

## Northern Flank by Tore Fredin

### Derivatives debate hits Scandinavia

*The long-term influence of Lyndon LaRouche's forecasts is coming to the surface in Sweden and Norway.*

An unprecedented controversy over how to correctly assess the threat that so-called financial derivatives instruments pose to the monetary system globally, has recently erupted in Sweden and Norway. Both countries have a history of costly banking crises, particularly Sweden. At the same time, the long-term influence of American economist Lyndon LaRouche is starting to become visible.

What is happening in Scandinavia is being influenced by the ongoing debate in the U.S. Congress over financial derivatives. Leading economic dailies in both Norway and Sweden have documented the danger that the unsound speculative activities of derivatives represent, and have also given a fair account of the proposals by Rep. Henry Gonzalez (D-Tex.) to get this under some control. The press also reported on the General Accounting Office (GAO) report to the U.S. Congress urging more regulation of derivatives.

Anders Sahlen, the former head of Swedish Banking and Financial Inspection and now economic attaché in the Swedish Embassy in Washington, in an interview with the daily *Svenska Dagbladet* on May 21, compared current market conditions in derivatives speculation with the period just before the Swedish banking and financial crisis erupted in 1991-92. The situation today is similar, he said. We are underestimating the possibility of a systemic crisis caused by the interdependency of different markets, just as we in Sweden did before the banking crisis.

Sahlen criticized the unsound

banking practices which have led the three big Swedish banks, because of their involvement in derivatives speculation over the last few years, to acquire a turnover in off-balance-sheet items which is three to five times bigger than that in their balance-sheet accounts.

Interestingly, just one month before this interview was published, the Norwegian banking system was only hours from a breakdown because of heavy losses in derivatives speculation by Carnegie AS, the Norwegian branch of the Carnegie brokerage company which is a daughter company of the Swedish state-owned Nordbanken. Over April 16-19, Carnegie AS lost 300 million Norwegian crowns. Had Nordbanken not moved in to guarantee that it would cover the losses, the losses would have threatened the very foundation of the entire Norwegian banking sector, according to the Norwegian paper *Oekonomisk Rapport* on May 13.

This debate has led two parliamentarians from the populist New Democracy party to publish several articles on the issue in the conservative *Svenska Dagbladet* and the liberal paper *Idag*. The parliamentarians are proposing solutions to the financial problems in line with what Gonzalez has put forth. Their main argument is taken from material published by the Swedish Schiller Institute and, in one of their articles, they conclude with a quote from LaRouche.

Such references, of course, do not pass unnoticed. In an editorial headlined "LaRouche Comes Back to Haut" in the June 1 *Svenska Dagbladet*, the editors dismiss what the par-

liamentarians are proposing, namely, that the banks should use their liquidity for investment in infrastructure development instead of for speculation in derivatives.

"The American politician Lyndon LaRouche, formerly known as the economic guru of the European Labor Party, EAP," is quoted in *Idag, Svenska Dagbladet* wrote. "The medicine against the economic crisis which the authors are suggesting in their article is well in line with LaRouche's same old prescriptions. Among other things, the state should regulate the financial markets and 'invest in infrastructure, maglev trains and cable-run rail taxis.'"

This response is relatively emotionless, which cannot be said for that of Gothenburg University economics professor and financial adviser Johan Lybeck. In an article on May 30, Lybeck attacked the parliamentarians for "dotty pipe dreams" when they point to the fact that the speculation in derivatives is draining the market of liquidity which could have been used for productive purposes.

Lybeck is the leading academician in Sweden in this field. He has published textbooks on financial strategy and is the chief ideologue for the banks, defending their unsound practices. He ended his article ridiculing all ideas for a production-based credit system, which the two parliamentarians are calling for.

A more serious response came from Lennart Nyström, economist for the National White Collar Trade Union (SIF). He points out that derivatives speculation is threatening industrial renewal by imposing a speculative climate where the rate of return is driven up to levels unrealistic for industrial investments. Nyström criticized the parliamentarians for not making that connection more explicit and clearer—an accurate observation.