
The View from Europe

U.S. is not dealing with the real crisis

by William Engdahl

According to senior City of London and European financial sources, the world's major financial markets, especially New York and London, are being propped up only by the most desperate of day-to-day emergency measures. In the case of London, the Bank of England, which enjoys perhaps more direct power over economic policy than any other central bank outside Moscow, has assumed "hands on" control of the financial markets.

On Oct. 29, British Chancellor of the Exchequer Nigel Lawson announced that, in order to reassure the "jittery" markets, the Bank of England had decided to act, in an unprecedented manner, as "buyer of last resort." This would serve to ensure the solvency of the major brokerage firms which had agreed, before "Black Monday," to market some \$11.6 billion worth of shares in the government's British Petroleum to the investing public. Without such a guarantee, the average 33% collapse in London and New York share values since August threatened to leave some of the world's largest brokerages technically bankrupt.

The sale went ahead on Oct. 30, and the London and New York stock markets, momentarily buoyed by this bold Bank of England support, rallied. The following Monday, Nov. 2, also appeared to pass without major incident.

In the London system, stock brokerages have 14 days to clear their buy-sell accounts and present regulatory officials with their books, including "uncleared" accounts, i.e., sales with no recorded buyers. Such problems have been chronic on the deregulated City of London Stock Exchange since the October 1986 "Big Bang" liberalized trading and helped kick off a record stock volume increase.

Something is rotten

Reliable City estimates are that Alan Greenspan and the U.S. Federal Reserve have kept Wall Street "stable" only by the emergency injection of an estimated \$20-25 billion daily into the money markets to enable selected Dow Jones "blue chip" companies to buy back their own stocks. An estimated \$22.3 billion in such stock "buy-backs" have occurred since Oct. 19. In all of 1986, that figure reached only \$44 billion.

"Expect that the stock markets will oscillate, rising for a time, then falling again. But over the coming two or three

months, you can expect the stock market to hit the range of Dow Jones 1200," an informed City of London banking insider stressed. Because of the sensitive nature of the market, he asked not to be named. "No one has yet given any sign of any idea to adequately cope with the dimension of this crisis," he continued.

"There is little if any central bank Group of Five cooperation. German authorities despair of the U.S. doing anything significant to alter the situation. And certain circles in the Bank of England are gloating that they have the U.S. 'on the ropes,' and are privately boasting that they can now reassert control over the major New York investment banks."

The BP privatization is the method the Bank is using to impose effective control over New York's leading investment banks, such as Goldman Sachs, Salomon Bros., and Morgan. Those firms are the principal underwriters of the BP privatization, the largest single stock issue in world history. The Bank of England, by agreeing to be the guarantor of the major New York houses, is in position to extract concessions of significance. "But these are merely tactical moves to take momentary advantage. No one has an overall strategy to restore stability," one informed London official stressed to *EIR*.

While some in the City of London may be drooling over the prospects of regaining New York financial markets, lost since 1914, the financial health of City firms is reported to be desperate. The Nov. 2 deadline, called Settlements Day in London, has now passed, with press reporting to the world, "I'm all right, Jack." Settlements Day, in the British system, is the twice monthly day of reckoning in which every brokerage house has to present accounting of buy-sell losses or gains to authorities. Nov. 2 was nervously expected to be a "blood-bath"—the first Settlements following the "Black Monday" disasters. However, the fact that it passed without even a minor dealer reported in trouble is making traders even more nervous.

One senior City insider told *EIR* that unprecedented intervention by the Bank of England was responsible. "The new catchword sending chills down the spines of London brokerages," he said, "is the word 'unhelpful' or even worse, 'very unhelpful.' The Bank of England has been discreetly ringing the major brokerages and telling them it would be 'very unhelpful' if the broker were to demand full payment from certain large clients experiencing momentary difficulties." In short, the Bank of England is perpetuating colossal market fraud in a desperate attempt to stem disaster, without any other strategy.

