Fed Issues 'Fair Warning' Of Huge Hedge-Fund Crisis

by Nancy Spannaus

The New York Federal Reserve Bank released a report about hedge funds on May 2, which warned sharply against "concentrations of risk" matching the situation in 1998 before the big LTCM hedge fund blew up, nearly taking down the international monetary system with it. That LTCM crisis led President Bill Clinton to propose an international conference to create a "new financial architecture," but no real steps were taken. Instead, a "wall of money" policy was adopted, that built up even further the unsustainable financial bubbles, that are now about to pop.

U.S. Democratic Party statesman and economist Lyndon LaRouche remarked, after reading this latest report: "Fair warning has been delivered."

Now, says the New York Fed report, "Recent high correlations among hedge fund returns could suggest concentrations of risk comparable to those preceding the hedge fund crisis of 1998." The reference to "correlations," in plainer English, means that the great majority of hedge funds are all making the same bets, investing in the same futures, buying the same kinds of debt, etc., so that a sudden eruption of financial losses would strike them all internationally, simultaneously, as in the Russian bond-default crisis, which struck down LTCM and many others in October 1998. Moreover, the hedge funds are making these investments with tremendous proportions of borrowed funds. "Similar trading strategies" and leveraged debt "heighten risk when funds have to close out comparable positions in response to a common shock," warns the New York Fed report, written by its capital markets economist Tobias Adrian.

British financial news sources such as Reuters and the *Financial Times* have stressed the New York Fed's warning; but, U.S. financial wires did not do so. Ominously, the U.S. financial media chose to play down the Fed's warning, because the New York Fed report said that different causes were operating on the hedge funds' speculations now. MSNBC's "Fed Says Hedge Fund Risk Is Less" was a typical, rose-colored headline in American media, trying to blunt the seriousness of the Fed's warning.

Larger Schemes Afoot

The Fed's warning comes at a time when the U.S. media is being swept away with euphoria over the new stratospheric heights of the stock market—even as the depth and extent of the collapse of the real estate market and automobile industry are growing dramatically. Mortgage-backed securities markets are experiencing deep losses. That some leading circles know that the blowout is inevitable, however, is demonstrated by an article in the May/June 2007 edition of the New York Council on Foreign Relations' journal, *Foreign Affairs.*

In that issue, the CFR has published a call for the end of sovereign nation-state control over currency. In a signed article by Benn Steil, Director of International Economics at the CFR, titled "The End of National Currency," the Council, in effect, endorses the end of economic sovereignty and demands the total capitulation of all nations, rich and poor, to unbridled globalization.

Briefed on the Steil policy statement, LaRouche denounced it as dangerous folly, and described Steil's proposal for a "trilateral" division of a one-world monetary dictatorship as an attempt to revive the "Persian Model" of a global empire, divided among regional powers. In the original Persian imperial model, there was a division between an eastern and western empire. Now, LaRouche warned, the CFR is promoting a "trilateral" division of the world, along precisely the Persian Model of imperial oligarchical rule. LaRouche drew the parallel to the Persian campaign to destroy Athens

Benn Steil's article in the latest issue of Foreign Affairs, *published by the Council on Foreign Relations, calls for an end to national sovereignty over currencies. Lyndon LaRouche denounced this as dangerous folly, and an attempt to revive the Persian Imperial Model.*

at the close of the Peloponnesian Wars and the present schemes, and also pointed to the parallels with the Venetian model of a private financier oligarchy ruling the world through control over debt and commerce.

Steil's Plan

In his *Foreign Affairs* essay, Steil argued that the solution to currency crises "is not to return to a mythical past of monetary sovereignty, with governments controlling local interest and exchange rates in blissful ignorance of the rest of the world. Governments must let go of the fatal notion that nationhood requires them to make and control the money used in their territory. National currencies and global markets simply do not mix; together they make a deadly brew of currency crises and geopolitical tension and create ready pretexts for damaging protectionism. In order to globalize safely, countries should abandon monetary nationalism and abolish unwanted currencies, the source of much of today's instability."

If there was any doubt that Steil was calling for a new form of super-imperial domination in a post-Westphalia, post-sovereign nation-state utopian world, he made that point clear, by citing the late 19th-Century period, leading into the First World War, as the high point of earlier globalization—precisely the period when the British Empire was at its apex. "The lessons of gold-based globalization in the nineteenth century simply must be relearned," Steil wrote, "Since economic development outside the process of globalization is no longer possible, countries should abandon monetary nationalism. Governments should replace national currencies with the dollar or the euro, or, in the case of Asia, collaborate to produce a new multinational currency over a comparably large and economically diversified area. . . . Most of the world's smaller and poorer countries would clearly be best off unilaterally adopting the dollar or the euro, which would enable their safe and rapid integration into global financial markets. Latin American countries should dollarize; eastern European countries and Turkey, euroize."

The fact that implementation of Steil's proposal would lead to a new feudalism, should be obvious. Whereas now, many poorer governments are deprived of the ability to issue credit to build themselves out of poverty, Steil's scenario would result in *all* countries losing that capability. A supranational authority would determine whether currency could be issued, and thus hold life-or-death power over the living conditions of populations. At a time when the financial oligarchy is confronted with many leading nations *leaving* the international financial institutions, and deciding to embark on great infrastructural projects on their own, it is clear that the global bankers are trying to put the brakes on this process, and reassert their own power.

Who Is Benn Steil?

Steil is a long-standing British operative with the assignment of inducing America to destroy itself.

In his *Foreign Affairs* article, "The End of National Currency," Steil ends by admonishing that were America, and other nations, to fail to heed his warnings, the financier oligarchy's "market may privatize money on its own." Steil, who was a Lloyds of London Tercentenary Research Fellow at Nuffield College, Oxford, joined Britain's Royal Institute of International Affairs (RIIA), also known as Chatham House, its elite policy-making body, in 1992, and was made director of the RIIA's International Economics Program. Then, in December 1998, Steil was transferred to New York's CFR, at the time that London intensified its effort to kill President Clinton's plan for a new "international financial architechture."

At the same time, it is the British-American Project for Successor Generations (BAP), of which Steil is now a Fellow, that has played a key Trojan Horse role against the United States. Sir Charles Villiers, from a high-ranking British family with Venetian roots, founded the BAP in 1985, and staffed it with crucial people. According to a Nov. 6, 2004 London *Guardian* article, headlined, "Friends in High Places," when Tony Blair was elected Prime Minister of Britain in 1997, he drew many of his cabinet ministers from the BAP, including Baroness Elizabeth Symons, who entered the Foreign Office, and then became head of Defense Procurement; Jonathan Powell, Blair's Chief of Staff; Peter Mandelson, a Blair intimate, who is now European Union Trade Commissioner; and others. Currently, one of BAP's sponsors is Lord Peter Carrington, former NATO Secretary General, and very high-ranking member of the House of Windsor's Order of the Garter.

Steil, who is a co-founder of the investment firm Efficient Frontiers LLC, which handles accounts of "high-worth individuals," has authored the books *Financial Statecraft* (2006) and *Building a Transatlantic Securities Market* (2002), which promote globalization.