

## Is Washington behind Europe's currency crises?

by William Engdahl

There is compelling evidence that, beginning in June or early July, only days after Denmark's "no" vote to the proposed Maastricht Treaty for European union, which included plans for a European central bank, a dominant part of the U.S. establishment launched an all-out financial and economic destabilization of western Europe. The objective of this operation, which has seen the most severe speculative attacks on European currencies in the postwar period and the launching of intense trade war pressures via agricultural and steel tariff threats against European imports, appears to be to render European economic stability impossible for the foreseeable future.

The charge of deliberate U.S. economic and financial warfare against the countries of the European Community (EC) is as dramatic as it is serious.

According to reports from New York international investors, in early July, the "word" was leaked in the New York financial community that funds should be pulled out of European markets. "Our New York investors shocked us in July when they told us to sell their holdings in Scandinavian bonds. We told them they shouldn't over-react to press headlines over Maastricht, and they replied, 'We have information that by the end of this December, the currencies of the entire European Community will be in a free float.'" R.G. Andersen, a major Scandinavian bond investor with a leading financial house, told *EIR*.

### Franco-German ties targeted

According to information made available to *EIR* from European and U.S. sources, the target of the politically driven attacks on European monetary stability is to force a rupture in the tie linking France and Germany, the two nations which have formed the core of European economic growth since the opening of the Common Market in 1959. A rupture in the 13-year agreement of the 12 EC member countries to support a zone of currency stability, then termed the European Mon-

etary System, has been the basis for strong growth in intra-EC trade flows. Once currency parities become subject to wild speculative runs, industries are much more cautious about cross-border trade ties.

The attacks on the weaker European currencies began at the end of last August, when Washington began to deliberately let the dollar slide. Anyone who knows how the European currency market operates, knows that when the dollar falls sharply, hot money goes almost automatically into the German mark, Europe's strongest currency.

That is what happened last August, putting strains on the relationship between the deutschemark and some of the weaker European currencies tied to it, namely the Italian lira, the British pound, and above all the Swedish kroner. The Swedish Central Bank was forced to boost overnight interest rates to 500% by mid-September to prevent a collapse of the currency, at that time the "weakest link" in the European Exchange Rate Mechanism (ERM) group of fixed currencies.

According to Swedish banking circles, U.S. interests including friends of Henry Kissinger and the secretive New York financial speculator George Soros launched a massive speculative attack on the kroner and the pound sterling, which forced the latter to leave the ERM on Sept. 16. On the Swedish side, the chairman of the Swedish-based Volvo, Pehr Gyllenhammer, is reported to have been especially aggressive in dumping his nation's currency. Gyllenhammer enjoys close City of London and New York ties. He is a member of the board of the London Pearson Group, which includes the London-New York investment bank Lazard Frères. And he has close ties to Kissinger, and is a board member of Kissinger Associates.

The September currency attacks, which were led in volume from New York banks and financial institutions, succeeded in weakening the ERM structure. The Italian lira was forced to float following weeks of efforts to hold its value.

The Spanish peseta was devalued by 6%, and the British pound sterling was taken out of the ERM, leaving it to float freely. As in September 1931, when the pound unilaterally left the gold standard, it seems that key voices inside the British establishment are positioning themselves for further attacks on European stability.

This role of British perfidy inside the EC this past September was detailed in the Nov. 30 London *Guardian*. According to that report, British Chancellor of the Exchequer Norman Lamont, a former N.M. Rothschild's banker, blocked a proposal by the head of the German Bundesbank, Helmut Schlesinger, at an emergency Sept. 5 EC finance ministers gathering at Bath, for a *quid pro quo* of significant German interest rate cuts in exchange for a comprehensive revaluation of the fixed currency values of the ERM countries. In addition to Italy, Britain had what was regarded as a far overvalued rate for sterling, given its depressed economy. The *Guardian* reported that Lamont, who chaired the Bath meeting, used his position to block real debate on the dramatic German proposal, demanding instead a unilateral German rate cut.