The Bank of England is known to be demanding that Washington impose a further "10-15% dollar devaluation with a \$30-40 billion cut in the U.S. budget deficit." Both policies, London financial officials privately agree, are absurd on their face. "The policy in Washington is to let the dollar drop to about deutschemark 1.60," a well-placed London banking source emphasized. "But who is to say that it will stop at 1.60? These are extremely unsettled markets."

And the lunacy of cutting defense spending by \$20 billion or more in a recession is admitted by more honest economists in London and elsewhere.

"Right now, in corporate boardrooms across the world, the decisions are being made to cut back, to disinvest. This will take two to three months for its effects to work through the economy. Then we will see the onset of a real economic downturn," emphasized a leading European economist. The estimate is that the collapse in output will hit the vulnerable consumer sector fastest. New car purchases and new home loans will simply be deferred as the impact of the \$1 trillion wipeout of small savings, involving millions of investors, is realized. This is most dangerous in the the United States, where consumer-credit buying soared to all-time highs in the last five years.

The second wave, aggravated by the collapse of the dollar, these sources stress, will impact on world trade flows. Imports of Japanese and German autos to the U.S. market will drop sharply as rising yen and deutschemark rates and collapsing U.S. consumer credit reinforce one another. "Developing countries will be worst hit in this depression," a London banker stressed.

Privately, representatives of some of Britain's oldest banking families are "extremely worried" over the policy chaos in Washington. As one such representative, a banker and Tory Member of Parliament, expressed the mood, "Everyone I know in the City just lost not only his shirt but his trousers as well. The [financial] cities of the world are bankrupt of ideas." Reliable reports are that certain of the world's better known financial firms would be bankrupt but for central bank bailout.

Shearson-London, Morgan Grenfell, Kleinwort Benson, and De Zoete Barclays are rumored to be the worst hit by the "Black Monday" collapse. "And Warburg, touted to be the most successful brokerage in the City, lost a cool \$100 million on the first day alone," one City source said.

SILVER

SHORT SQUEEZE

● WHO? ● WHAT? ● WHY? ●

Not what you think! Daily limits soon. Exchange cannot stop this one because it is different. **Send \$5 to SIBBET for information. He is the one advisor who predicted the other two squeezes.**

SIBBET PUBLICATIONS
1091 E. WOODBURY RD., PASADENA, CA 91104

Name _____

Address _____

Zip _____

Interview: Dr. William Hazeltine

The battle to defeat carrying encephalitis

Encephalitis virus was found in mosquitoes in northern California during the summer, primarily carried in the native species Culex tarsalis. Here Dr. William Hazeltine, an entomologist and the Manager/Environmentalist of the Butte County Mosquito Abatement District in California, discusses how the virus was detected, the course of the disease, and some of the political problems that constrained the eradication program. Hazeltine was interviewed on Aug. 25, 1987 by Marjorie Mazel Hecht. He reported in October that the risk of encephalitis had ended for this season.

EIR: I understand that you have found mosquitoes carrying the encephalitis virus.

Hazeltine: Yes, Western equine encephalitis. Actually, the real long-handled name is Western equine encephalomyelitis, or WEE.

EIR: What does this mean for the people in your area?

Hazeltine: The transmission to people is by mosquito bite, so mosquitoes containing the signals that we could have transmission to either people or horses—and it signals a problem.

EIR: How did you detect this virus? Do you have a regular testing program that captures mosquitoes?

Hazeltine: Part of the district program is to use a carbon dioxide light trap, which collects the mosquitoes alive. We chill them, separate by species, put a given number of each species in a jar, freeze them, and send them to the laboratory. They then grind them up and inject them into a cephaline mouse brain, and look for the development of symptoms in the mouse.

We also have chicken flocks and we look at the antibodies in chickens, using a laboratory antibody test in our own lab. The reason for the chickens is that the endemic cycle of encephalitis is a bird-mosquito/bird-mosquito type of cycle.

EIR: Does this mean that the virus breeds in the bird and the mosquito then picks it up from the bird?

Hazeltine: Right. It's an amplification in both stages. That is, the mosquito amplifies it, feeds on a chicken or another bird, the bird develops a viremia, and the mosquito that feeds on that bird will then pick up the virus, amplify it more in his body, and then feed on another bird.