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European press admits: LaRouche called the shots

by Richard Freeman

"The City's worst nightmare, a meltdown provoked by a crisis in derivatives markets, suddenly looks less like a lurid chapter from a paperback, and more like a future event," wrote the London *Sunday Telegraph* in an article entitled "Betting the Bank" in its March 16 issue. Citing a $144 million (£90 million) derivatives loss at London's huge National Westminster Bank, the same paper continued, "The financial world is asking whether this latest debacle is a NatWest problem, or a warning of a potential, systemic nightmare for the burgeoning world of derivatives."

This warning of imminent derivatives disasters, as well as a collapse in the U.S. stock market by as much as 40%, is now filling the European press, and is on the tongue of key British and French financial insiders. Two months ago, these same sources said very little about this topic, as they attempted to maintain a stoic face that everything was okay. Two years ago, they were denying that a financial disintegration would ever be a possibility.

The European press, and key inside policy-makers and financiers, are now admitting: Lyndon LaRouche has called the shots on the financial disintegration. They are saying, in effect, "Though we resisted it, he was right, and we are wrong."

The "systemic nightmare" means that the joyride of the largest speculative bubble in human history is over: The bubble is about to implode.

The most recent public pronouncement of a derivatives crisis, signalling a sea change in policy among certain layers, came in the March 9 *Sunday Telegraph* in an article by city editor Neil Bennett, entitled "The $55 Trillion Horror Story"—$55 trillion being the size that Bennett assigns to the world's derivatives market. Upon its appearance, there erupted a dozen major articles or background interviews with insiders, stressing the same point in establishment press organs. Summarizing the process and his own qualifications as a forecaster, LaRouche stated in a March 19 interview with "EIR Talks" radio: "So, what we've had, starting with the Sunday, March 9 edition of the *Sunday Telegraph,* and then continuing to the *European Wall Street Journal,* and other things, all over last week and now into this week, a massive build-up of coverage along this line on the shock. And you'll find that at the same time, around the world, that people in that category—that is, in the policy, financial policy area and the specialist newspaper people and so forth, who work with that area—that almost none of them would disagree with what has been my standing evaluation of the threat that's here, since 1992; or, what I elaborated more fully in 1994, in what's called my 'Ninth Forecast.'

"Today, I probably look, in terms of the public domain, as the best forecaster, on this planet, in recent years. And overall, if you take the fact that I've only made nine forecasts, that is, of any significance, in my *career,* dating [over] . . . 40-odd years. And, over 40 years I've made nine—approximately—nine forecasts, and they've all turned out pretty much as I said they were going to turn out."

The "Ninth Forecast" that LaRouche refers to, titled "The Coming Disintegration of the Financial Markets," was published in the June 24, 1994 *EIR* and as a mass-circulation pamphlet in August 1994, and has been reprinted several times. It stated, "The presently existing global financial and monetary system will collapse during the near term." In the pamphlet, LaRouche asserted the reason why:

"As in the case of a heroin or methadone addict, the habit of looting the real-economic basis must be fed to prevent a collapse. Feeding the habit prevents the immediate collapse by hastening the date of total collapse. The addicted state is destroying the basis upon which it feeds, to sustain itself. As is illustrated by the tragic fate of the enterprises gobbled up in the RJR Nabisco caper, this is the fate of the world's economy under the rule of the cancerous financial bubble marked by derivatives speculation."

It is the documentable accuracy of LaRouche's forecast, based on the highest level of economic science, which has given LaRouche such great authority today. Even when he is not mentioned by name, it is toward his forecast, and his policy solution for generating international economic growth, that policy-makers orient.

The 'horror story'

The *Sunday Telegraph*'s Neil Bennett wrote that "the total value of derivatives in the world today is $55 trillion . . ., a tidy sum and twice as large as the world's gross domestic product." *EIR* estimates that world derivatives holdings, by financial institutions, today exceeds $100 trillion. Bennett, citing the outlook of a well-informed City of London fund manager friend of his, stated that "if and when world stock-markets fall," some derivatives traders "wouldn't be able to pay their losses. This would mean all those prudent, hedged banks were not hedged at all, because their counterparties were going bust. Suddenly even large banks could be staring at vast losses," and potentially fail.

