British TV: Derivatives Bring Down the System

by Mary Burdman

First impressions of the BBC2 film "The Man Who Broke Britain" are that this will be an attempt to create a scenario in which terrorists can be blamed for the looming meltdown of the world financial system. However, the film, first aired on Dec. 9, reviews just such a scenario and rejects it, to focus on the real "weapons of mass destruction" threatening international finance: the vast, unregulated, private derivatives market.

EIR and other publications associated with Lyndon LaRouche have been warning about the deadly dangers of derivatives for years, as have a few other voices in the financial wilderness. Now, many more alarms are going off. The film's authors—writer and producer Simon Finch, and writer and director Gabriel Range—consulted with the Bank of England and much of the British financial establishment on its making.

"The Man Who Broke Britain" is not the young Saudi trader in the City of London, apparently caught out for highly risky oil derivatives contracts, which implode when a terrorist attack destroys Saudi Arabia's biggest oil refinery. As the drama develops, it is made very clear that the men who break the British, and world, financial system are the executives of the fictional Sun First Credit Bank (SFCB), a high-flying City investment bank which has made huge profits in derivatives trading, focussed on oil. Attempts to blame the catastrophe on the Saudi trader, Samir Badr, are exposed as the work of SFCB's chief derivatives trader, one Philip Crighton, who was trying to shift the blame for his extremely risky trading tactics, onto alleged "terrorists." Media hysteria and political over-reaction, almost made it possible for Crighton's operation to succeed.

The underlying intention of this film is to inform the public about the enormous risks posed to their own welfare by the unscrupulous quest for banking profits at all costs. The key visual image of the film, is a tidal wave rushing over the financial centers of the City of London, New York, and other world headquarters, and taking all down before it. The film shows the entire British establishment—the Bank of England, the Treasury, intelligence—as clueless as to what is going on in the private markets, and helpless to do anything about it, as long as the system remains totally secret and unregulated.

The message is clearly urgent. The film is set in January 2005, and is so realistically done, that anyone turning it on, without having seen the introduction, could well think that the financial system is already in total meltdown. Along with the actors, it includes real clips of Chancellor Gordon Brown, Prime Minister Tony Blair, and U.S. President George Bush, looking appropriately pompous, frightened, or idiotic, as events unfold.

The film moves forward like a documentary, featuring realistic "news programs" and interviews with the main characters. One of the (few) heros of the piece—*The Times*'s financial correspondent named Darren Waring—explains, over and over, how derivatives developed, and why they are such a terrible risk to the financial system. Most people have never heard of derivatives, but this is the "world's biggest industry," worth 100 trillion pounds, 60 times the size of the U.K. economy. All this is, in reality, no more than a vast network of betting. He explains in detail how derivatives—basically, partners exchanging monies on potentially different movements of the values of an asset—were designed to take uncertainty out of the finance system by "sharing out" the risks of unpredictable events, such as foreign exchange fluctuations, political upheavals, or extreme weather. Derivatives were designed to take out the risks, but became just the opposite: used as a means of financial gambling and to exponentially increase profits.

Within days, the derivatives crisis in the SFCB story brought, as the fictional Bank of England governor states, the whole "system grinding to a halt." With OTC derivatives, the knock-on effect is so dangerous, that if there are any doubts about the credit-worthiness of a bank, it goes, causing the paralysis of the entire financial system, because derivatives themselves have brought an entirely new kind of instability.

The Real Danger

In the film, one year later, on Jan. 16, 2006, as hearings open into the collapse of SFBC, Britain is in turmoil, with tens of thousands in the streets. Unemployment has risen to "staggering" levels, the housing bubble has burst, pensions have evaporated. Even with the authorities expressing their "scorn" that there could ever have been a terrorist plot, or an al-Qaeda "sleeper" at SFCB, no one is responsible. Why? The catastrophe happened because derivatives are *not regulated.* Millions had lost their pensions, their investments, the value of their houses, but "negligence" in trading in unregulated derivatives, is not fraud. Even with riots breaking out in the streets, nothing could be done. The final words go to the *Times* reporter and to the Treasury. Derivatives, said Waring, had caused catastrophe: these "risk managers" had become financial Weapons of Mass Destruction. The final moments show secretary Wickson, walking along the Thames, reflecting, as he says, on how powerless politicians are against the global markets. When the Barings crash happened, authorities had to admit they had no idea what was going on. They knew that derivatives were dangerous, but let them become the center of the entire world financial system. The message is clear: Take warning!