

# Britain is riding the 'euro' horse

by William Engdahl

Despite the imminent prospect of global systemic financial collapse, the leading governments of the 15-nation European Union appear more determined than ever to ram through their insane scheme for creation of a supranational single European currency, the euro, a European Monetary Union (EMU), and an independent supranational European Central Bank to run it all.

Following a March 9 summit between German Chancellor Helmut Kohl and French President Jacques Chirac, together with their respective finance ministers and central bank chiefs, the two nations issued a statement that all fundamental issues regarding the timely start of the EMU had been resolved. Despite polls that show a 58% majority of the German population opposed to introduction of the new currency, all German parliamentary parties, including the Greens, support



the EMU. While Britain's Tony Blair government has stated that it will join the EMU, but not in this Parliament term, it is playing a decisive behind-the-scenes role shaping the rules of the new euro. A senior statesman characterized Britain's role as "riding side-saddle on the continental euro horse, whose horse's rear part is played by Germany."

Assuming that the shocks from Asia have not first pushed world markets, including European ones, into terminal collapse, the timetable toward the EMU crosses several decisive points in the coming seven weeks. First will be the announcement on March 25 by the European Monetary Institute (the predecessor to the European Central Bank which is to open on June 1) and the Brussels European Commission, of which countries qualify according to the four "convergence criteria" set forth in the December 1991 Maastricht Treaty on European Union.

The most essential criterion in the treaty, a strict limit on public deficits to less than 3% of a country's 1997 GDP, was announced as being met two weeks ago, by the 11 countries which have stated determination to be in at the start of the euro. The decision on which states will form the euro, however, will be made on May 2 at a special summit of all 15 heads of government. It is fundamentally a political decision to create the world's first technocratic central bank, free from any political checks and balances — a Frankenstein's monster which would have been the envy of the Bank of England's Montagu Norman, who schemed during the 1920s and 1930s to create a central bankers' dictatorship over the world economy.

One potential roadblock to the start of EMU is a new Supreme Court challenge filed by four Germans, including a

## Sir Leon pushes the euro

*European Commission Vice President Leon Brittan gave the British line on European Monetary Union, in a speech reported in Der Spiegel on Feb. 23:*

"The successful introduction of the euro will strengthen the European economy and be a force for greater coherence and unity in the European Union's external relations. I expect the euro will develop into a major trading currency and probably even a major reserve currency. It will increase the depth and liquidity of European debt markets, and make for a more balanced international financial system. This will increase the EU's weight as an international player. Some fear that this will undermine the supremacy of the dollar and American influence. I believe such concerns have been exaggerated. The emergence of a stronger, more effective European Union can and should be in U.S. interests, because the EU is a close and fundamentally like-minded partner. But I accept that the EU will have to be ready to take on new responsibilities, while for the U.S. the adjustment may not be entirely straightforward."

former Bundesbank director, Wilhelm Noelling. Informed Bonn sources place the odds of that challenge disrupting the forced march to the EMU, however, as “at best 10-15%.”

Assuming that the German Constitutional Court does not act to block the EMU officially, the euro becomes legal currency on Jan. 1, 1999. That date is fixed by the Maastricht Treaty.

According to senior officials of several large European multinationals who have had to prepare their firms to join the EMU, the euro will trigger huge new rounds of corporate layoffs across Europe. This will hit the large transnational companies with facilities in many European countries especially hard. The reason, quite simply, is that under the euro, all 11 countries (assuming Italy makes the grade) will have one currency. This will eliminate present currency fluctuation risk, a major barrier to cross-border mergers and trading until now. And mergers mean savage cost-reduction and downsizing.

A highly confidential Brussels study, which was suppressed because it was too politically explosive, states that after the EMU launch in January, the next major round of corporate downsizing will see perhaps 10 million jobs more disappear permanently from Europe’s largest companies and banks. Already, official joblessness in Germany and France, as well as most other EMU aspiring states, is above 12%, a level not seen since the 1930s.

