

Written Testimony Submitted for the Record of

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Hearing on Hedge Funds

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Mr. Chairman and Members of the Committee, I am Lawrence Parks, Executive Director of the Foundation for the Advancement of Monetary Education and a member of the Worker's Education Local 189, CWA AFL-CIO. I am honored to have the opportunity to offer written testimony to this Committee.

For several years John Meriwether's Long-Term Capital hedge fund garnered many hundreds of millions, perhaps more than a billion, dollars annually in "profits" from currency and derivative trading. Consider the 3,000 other hedge funds along with major banks and brokerage firms doing the same thing. All told, back of the envelope, I reckon that these folks are pulling about \$50 billion out of the markets each year. Citibank alone, according to its 1997 annual report, garnered \$2 billion from this activity.

Since currency and derivative trading are zero-sum games, every dollar "won" requires that a dollar was "lost." But who are the losers that not only sustain but continue to tolerate these enormous losses year after year? Who could be so wealthy or so ignorant that \$50 billion each year doesn't matter? Haven't they realized what a losing proposition this has been? What's more, *why do they keep playing at a losing game?*

The answer is that the losers are all of us. And, while neither rich nor stupid, we've been given no choice but to continue to lose. Every time we, on behalf of our businesses or ourselves, change one currency into another, we lose transaction costs. Every time we hedge a payment from or to a foreign land, the cost of that hedge represents a loss of wealth. And every time one of these fiat currencies cannot be "defended," the workers, seniors and business owners of that country--folks like us--suffer big time.

Indeed, as their currencies are devalued, workers' savings and future payments, such as their pensions, denominated in those currencies lose purchasing power. Interest rates increase. Commercial relationships predicated upon lower interest rates unravel, and businesses go out of

business. Through no fault of their own, working people lose their jobs in addition to their savings. There have been press reports that, after a lifetime of working and saving, people in Indonesia are eating bark off the trees and boiling grass soup. While not a secret, it is astonishing to learn how sanguine the beneficiaries have become of their advantage over the rest of us. For example, famed financier George Soros in his recent *The Crisis of Global Capitalism* plainly divulges: "The Bank of England was on the other side of my transactions and I was taking money out of the pockets of British taxpayers."

To me, the results of this wealth transfer are inescapable. At the end of the day, a Malaysian worker has lost his life savings so that a Wall Street bond trader can buy a \$1,000 bottle of wine in an expensive restaurant in East Hampton. And what benefit to society could possibly justify Long-Term Capital's, other hedge funds' and particularly banks' and brokerage firms', ability to reap so much money from this activity? Does this "trading" result in any good or service that improves anyone's life?

All the more outrageous is that ordinary taxpayers subsidize this gambling through the "lender-of-last-resort" bailout facility at the Federal Reserve or through the International Monetary Fund. Whenever their reckless over-leveraging goes against these firms, the rest of us are called upon to bail them out! Even more incredible is the size of the bailouts. In the last twenty years, bailouts around the world have consumed almost \$600 billion of taxpayer money, with about a trillion dollars yet to come in Japan alone. This represents wealth transfer from ordinary people to financial firms, plain and simple.

I would like to think that the principals of Long-Term Capital, George Soros, and the principals of other hedge funds and the proprietary trading departments of banks and brokerage houses are not evil. I prefer to think that it is the fiat monetary *system* that is evil and corrupt. However, it is extremely unlikely that those who are on the receiving end of so much unearned wealth will cooperate in changing the system.

More imperative than the injustice of the wealth transfer is the fact that this malevolent system has brought us all to the precipice of a complete monetary collapse. The warnings are coming in ever-increasing frequency from those who ought to know, including Treasury Secretary Rubin, Federal Reserve Chairman Greenspan and President Clinton. In foreign lands, fiat monetary systems--which are very much like our own--have wiped out tens of millions of jobs along with the savings and pensions of two generations. The danger is that our jobs, savings and pensions may be wiped out as well. It's time to reexamine the evidence supporting fiat money and to reevaluate the resumption of a fair and honest monetary regime and a system of honest monetary weights and measures: the gold standard.

