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Europeans denounce British currency warfare

by Chris White

It is now a little over two weeks since John Major's British government triggered a new, escalated round of currency warfare in Europe, when it lowered interest rates. In that time, Ireland's punt has been devalued, Denmark's currency has come under increasing attack, and once again, the relationship between the French franc and Germany's deutschemark, the core currencies in Europe's Exchange Rate Mechanism (ERM), has been targetted.

What has been ignored in the United States, even to the point of hysteria, is the increasingly belligerent reaction of some of Europe's political leaders to the financial and economic warfare against Europe which has been under way since last July's Munich summit of the Group of Seven (G-7) nations, and more especially, since the Sept. 15, 1992 devaluation of the British pound.

On Feb. 1, French Finance Minister Michel Sapin denounced the City of London as "an ally in the speculative assault against the French franc." On Feb. 2, German Chancellor Helmut Kohl, in a speech delivered before the European Parliament in Strasbourg, France, said that "certain parties are causing turbulence in order to torpedo the European Exchange Rate Mechanism."

The same theme had been addressed by French Prime Minister Pierre Bérégovoy, who has denounced Washington's undermining of the European Monetary System (EMS) as "part of a U.S. drive for global hegemony," and by Jacques Delors, the president of the European Commission, who, on Feb. 4, denounced "speculators who are virtually running things," and who on Feb. 11 launched an attack while in Brussels on "wildcat" devaluations and "acts done at the drop of a hat." At the annual Davos, Switzerland World Economic Forum, former French Prime Minister Raymond Barre told *EIR* that the aim of recent attacks on the ERM was to destroy the relationship between France and Germany, and that such attacks were "inspired by political considerations."

Plot by 'Anglo-Saxon circles'

On Feb. 10, Barre told London *Financial Times* correspondent William Dawkins that currency markets will launch an unsuccessful attack against the French franc next month, during the French parliamentary election. He said that the attack will be inspired by "Anglo-Saxon" financial institutions unwilling to see the creation of a European currency which could rival the dollar. "I'm not among those who see plots everywhere. It's not at all my temperament. But I really think there is a will in a certain number of economic and financial circles not to promote—in fact to do everything to prevent—the creation of European monetary and economic union, and in consequence to blow up the EMS."

The theme was picked up again by Delors during his Feb. 11 press conference. "I have no information, but that does not mean to say that others have no information. I cannot confirm or deny it," he said. Barre's remarks provoked an editorial reply from the *Financial Times:* "Many belabor the U.K. for 'competitive devaluation,' or 'Anglo-Saxon circles' for undermining chances of economic and monetary union. This search for scapegoats is more than a pity; it is a mistake."

The *Financial Times* editors have their own view of where responsibilities lie: "Sterling was forced out of the ERM because its parity proved incompatible with economic recovery. It is for the same reason that the much-condemned speculators have doubted other parities within the system. What made these parities inconsistent with tolerable economic performance was German economic policy, on the one hand, and the determination to eschew a degree of exchange rate flexibility, on the other."

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Italian newspapers, like *Corriere Della Sera,* have placed the blame squarely on the Clinton administration, and, not gone unnoticed has been the firing of Goldman Sachs as adviser to the Italian government in arranging the fire-sale privatization of whole chunks of Italy's state-controlled industries and financial institutions. Through Economic Council head Robert Rubin, Goldman Sachs is well represented in the financial and economic counsels of the new administration.

Exporting money

The charges from the continent serve to put the question of "Anglo-Saxon" international monetary policy back into the spotlight, in a useful way. People still tend to think about the relative performance of currencies in ways shaped by the ways economies functioned 20 and more years ago. In that view, to devalue one's currency is to seek to cheapen the price of one's exports against those of a competitor. There is a relationship, more or less direct, between the cost of producing a nation's output, and the value of its currency. Since Britain, which refuses to sign on to the "social charter" of the unified Europe, is also stealing work places from Europe, by underpaying labor relative to costs incurred elsewhere, this type of thinking still has a certain attraction. But it ignores what has happened to international currencies over that same time period, as the world "progressed" from fixed to floating exchange rate regimes, to the "global market place" which has increasingly dominated since about 1989. The relationship between output and cost price structures has been swamped by the growth of the $1 trillion per day currency and bond markets.

What happens, for example, if a country's major "export" products are money, or financial instruments and activities? Here come now today's Brits, with their City of London, and their $300 billion per day traded in who knows what. By April, they will have a budget to finance, and a deficit of some £50 billion. Since the earnings of more than half of the companies listed on the London stock exchange are drawn from foreign currency-based activities, since British finance houses built up significant holdings of German government bonds, while the pound was floating in the 2.75 to 2.95 range against the deutschemark, now Germany gets the privilege of helping to refinance British debts as the proceeds of foreign speculation are translated back into debased British currency, whether that be done directly, or indirectly.

Politically, the Anglo-American world can be treated as "one," because, allowing for factional disagreements and so on, it acts like that. Financially, it is one power, with two currencies. The two currencies move inversely against each other. When the dollar is "down," as it has been, relatively, since the Plaza agreements of 1985, the pound is "up," allowing for fluctuations which chart out as more or less regular pulses. As the currencies of the two countries move inversely against each other, so do the bonded debts of each country move inversely against the currencies, usually. When the dollar is relatively "down," yields on dollar-denominated debt are relatively "up," and prices "down." So the whole moves against the other two principal currencies and government debt structures, the mark and the yen.

This is the core arrangement in the system of floating exchange rates which was adopted after Richard Nixon severed the dollar's relationship to gold on Aug. 15, 1971, and expanded after then-British Prime Minister Margaret Thatcher eliminated exchange controls on the pound sterling in 1978, and through the first Reagan administration, and then the second's increase in U.S. government indebtedness, from under $1 trillion, to the over $4 trillion now registered.

The 'derivatives' bubble

This arrangement is at the core of the speculative innovations associated with the instruments called "derivatives," said to be systems of hedging against the risks incurred in particular currency, or bond, or so-called commodity trading.

The use of derivatives has been the subject of much attention among the European circles that now openly denounce Anglo-American financial warfare against their currencies and economies. The role of George Soros, the billion-dollar "winner" from last summer's turmoil, is cited in this respect. But, if a unified financial command runs one system through two divisions, which are set up so as to move inversely against each other, there is no risk—at least within the goldfish bowl assumptions of the system itself—as long as the other participants agree to "play by the same rules."

The term "derivatives" is grossly misleading. If the whole depends on floating currencies, and marketable sovereign debt, then the derivatives are in fact primitive, because they drive all else, and because "competitive devaluations" are only one weapon in the arsenal. Now U.S. banks have built up around $700 billion worth of holdings of U.S. government debt. If those holdings are presented to the Federal Reserve, in exchange for cash, as they can be, there goes the United States. If the dollar begins to go "up," much above where it is now against the mark, the top end of the range of the last few years, it will be an "inducement" to have especially Germany and Japan buy and borrow some of those holdings from the U.S. banks, to then present the government obligations to the Federal Reserve in exchange for dollars, which will drive the dollar yet higher. The Japanese are now being arm-twisted to go down that road again, as they did from 1985, and it will not be long before others are subject to the same treatment. Then the ERM becomes the target of "competitive revaluation" of the dollar, as the economic collapse of the United States is exported onto the backs of allies again.

The point being that Maginot Line defenses against devaluations can be quite readily swamped, as long as the floating rate currency and bond regime is tolerated. Scrap the floating rate system, and speculation and derivatives evaporate, while the world's real problems, how to organize a real recovery, can be put on the agenda.