## Why bother?

The obvious question is, if the EMU is not going to bring prosperity or jobs, why should voters bother to surrender one of the most precious tenets of national sovereignty on the altar of monetarist technocrats of the European Central Bank?

One answer is that European citizens have scrupulously been kept from having any vote on the euro. In Denmark, the one country where a referendum was held, in June 1992, the euro lost. Denmark, as a result, will not be among the starters. Since then, with the exception of a highly manipulated vote by France’s President François Mitterrand in 1992, there has not been any chance for voters to have a full, open debate and vote. The plan is simply being rammed down the throats of the European population, while the Brussels Commission spends millions in taxpayer money to finance a pro-euro media propaganda blitz.

The reason why European politicians risk such an unpopular course is not fully clear. One simple answer is that the largest source of political party campaign funding comes from the very same giant multinationals and banks that back the EMU. There are more reasons than this, however.

Some EMU advocates, such as Britain’s EU Commission Vice President Sir Leon Brittan, or French Finance Minister Dominique Strauss-Kahn, have given hints. Both have justified the sacrifices involved in creating the euro as necessary to forge an alternative world reserve currency to the U.S.

## Soros on monetary reform

British-owned speculator George Soros was interviewed by Israel’s Shimon Peres, in the Italian magazine *Liberal* of March 12. Among the topics of discussion was monetary reform, and Soros called for a “new Bretton Woods”—making it clear that what he has in mind is an instrument of British-dominated world government, modelled on the British Empire itself.

“On an international scale,” Soros says, “we need some global regulating institution, in the Bretton Woods spirit. . . . If we do not create institutions aimed at preserving stability of international markets as well, then we will go towards a crash.

“The global capitalist system is based on a belief, on the false assumption that, if all this activity of private capital were left alone, the whole system would tend to stability. As the Asian crisis demonstrates, this is simply false. It is not unstable because of some external shock: It is intrinsically unstable.” Soros then differentiates between “private technocrats” who, by pursuing individual profit, destabilize the system, and “public technocrats,” such as

central bankers, who play a regulating, stabilizing function. He calls for “the idea of a global central bank or a control function given to ‘stability technocrats.’ But in addition to this, those countries that have not done it, must open to democracy.” Soros says, however, that his idea “could be implemented only after a crash.”

“Left alone,” Soros affirms, “states do not maintain peace. We need an international organization aimed at keeping peace. *It can be an empire, or a balance of powers. Or it can be some sort of international institution.* Current international institutions . . . cannot succeed because they are formed by states, and therefore they are instruments of state interests. During the Cold War there was a balance of powers. Today America is the only superpower left, but it does not have the capacity to be the world policeman. In the 19th century, we had a global capitalist system as well, and *it was Great Britain, representing the imperial power, that maintained stability*, until it entered into a conflict with the other imperial powers (Prussia, the Austro-Hungarian Empire, the Ottoman Empire) and peace was destroyed. Currently, we have no system of peace. We do not have balance of powers, and no imperial power either” (emphasis added).

dollar. In an interview in Germany's weekly *Der Spiegel* on Feb. 23, Brittan said that the hegemony of the dollar as a world reserve and trade currency will end with the introduction of the euro. "Europe's weight as an international player will grow," he noted, as the "euro developed into a world reserve currency."

In mid-January, a U.S. Senate fact-finding group, led by Sen. Pete Domenici (R-N.M.), met with Bundesbank President Hans Tietmeyer, who reportedly told the shocked Senators in no uncertain terms that the euro will come, and will be a "strong" currency.

### A fundamental shift

Ironically, Tietmeyer, Strauss-Kahn, and leading European financial institutions such as Deutsche Bank, Dresdner Bank, or France's *Crédit Lyonnais*, are clearly planning to make Tietmeyer's forecast of a "strong" euro come true, with the help of a lot of American savings. In a new study on the effects of the EMU, Dresdner Bank notes, "The euro will derive strength against the dollar from public and private portfolio inflows."