In the March 16 *Sunday Telegraph* article, "Betting the Bank?" cited above, the authors, Robert Tyerman and Doug Morrison, looked at the derivatives loss at National Westminster, which is now placed at $144 million, but which could go higher still, once NatWest completes a second internal audit (assuming NatWest honestly reports its losses). NatWest covered up the loss for several months. The loss stems from interest rate contracts that NatWest Markets, NatWest's investment banking arm, traded over the past two years. While NatWest tried to use the standard practice of blaming the loss on a lone trader—an under-30-year-old Kyriacous Papouis, who has since left the bank—the two authors dispute that. They point to the huge investment which National Westminster had in derivatives. "At the end of last year, NatWest had £267.2 billion. outstanding on interest rate options, £80 billion more than its balance sheet." Indeed, almost half of National Westminster's £1.1 billion in profits last year came from NatWest Markets, the bank's investment arm that has a high stakes position in derivatives, meaning, apparently, that the bank is not prepared to cut back its profits, and thus its gambling in derivatives. Tyerman and Morrison call what NatWest is engaged in, a "gambling spree."

But the *Sunday Telegraph* made clear that it is not focussed on a single bank, but the broader picture. In a second article in the March 16 issue, by senior economics writer Bill Jamieson, the *Sunday Telegraph* quoted Donald Gordon, head of the South Africa-based international life insurance giant, Liberty Life. Gordon warned of "dramatic casualties" still to come in financial derivatives markets, adding that the shake-out "could be dire indeed." He noted the connection between derivatives and stock trading—derivatives contracts such as stock index options are used to artifically prop up the speculative stock markets around the world—and admonishes that "Wall Street will be at the center of the readjustment."

Background discussions

In background discussions with *EIR*, knowledgeable financial sources asserted that the situation is far worse than the poor "man on the street" is willing to acknowledge or able to comprehend.

"You should not minimize what just happened at NatWest, even if that is not big and ugly enough for meltdown," a London intelligence insider told *EIR*, referring to National Westminster's derivatives trading losses. But "you can be quite certain, when it comes to derivatives, that a lot of things are happening beneath the water," he added. *"There are probably more NatWests all over the shop. I wouldn't be surprised to see not a few derivatives crises coming."*

A senior British media official told *EIR* about the great danger posed by derivatives growth. He said that, in 1993-94, "all the markers were down of the potential for calamity. Then came the collapse of Barings [in 1995]. This was a small calamity, but it did blow away one of Britain's leading merchant banks. Now comes NatWest."

This official warned that "there is very stretched-out valuation on Wall Street. What would happen, now, if there were a 30-40% correction on Wall Street?" Asked if he thought the latter development possible, he said, "Absolutely."

He went on, "These are extremely critical times. If you were to ask, for the next five years, whether we would continue to have the rather benign circumstances that have prevailed over the last five years, I would respond that *there is a 10% chance or less of that happening.*" He raised the warnings sounded by Federal Reserve Board Chairman Alan Greenspan, most recently on Feb. 21 in Coral Gables, Florida, about the over-valued U.S. stock market. Greenspan is part of the U.S. President's Working Group on Financial Markets, along with U.S. Treasury Secretary Robert Rubin, Commodity Futures Trading Commission Chairman Brooksley Born, and Security and Exchange Commission head Arthur Levitt, Jr. They met in February to consider emergency plans in the event of a financial markets or stock market melt-down.

French reaction

The alarm of certain French circles is also rising. "The speculative bubble always ends up bursting," warned Laurent Joffrin, director of the editorial board of the French paper *Libération,* in a March 14 article. "It became indecent, in the 1980s, to express concern about the damage done by speculation," he said. The result was a "casino economy" which has resulted in "devastated bank balances, ruined speculators, empty buildings."

