Click here for Full Issue of EIR Volume 24, Number 44, October 31, 1997

EIR Economics

Black Monday, 1997 happened on schedule

by Marcia Merry Baker and John Hoefle

There's no denying it now. On Oct. 20, 1997, "Black Monday" occurred, centered on Hongkong and Asian markets, then wheeling back around, showed up within 72 hours, throughout the Western Hemisphere. On Oct. 23, a global meltdown of share markets took place, with the grand total of share values wiped out in one day worth billions of dollars. In Hongkong alone, $325 billion (in Hongkong dollars) is the loss estimate for Oct. 23, during the biggest one-day drop ever in the Hang Seng index.

The collapse is on. And in case anyone needed verification, you could read about it in your local newspaper anywhere in the world, even in the United States, where previous months of "virtual reality" had all but blacked out the subject of financial dangers. On Oct. 24, even the *Washington Post* ran, "Hong Kong Free Fall, Worldwide Ripple Effect Follows Months of Instability." On the other side of the world, the *South China Morning Post* headlined, "HK Triggers Global Sell-Off."

In this issue, we provide a chronology of some of the events over the past 15 weeks, leading up to the global markets' plunge of mid-October. Even before the October fireworks hit, losses in hyper-inflated stock markets over the year-to-date already amounted to an estimated $1.2 trillion.

The detonator date was the 10th anniversary of Black Monday, Oct. 19, 1987—the day when the New York Stock Exchange saw a 20% drop of the Dow Jones Industrial Average; but the specific day is of no significance. What counts is that Black Monday and subsequent market shocks hit *on schedule* in October, because they are the result of the impossibility of the international financial bubble (of speculation in stocks, currency trades, futures, derivatives, etc.) to continue in any way, shape, or form for much longer. Mid-October was a likely time for "Black Monday" for many reasons (e.g., Sept. 30 is the fiscal year end, or mid-point, for many governments and corporations), and it came to pass.

The timing, and nature of this unfolding financial breakdown, throw attention on the person who most accurately forecast these events: Lyndon LaRouche—the person with the demonstrated expertise to deal with the crisis. Over the past three decades, LaRouche has called it right repeatedly, on "market" episodes and behavior, because he has has been accurate about the state of the underlying economic and financial processes, including what emergency remedies are in order in this epic breakdown period.

Last spring, LaRouche singled out the likelihood of October for a fall in global share markets. In February, he advised no sane person to have any holdings in the stock market. In June he warned in a radio interview that, "sometime very soon, between now and the end of the year, possibly in the month of August—more probably, no later than October, but certainly, by around the end of the year—this world is going through one or two of the greatest shocks, financial shocks of the century." For those who are lured to stay in today's "sucker's market," LaRouche had this advice: "*Get out,* while the getting is good. Don't stay in for that extra buck you just *might* make. You might lose almost everything. *That's* what the story of the soaring stock market means."

Then, as events unfolded, LaRouche said in an Oct. 21 radio interview: "What is in process now, is an ongoing collapse, of various kinds of things, but a collapse which is *driven* by the impending collapse of a hundred-trillion-dollar-equivalent world derivatives bubble, which represents

© 1997 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

entirely current obligations—the same year—an amount which exceeds the total value of the product, the annual product, of all world nations combined; which means—the United States carries about 30% of that risk; and that's not the limit of short-term obligations—which means, that every banking system in the world, with the exception of China's, is presently bankrupt."

'LaRouche' *is* the financial news

Because of his reputation for calling the shots, and possessing the knowledge to deal with the crisis, LaRouche is now appearing in the news columns of many nations (with the exception of the United States).

What has become a hallmark of LaRouche's claim to fame, is his "Triple Curve" schematic representation, of how the *disassociation* of the direction of world financial and monetary valuations (hyperbolically upward), away from the physical economy (downward), would inevitably reach the unsustainable phase of financial crash and breakdown. LaRouche issued this "Triple Curve" image and analysis in 1995, during a tour of Italy and Germany.