Dresdner calculates that there could be as much as "\$750 billion of net inflow diverted from the U.S. dollar into the euro." It adds, "Creation of the euro may lead to some \$50-75 billion of annual portfolio and deposit inflow into the euro." Whether it takes place over ten years, as this suggests, or sooner, the shift in capital flows out of the dollar would be potentially enormous.

In short, leading European banks are calculating that U.S. mutual funds, pension funds, and banks will be the major source of new liquidity which will bring a flood of capital into Europe. A recent study by Reuters predicted that a huge single European stock market will emerge, making the euro zone into "the world's largest emerging market" into the next century.

In 1996, U.S. investment into emerging markets totalled near \$250 billion. Now, with Asian markets largely gone up in smoke, most U.S. fund managers are desperately looking for new areas of high profit. Certain European banks such as Dresdner are making propaganda to convince U.S. fund managers that the coming euro market is the place to go. A shift of \$750 billion over a short time, out of the dollar into the euro zone, would detonate a financial and monetary crisis in the United States beyond any in history. And that, using the savings of mostly unwitting American mutual fund investors who are hoping to save for their child's college or their retirement through a high-return mutual fund. Little wonder that Domenici and some others are beginning to show concern over how the new euro proceeds.

Referring to recent calls by Japanese and U.S. officials for some form of New Bretton Woods system, on March 8 London *Observer* financial editor William Keegan wrote, "For the moment the only new fixed exchange rate system on offer is European Economic and Monetary Union." The next weeks will tell what kind of offer for Europeans and for the rest of the world that will be.

# Financial crisis drives merger mania

by John Hoefle

Merger and acquisition activity hit new records around the world in 1997, fuelled by dangerously high equity markets and the assumption of record levels of debt. Leading the charge was the rapid consolidation of the financial sector—commercial banks, investment banks, and non-bank institutions such as insurance and finance companies. Worldwide, a record \$1.6 trillion in mergers and acquisitions (M&A) were announced, spurred by records in the United States, Europe, Asia, and Ibero-America, according to Securities Data Corp.

In the United States, \$919 billion in mergers were announced in more than 10,700 deals, easily topping the old record of \$626 billion in 10,340 deals in 1996, and the \$519 billion in 1995 (**Figure 1**). Leading the way in 1997 was the largest merger in world history, the \$42 billion takeover of MCI Communications by WorldCom; overall, \$91 billion in mergers were announced in the telecommunications sector.

In second place domestically, was the commercial banking sector, with \$75.3 billion from 384 deals, topping the 1995 record of \$68.5 billion from 739 deals. The 1997 activity included the two largest bank takeovers in U.S. history, in terms of price paid: First Union's \$17 billion bid for Philadelphia's CoreStates Financial, and NationsBank's \$14.8 billion takeover of Florida's Barnett Banks.

In third place, was the investment banking and securities dealers sector, with \$59 billion in announced mergers, led by Morgan Stanley's \$10.6 billion merger with Dean Witter Discover, and Travelers Group's \$8.9 billion purchase of Salomon, the two largest deals in investment banking history. The 1997 total represents 38% of all investment bank/securities dealer mergers since 1980, and easily surpassed the \$16 billion recorded in 1996.

Combined, the commercial banks, investment banks, and securities dealers accounted for over \$134 billion in announced mergers in 1997, or 15% of the total.

The financial sector also led the pack in M&A activity worldwide, where commercial banks topped the list with over \$83 billion from 400 deals, including the top non-U.S. merger, the proposed \$23 billion merger of Union Bank of Switzerland and Swiss Bank Corp., to form the new United Bank of Switzerland. In second place worldwide was the insurance sector with nearly \$73 billion from 325 mergers, led by Zurich Insurance's \$18.4 billion purchase of BAT Industries Plc's financial subsidiary. Third place worldwide was the electric, gas, and water utilities sector, with over \$57 billion from 256 transactions.