing for every regulating agency a "crisis team," to provide other regulators with quick information at any time of the day or night;
- Segregation of client money from brokerage funds on exchanges and at brokerage houses;
- Making known bankruptcy laws in each market, so that speculators will know how difficult it may be to get their money out if their broker fails;
- Increased surveillance of big risks taken by market players;
- Better disclosure of how well customer money is protected by foreign rules and regulations when it ventures abroad.

It won't work

It is actually kind of pathetic, isn't tit? The new procedures, thought necessary to prevent repetitions of the last crisis, provide an outline both of what the bureaucrats think the next crisis might be, as well as a foretaste of what won't work.

One of the arguments put forward, about 10 years ago, against proposals for a Strategic Defense Initiative, was that monitoring systems would never be sophisticated enough to discriminate, in the case of an all-out nuclear assault, between live warheads, and dummies or decoys. It seems that the world's financial regulators are now on the verge of attempting a financial equivalent of this monitoring aspect of the SDI, in order to continue to maintain that they are capable of dealing with things by the traditional administrative means. One might wonder whether TRW, which used to be one of the contractors on such SDI-type warning systems, subsequently to move into financial service software provi-

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sion, is not putting its former expertise into service on this account.

Suppose it were possible to achieve real-time, global monitoring of every transaction in every class considered potentially crisis-bearing. Would that do anything to affect what is already under way? Absolutely not. What the assembled regulators were addressing was the question of how to deal with the risks posed by the growth of derivatives, leveraged bets on the direction of financial flows, or the pricing of nominal asset classes.

Their discussion, as Lyndon LaRouche pointed out in a speech delivered in Washington, D.C. on May 17, is part of a brawl going on around the world between groups espousing three different views of the developing crisis: the view that nothing need be done at all; the view that administrative means alone are capable of dealing with any problem that might come up; and the view that the crisis is in fact systemic, that any measures taken which do not address that, will only make things worse.

It's obvious where the global regulators stand. Apart from the Windsor Declaration, such views were presented on May 11 at a symposium of the Berlin Stock Exchange. There, U.S. economist and Nobel Prize winner Merton Miller of the University of Chicago squared off against Jochen Sanio, vice-president of Germany's Federal Bank Supervision Agency.

Miller, one of the "leading" theoreticians of derivatives and promoters of their expansion, rejected any further derivatives regulation. "A collapse of the international financial system is very, very unlikely," he stated. "There is no serious danger of a collapse of the financial system due to derivatives." In respect to the derivatives disasters of Metallgesellschaft, Barings, and Orange County, he had the nerve to say that none of these had caused any damage for the real economy, but were merely zero-sum-games among speculators.

In response, Sanio stressed the increasing danger of a chain reaction that could threaten the international financial system. "If one of them [derivatives players] fails, the network of derivatives contracts would be put under a severe stress test and could eventually break apart." Therefore, he insisted, the usual methods of banking supervision will not be sufficient to control future markets.

In the case of "crash-like turbulences," the bank supervision agencies would find themselves in the big trouble of establishing quick crisis management, Sanio stated. "Behind the huge trade volume, a new dangerous type of systemic risk is emerging in a murky way." Derivatives are being used with more and more speculative purposes. Therefore, "in recent times, the necessity for regulating action has become more than big."

Speculators in red suspenders

The regulators are not the only ones with something to say about all this. The fight is also emerging politically, but still within the realm of "administrative measures."

The French business newspaper *La Tribune* on May 15 called for a 4% tax to be imposed on financial speculation. "Where is the monetary voice of France?" asked Philippe Simonot in an editorial. Lamenting the abysmal level of the present monetary debate in France and among the candidates in that country's recent Presidential elections, Simonot recalled those wonderful days when Gen. Charles de Gaulle was trying to reform the international monetary system, introducing new currencies and proposing a return to the gold standard. Simonot proposes that France "reopen the debate by studying seriously the proposal made 17 years ago by James Tobin, Nobel Prize winner in economics. That is, the imposition of a tax on capital flows. In essence, we should clog up the functioning of the infernal machine which is moving some $1 trillion per day around the world. Such a tax could indeed handicap speculation in the short term without damaging long-term investments. In fact, a tax of, say, 4% would mean that a round trip dollar/yen speculative trip would cost speculators 8%, while in a 10-year period it would only amount to 0.4% per year. At the European level, such a tax could undoubtedly be useful."

The same kind of views are put forward in Canada. On May 15, the Toronto *Globe and Mail* previewed the Halifax summit in an article by Edward Greenspon. The lead headline of the issue read, "PM Urges Monetary Sovereignty." The article reports that international financial instability is on the table at the Halifax summit, which Canadian Prime Minister Jean Chretien will host, and notes that Chretien is pushing for a "thorough discussion of the international monetary system—from the role of the International Monetary Fund to the activities of 25-year-old speculators in red suspenders."

The article claims that Chretien has dropped his proposal for a tax on speculation, claiming that it would be unworkable because some countries would become havens for speculators. The article then states:

"Long-time observers of the Prime Minister say that for him the issue really is sovereignty: Will nation-states have the final say over their economic and social policies, or will the proverbial 25-year-old trader in red suspenders? . . .

" 'The question is, who has more power to effect changes in government policy—the IMF, democratically elected parliaments, or Moody's,' said Sylvia Ostry, a former top bureaucrat who has met with Mr. Chretien as part of his summit preparations." They both currently think it's Moody's, and that that's not acceptable.

Similar views were expressed in a May 14 television appearance by the President of France's National Assembly, Philippe Seguin, who said that the role of central banks has to be redefined, in view of the economic crisis.

This kind of discussion will surely become more prominent as the Halifax summit approaches. And, given the deepening international crisis which provides the backdrop for the summit, it will contribute to making that summit a turning point, of sorts, in the crisis process.