

Report from Bonn by Rainer Apel

About-face in the financial crash

German bankers are nervous after the Barings collapse, but most want to keep patching up the system.

The collapse of Britain's Barings Bank underlines that the growth of volatile speculative derivatives has reached such a scale that the world financial system is threatened, which means that decisive action has to be taken to draw a clear line around the speculators and cut their influence over the derivatives market down to zero. This is what Otmar Issing, member of the German central bank directorate, said in an interview March 3 with the Bavarian radio station, which was then picked up nationally by many other media.

Coming from a senior banker who before March 3 had earned the dubious distinction of denying any such "systemic risk," this interview marked a dramatic shift in the public debate here about money market policies and heralded the spread of the "about-face" phenomenon in Germany.

For example, in September 1993, Mrs. Ingrid Matthäus-Maier, financial and budget spokeswoman of the opposition Social Democrats (SPD) in the German parliament, in a discussion with an *EIR* representative at the SPD's national convention, vehemently rejected having a debate in Germany like the one that then-U.S. House Banking Committee Chairman Henry Gonzalez (D-Tex.) had started over derivatives and the state of the world monetary system last year.

Now, one day after the news of the collapse of Barings Bank broke, she was among the first to call for emergency action against these "highly dangerous" financial instruments. The media broke a longtime taboo and presented their audiences with charts, de-

tailed reports, and timelines on what "these derivatives" are, where they come from, and the risks. The term "derivatives" became a household word within two or three days. The media also used the term "casino" to depict the practices of traders like Barings Bank's Nicholas Leeson. The daily *Die Welt* even wrote on Feb. 28 that "gambling at the casino is even safer than speculating in derivatives."

The *Frankfurter Rundschau*, another of Germany's leading dailies, wrote on Feb. 28 that the case of Barings proved that if a "real bank" (as opposed to "non-banks") can go under, then there are weak points in the world monetary and banking system of derivatives trading as a whole: "The financial revolution is eating its own children."

Finance Minister Theodor Waigel chose to give interviews at least once daily, saying he ruled out categorically that "anything like that could happen in Germany." But there have already been big defaults in Germany, like the spectacular DM 2 billion loss in oil derivatives which the U.S. branch of Metallgesellschaft reported in early 1994.

By the end of the first week after the Barings affair, calls for emergency regulations on the financial markets and taxation on derivatives could be heard almost everywhere. In an unprecedented two-hour live radio special on Germany's national DLR program, on March 3, even the moderator of the show posed the "question, as kind of a trial balloon, whether one shouldn't just ban derivatives altogether."

The fatal flaw of all these proposals, including Issing's, is that they keep the grand illusion that by containing or regulating one of the bigger phenomena, one can bring the whole disease under control.

Fortunately, there were some voices that were more skeptical about the options to repair the system from within. The *Die Woche* weekly wrote on March 3 that the Barings case illustrated, once again, how far the world financial system has slid, that more spectacular defaults are certain, because the world economy has been taken hostage by a "giant, \$35 billion steamroller" wreaking havoc around the globe.

There can be no remedy, *Die Woche* wrote, unless the system as a whole, not just the derivatives aspect, is brought under control. This view was also reflected in an analysis published by the Swiss *Neue Zürcher Zeitung* daily on March 6, saying that it is time to get prepared for "worst case scenarios"—which implied the collapse of not just one big bank, but of the entire world financial system.

Handelsblatt, Germany's national business daily, wrote on March 7 that given the profound transformation of the world financial system over the past 10 years, a single action to contain derivatives would have to fail. If one left the entire system as such untouched, the only remedy left, the daily wrote sarcastically, would be to make stickers warning investors that "the finance minister warns that trade with this bank is hazardous to your financial health."

These more realistic views pose the question of finally starting a serious debate about proposals which Lyndon LaRouche has made. Almost 20 years have passed since he called for an "International Development Bank" and a new world economic system, at a Bonn press briefing in April 1975.