Since Sept. 16, when sterling left the ERM, the British government has continued to play a perfidious role behind the scenes in aggravating underlying European tensions. But the fundamental goal of forcing a break in the German-French link on monetary parity failed. On Sept. 23, the Germans joined with France to defend the franc. According to estimates, the cost of this defense was high. During the entire ERM crisis, the Bundesbank reportedly spent \$58 billion of its foreign currency reserves to support the lira, sterling, and then the franc. But the waters calmed during October as the speculative frenzy abated. It seemed for a time that the threat to the Franco-German "core Europe" had been defeated.

### **The agricultural 'wedge'**

Then, beginning in October, Washington threw a new wedge into German-French relations. The U.S. government threatened all-out "trade war," including a 200% tariff on French wine exports, unless the EC agreed to the deliberately outrageous U.S. demands for cuts in European "oilseed" production, which it claimed was hurting U.S. soybean exports to Europe. According to Brussels sources, the U.S. position had little to do with any legal rights under the General Agreement on Tariffs and Trade (GATT), but strictly with politics. The farm support issue, as one European grain trader termed it, "is the perfect 'wedge' issue to split Germany and France. France is the most important agricultural exporter in the EC, while German machinery and industrial exports faced a threat from any Washington trade war, as Bonn saw it." According to European reports, Washington demands would force up to 35% of all European farmland to be "set aside," making the United States the unchallenged world food supplier in coming years, and throwing entire regions of France and the rest of the EC into permanent rural depression.

In this tense climate, in mid-November, a new attack on

European currency stability was launched. Again, according to currency traders, it came from New York financial houses. "The tip-off who was behind this was during the November Thanksgiving holidays in the United States, when New York closed down. During those few days, suddenly the attacks on the Irish, Danish, and French currencies ground to a halt. They started up again Nov. 30, after the U.S. holidays," said one European trader.

Again, the intent of the concerted GATT and currency assaults is to finish what was started in September, namely, to break the Franco-German currency axis and thereby weaken the entire fabric of the EC trade region.

### **The elusive George Soros**

One of the central speculators involved in the latest attacks on Europe, beginning with the mid-November attack on Sweden's kroner, which this time was forced to leave the ERM, is reported by London currency traders to again be George Soros. Soros, an elusive billionaire who reportedly made \$950 million in the September pound sterling crisis, is known to enjoy close ties to the U.S. establishment. There are even reports that Soros has quite privileged channels to the New York Federal Reserve Foreign, the U.S. agency which would have the most intimate confidential data on the state of other European central bank reserves. "These attacks on European currencies are political, not based on any economic considerations by traders," one financial source told *EIR*. "If someone like Soros had privileged information from contacts inside the New York Federal Reserve, he would know precisely where the weak targets are. His uncanny success in the past two months suggests this may be the case. It's quite a scandal if so."

Adding fuel to the fire, on Nov. 30, when the Commerce Department announced imposition of penal duties on imports of some \$1 billion worth of European steel, an EC spokesman stated, "The U.S. has been using legitimate trade policy instruments to harass foreign competitors and to divert world trade flows." Both Washington trade ultimatums (oilseeds and steel) escalated pressure on the various European countries while currency speculators like Soros undermined the stability of the ERM link.

The Washington assault against continental Europe, which has the backing of a powerful faction in the City of London, is designed to turn Europe from the world's strongest trade and industrial region which could bring stability and growth to eastern Europe, into a gaggle of petty, squabbling countries. Their private argument is: "If the United States is in a state of internal economic and financial chaos, let's make certain Europe is as well, so they are unable to challenge our global role." If they succeed in fostering such disarray, through British "balance of power" maneuvers to play France off against Germany or *vice versa*, the "Anglo-American special relationship," in effect since the 1919 Versailles Treaty, would once again be decisive in European affairs.