TABLE 1
Some famous derivatives losses, 1987-97
(millions $)

Year	Entity	Losses
1987	British local municipal authorities*	$ 500
1987	Merrill Lynch	335
1987	Volkswagen	260
1988	Klöckner	380
1989	Chemical Bank	33
1990	Hedged Securities Associates, Inc.	100
1991	Allied Lyons*	275
1992	J.P. Morgan	50
1992	Louisiana State Retirement Fund	43
1992	Nippon Steel	130
1992	Central Bank of Malaysia	2,660
1993	Showa Shell Sekiyu	1,580
1993	Ohio counties (Putnum, Portage, Sandusky)	11
1993	Kashima Oil	$1,450
1993	Metallgesellschaft*	1,340
1994	Codelco, Chile*	206
1994	George Soros (hedge fund)	600
1994	Procter & Gamble*	157
1994	Pat Robertson's Int'l Family Entertainment	2
1994	Glaxo*	150
1994	Orange County, California*	2,000
1995	Barings*	1,500
1995	Wisconsin State Retirement Fund	100
1996	Sumitomo*	2,600
1997	Belgian government*	1,232
1997	NatWest Markets*	146

* Losses cited by the London *Sunday Telegraph*, March 16, 1997, in a table on "Derivatives Disasters."

"I think this crash is bound to happen," a senior French diplomat averred to *EIR* this past week. "LaRouche is quite right when he speaks of this great dichotomy between the physical economy and the financial economy. The financial economy has become, in fact, nothing more than an abstraction."

The magnitude of the derivatives

The sheer magnitude of the derivatives bubble makes it an entity simply waiting for an "accident" to occur. As of Sept. 30, 1996, U.S. banks held $20.4 trillion in what the Federal Deposit Insurance Corp. terms "off-balance-sheet derivatives," backed up by $4.5 trillion in assets, and only $370 billion in equity capital. Chase Manhattan Corp. alone had $5.7 trillion in derivatives, compared to $323 billion in assets, and but $21 billion in equity. A loss equivalent to just 0.4% of its derivatives portfolio would therefore be sufficient to wipe out Chase's equity capital; the figure is 0.2% for J.P. Morgan, 0.3% for Bankers Trust, and 0.8% for Citicorp.

Other nations have very sizable and growing derivatives portfolios. According to the Basel Committee on International Banking Supervision, as of the end of 1995, financial institutions had total derivatives holdings outstanding of the following size in the following nations: Japan, $11.5 trillion; France, $9.4 trillion; United Kingdom, $7.4 trillion; Switzerland, $6.3 trillion; Germany, $4.3 trillion; Canada, $3.3 trillion; and the Netherlands, $1.6 trillion.

In all nations, the banks' derivatives portfolios are built upon leverage/borrowing ratios that range up to 99 to 1. One false move, and reverse leverage takes over, and the whole thing blows. That tiny margin between existence and disintegration, is what terrifies the financiers, the regulators, and the politicians, who are now speaking out.

Table 1 shows only a portion of the major derivatives failures since 1986. The cumulative total of the list of reported losses from derivatives, as kept in the *EIR* database, for the period January 1987 through January 1995, reached $35 billions, although this amount, due to non-reported losses, is incomplete.

New Bretton Woods solution

What is urgently needed, is that sovereign nation-states declare the International Monetary Fund-centered world financial system bankrupt, put it through bankruptcy reorganization, and convene a new Bretton Woods conference. They would erect a new fixed-exchange-rate monetary system pivoted around the construction of the Eurasian Land-Bridge: high-technology infrastructure development corridors, from the Pacific to the Atlantic, which would ignite global economic development.

A call for a new Bretton Woods system has been drafted by Schiller Institute founder Helga Zepp LaRouche, and Ukrainian parliamentarian Natalya Vitrenko. As of this writing, it has been signed by 53 Ukrainian parliamentarians; 17 Ibero-American parliamentarians; 80 U.S. active and retired state legislators; former heads of state and dignitaries from Europe, Africa, and Asia; 35 clergy; and 40 labor leaders from many countries around the world.

The wave of open warnings about the dangers of a derivatives-fueled financial meltdown, brings with it opportunities for action.