British target Europe with currency warfare

by William Engdahl

Less than six weeks after U.S. President Bill Clinton’s trip to Germany, in which he announced that the United States now regards its ties with Germany as a “unique relationship,” while its postwar “special relationship” with Great Britain is a vestige of a bygone era, the City of London has responded with a barrage of attacks on European currencies, among other geopolitical maneuvers and dirty tricks.

Following six weeks of summer quiet in European bond and currency markets after the end of the second quarter on June 30, instability erupted once again in mid-August. The nominal trigger for the new wave of selling was the decision by the Swedish central bank, the Riksbank, on Aug. 11 to raise a key rate by 0.5% to 8.0%. The Banca d’Italia followed with a 0.5% rise just minutes later. Both actions triggered a chain-reaction speculative sell-off across European bond and foreign exchange markets.

While objective circumstances in both Sweden and Italy make the situations there very vulnerable to renewed selling, informed reports from persons in the City of London say that a major component of this new financial turbulence in European markets is “geopolitical,” and that it is coming from influential financial circles of the City of London, including S.G. Warburg and others. Warburg is one of the most influential financial firms in the City of London, and enoys the status of being stockbroker to the queen as well.

The immediate aim of this geopolitical power-play, is to force sharp interest rate rises in all countries of continental Europe, including Germany, and thereby sabotage any prospect of European economic recovery. In particular, this policy is aimed to sabotage the implementation of agreements for trans-European rail infrastructure of the sort outlined in outgoing European Commission President Jacques Delors’s White Paper, approved at the Corfu summit on June 25 by the European Union heads of state, and endorsed explicitly by President Clinton, as the foundation of a new American-European alliance vis-à-vis Russia and eastern Europe (see EIR, July 22, p. 6).

Such major new industrial infrastructure investment coming from Germany and the rest of continental Europe, this City of London faction reckons, will decisively undermine their global political power. They are using every weapon in their arsenal to prevent this from happening.

The speculative assault

According to the reports from London received by EIR, the Swedish interest rate increase was triggered by a sudden liquidation by speculator George Soros. One week earlier, on Aug. 4, Soros sold his entire 1.5 billion kroner Swedish government bond holdings, and moved out of the kroner entirely, setting off a renewed Swedish currency crisis which prompted the urgent Riksbank rate action, to no avail. Soros is tied intimately to the London N.M. Rothschild and Sons banking interests, and reportedly numbers the Queen of England among the elite investors in his Quantum Fund.

In Italy, a renewed split within the government coalition of Prime Minister Silvio Berlusconi was the pretext for London-led selling of the lira, precipitating a new currency crisis the week of Aug. 8. The lira fell to its lowest level of the postwar era against the German mark, below £1,007 to DM 1, prompting the Bank of Italy rate increase in a desperate bid to stop the slide.

Days before the lira crisis sparked the rate rise, a coalition minister from the radical Northern League party, Budget Minister Giancarlo Pagliarini, was in London for meetings with leading financial houses. Pagliarini reportedly enjoys close ties to the British, and, according to Italian reports, he is believed to have set the stage for the present lira crisis. The Northern League had been openly attacking coalition leader Berlusconi for the previous weeks, helping precipitate the new lira weakness.

A timetable for wrecking Italy and Sweden

The London-centered financial interests reportedly seek to foster growing financial chaos across continental Europe, beginning with the weaker currencies of Sweden and Italy. Their timetable is to force the fiscal crises in Italy and Sweden to a point that both countries are in chaos by end of September, and entirely out of the European system by December, according to a report from economist David Roche, head of Independent Strategists Ltd. and one of the most influential City of London economists.

September is the month of key events in both Sweden and Italy. On Sept. 16, Swedish national elections are to be held, and London market speculators will then demand draconian budget cuts from the new government. Mid-September is also the deadline by law for the new Italian 1995 budget to be put before Parliament. Either event could trigger major new speculative attacks on those two financial markets by London-led speculators.

The result would most likely lead to a flight out of lira and kroner into the “safe haven” in Europe, the deutschmark. Already, a rising mark is hurting Germany’s fragile efforts to increase exports following the worst recession of the postwar period. A new rise of the deutschmark could deal a devastating blow to the German economy.