Look at coverage of LaRouche during the week of 1997's Black Monday. On Oct. 22, the Brazilian business daily, *Gazeta Mercantil,* published a column by Vitor Grunewald, citing EIR News Service as its source, reporting that "the world financial system is heading toward a disintegration crisis in the short-term"; the article reports that U.S. economist Lyndon LaRouche, since February, has been circulating an "Appeal to President Clinton to Convoke a New Bretton Woods Conference," the which has received the support of thousands of key personalities from more than 20 countries, among them, three former heads of state—João Baptista Figueiredo of Brazil, José López Portillo of Mexico, and Godfrey Binaisa of Uganda.

In Nigeria, the magazine *Conscience International* (dual French-English edition, issued the week of Oct. 20) carries LaRouche's photograph on the front page, with the headline, "Exclusive Interview with Lyndon LaRouche, American Presidential Aspirant and World's Strongest Critic of IMF and World Bank." (See article, p. 12.)

The Black week

As the chronology below shows, over this summer, currencies, stocks, and assets in the four principal Southeast Asian nations of Thailand, Malaysia, Indonesia, and the Philippines lost 20-40% in value, in speculative runs initiated by mega-financial operators—most prominently, George Soros—in the context of International Monetary Fund-enforced "global finance."

The week of Black Monday opened with a bang. The Southeast Asian currencies and markets all dropped—Hongkong (Hang Seng stock market index fell 5%), Thailand (stock market fell 3.1%), Malaysia (down 3.4%), Singapore (down nearly 2%), Taiwan (down 4%); and currencies likewise down, with the Taiwan dollar at the lowest level since October 1987.

On Tuesday, the Hongkong Hang Seng stock market index fell another 4%, and turmoil continued. In New York, however, commentators gloated that Asia's pain was Wall Street's gain; the Dow index rose by 139 points, with attribution to outflows from Asia going into U.S. stocks. But scarcely had night fallen on this fantasy, when, on Wednesday in Asia, the Hang Seng fell another 6% (down a total of 14% in three days); and on Thursday, Oct. 23, markets fell in a swoop internationally—New York, throughout Europe, Mexico and South America, as well as Asia. So much for the idea that financial crises can be kept "separate."

On Oct. 23, the following declines occurred (in percent change):

Europe: Britain (–3.06), France (–3.42), Germany (–3.6), Belgium (–2.66), the Netherlands (–3.61), Switzerland (–2.61).

Asia-Pacific: Japan (–3.03), Hongkong (–10.41), Singapore (–4.72), Malaysia (–24.72), Philippines (–5), Australia (–2.53).

Americas: United States (–2.33 Dow; –2.16 Nasdaq; –1.84 S&P 500), Mexico (–4.54), Brazil (–8.15 São Paulo).

The big one: derivatives

While these share declines are spectacular in scope and implications, they are as nothing compared to what is in store from the financial blowout threat posed by derivatives—a threat in the process of being activated because of the current, inevitable fall in share markets, real estate, and all the other hyper-inflated venues of speculation. Internationally, the face value of derivatives contracts outstanding (hedges, options and futures of all kinds) is in the range of $100 trillion. In the United States alone, the top ten banks account for over $22 trillion of these contracts. The point is, that the highly leveraged nature of derivatives deals, means that once something goes awry, the *reverse-leverage* effect kicks in, to blow out nominal assets all the way through the financial bubble system. Think of simultaneous "Orange County" derivatives crises hitting all over, all at once.

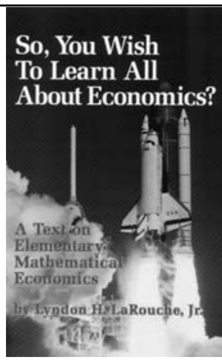
"This all is a horror story beyond imagination," was the view expressed to *EIR,* by one financial insider in Europe, in the wake of the Oct. 23 world stock markets' drop. He was referring specifically to derivatives, to market interconnections, and global contingencies.

