Banking by John Hoefle

The hair of the dog

The financial experts are calling for more of the same policies that have wrecked the world economy.

With the world's financial system in the midst of the biggest blowout in modern history, it is useful to take a look at the latest proposals from the so-called financial experts, as a way of demonstrating their incompetence to devise a solution to a crisis for which they are largely responsible.

One such collection of experts is the Group of Thirty, a Washington, D.C.-based institution which counts as its members many of the more powerful banks and financial institutions in the world. The Group of Thirty, chaired by former Federal Reserve Chairman Paul Volcker, includes the current heads of the Bank of France, the Bank of Tokyo, the Bank of Italy, and the Bank of Israel, and the former head of the German Bundesbank. Also represented are many of the top commercial and investment banks, including Citicorp, J.P. Morgan, Morgan Stanley, Merrill Lynch, Deutsche Bank, the Industrial Bank of Japan, and J. Rothschild International Assurance Holdings.

The Group of Thirty is, in short, a mouthpiece for the international financial operatives who created the speculative bubble that is now exploding. It is a sort of vampires' club.

In July, the Group of Thirty released a report, "Derivatives: Practices and Principles," outlining the bankers' plans for changing the laws and regulations of nations, in order to *protect* their derivatives trading and perpetuate the bubble as long as they can.

The report includes four recommendations for legislators, regulators, and supervisors, and 20 recommendations for derivatives dealers and "end-users."

The recommendations for regulators involve changing laws and regulations to facilitate the derivatives trade.

The first such recommendation calls for the recognition of "netting," which is a way of minimizing an institution's apparent risk on its derivatives portfolio, which in turn allows for the overstatement of the institution's capital.

The second recommendation calls upon "legislators, regulators, and supervisors, including central banks," to work with derivatives dealers and end-users "to identify and remove any remaining legal and regulatory uncertainties" with respect to derivatives, including any application of statutes of fraud, the capacity of parties to enter into derivatives transactions, the enforceability of netting in bankruptcy proceedings, and the "legality/enforceability of derivatives transactions."

As we reported last week, speculative derivatives transactions are arguably in violation of the gaming and wagering laws of many nations, according to legal opinions included in the Group of Thirty's own report.

A third recommendation calls for legislators and tax authorities to "amend tax laws and regulations that disadvantage the use of derivatives." This call to increase the tax breaks to the speculators who have destroyed our economy, is a direct counter to Lyndon LaRouche's March proposal to dismantle the derivatives bubble by applying a 0.1% tax on the notional value of each derivative transaction.

The fourth recommendation calls for the "international harmonization" of accounting standards for derivatives transactions.

The recommendations to dealers and end-users involve issues of management, valuation of derivatives portfolios, and quantification of market risks.

An institution's involvement in derivatives, the report says, should be overseen by the highest levels of policy- and decision-making, and executed by specialists, using computer systems that "minimize manual intervention."

Institutions should mark their derivatives portfolios to market value at least daily for internal risk-management purposes, "even if they use a different valuation method for external reporting," the report says.

The section on measuring market risk is particularly amusing, full of talk of standard deviations, confidence intervals, deltas, gammas, vegas, thetas, and rhos, as if the derivatives market were a stable environment in which non-linear collapse were not possible, much less inevitable.

Taken as a whole, the Group of Thirty's report is a demand for the further abandonment of national sovereignty, in the name of protecting speculation.

But such demands, especially in the wake of the wipeout of the reserves of the Bank of France—in effect, the bankruptcy of the fifth-largest economy in the world—in the July currency wars, have engendered a massive backlash and put the critical issue of national sovereignty and the right of a nation to control its own credit, back on the table.