This European veteran broker explained, "What we are now going through worldwide is the greatest test of the $100 trillion derivatives market since the October 1987 crash. I just spoke today with a good friend who is a major derivatives broker on the Chicago Board of Trade. I asked him to explain to a naive ignorant trader of only 30 years market experience the theory of derivatives, so I can grasp it. He said, 'Mark, it's simple really. It's called the theory of the spread. You spread your risk over many markets, so when one goes down, another rises, and you stay ahead.' I asked him, 'John, tell me then, what if *all* markets go down at the same time?' 'Mark, that never happens!' I replied, 'John, have you bothered to look at your Reuters financial screen today? It's not just Hongkong. It's New York, Tokyo, London, Frankfurt—every market is falling at once.' "

Thus, the reality of the financial breakdown is apparent, to at least sane people, even wicked ones. However, you will still hear commentary that, "the economic fundamentals are sound," and that, "the age of 'new era economics' means that no inflation and no crash need ever occur."

The debate between the "old" and "new" era economists, as Richard Freeman demonstrates in an accompanying article, is as phony as the talk about the "growth" of the economy and the "soundness of economic fundamentals." It's all a sideshow. The question on the table, is whether the governments of the world will exercise their sovereign powers to put the international bankers and their bankrupt financial system through the equivalent of bankruptcy proceedings, and launch an emergency campaign to rebuild the world's tattered productivity. The question is: Will the governments exercise their powers to save their populations from the looming horrors, or will they capitulate to the bankers and allow the world to sink into a new Dark Age?

So, You Wish To Learn All About Economics?



by Lyndon H. LaRouche, Jr.

A text on elementary mathematical economics, by the world's leading economist. Find out why *EIR* was right, when everyone else was wrong.

Order from:

Ben Franklin Booksellers, Inc.
P.O. Box 1707 Leesburg, VA 20177

$10 **Call toll free 1-800-453-4108.**
plus shipping ($1.50 for first book, $.50 for each additional book). Bulk rates available. Information on bulk rates and videotape available on request.

Chronology

The countdown to Black October, 1997

July 2

Thailand: After repeated speculative hits on the currency, the government de facto devalues the baht by instituting a managed "market float." There had been a strict exchange rate policy, since 1984. Within hours of the announcement, the currency sinks to 27-28 baht to the U.S. dollar, down from 24.25. Within 24 hours, the baht drops still further, by 20%. In May 1997, the Bank of Thailand lost an estimated $4 billion, trying to defend the baht against speculative runs.

July 11

Philippines: After repeated speculative runs against the currency, the government de facto devalues. Central Bank Governor Gabriel Singson, of the Bangko Sentral ng Pilipinas, releases a statement, mandating "the peso-dollar rate to move within a new wide range consistent with significantly changed market conditions." During the week of July 6-11, the Philippines spends $1.5 billion of their $11.5 billion foreign reserves attempting to defend the peso. The peso immediately collapses from an already low 26.4 to the dollar, down to 29.45. International Monetary Fund (IMF) Managing Director Michel Camdessus states that he "strongly commends the Philippine authorities for their timely and decisive action."

Aug. 15

New York: Dow Jones Industrial Average drops 247 points, one of the now-typical wide swings marking the unstable end-phase of the financial system.

Aug. 27

Philippines: Peso sinks to record low of 30.45 to the dollar.

Aug. 28

Philippines: Stock market sees largest one-day loss in 10 years, down 9.28% for the day, to 2,071.97 points.

Malaysia: Ringgit has fallen to its lowest rate since being floated in 1973, down to 2.872 to the dollar. It loses 4% during the week, under heavy sell-off driven by large international speculator funds. The Kuala Lumpur stock index falls 5.66% in the morning trading, breaking a four-year low of 799.56; it