

Worse financial crises ahead: Beware the ides of March

by Marcia Merry Baker

The opening weeks of the new year saw unprecedented financial crises and economic turmoil all around the globe. The late-January spikes in the Dow Jones index (to over 8,000 on Jan. 29) and in the Nikkei (to over 17,000) notwithstanding, what is shown by the tumult, is that only far worse lies ahead, unless and until intervention is made to bury the dead world financial system, and replace it with financial arrangements to restore national economies.

What is required are coordinated nation-serving actions similar to those implemented after World War II, to peg currencies, prioritize capital flows for development, and back production, consumption, and trade in hard commodities (food, capital goods, and so on), not hot-money flows. Some debts and claims can be rescheduled and paid; others should be isolated and ignored. The differentiation must be made, based on what is in the national interest, and what is not. The criteria include what needs to be honored in order to keep desired economic activity functioning.

The IMF is fuelling the crisis

Continuing any form of the International Monetary Fund approach is fuelling the crisis itself. IMF conditionalities call for layoffs, shutdowns, and restricting imports of food and basic items of consumption, while at the same time throwing money at crises, at hyperinflationary rates.

The past six months' impact of the foredoomed IMF bailouts (for the Philippines, Thailand, Indonesia, and South Korea), along with the self-inflicted IMF-style bailouts in Japan, Brazil, and elsewhere, are causing suffering, and are now rolling over into even bigger crises in the near future. In particular, there is a schedule of due dates during February and March that add up to conditions for potential chain reaction blow-outs around the world.

- *Indonesia:* On Jan. 27, the "silent default" on portions of the \$65 billion worth of private sector debt, of which some \$35 billion is due over the next 10 months, was acknowledged officially as a "debt freeze," or de facto debt moratorium. Since the Nov. 5, 1997 IMF bailout of \$43 billion was announced, the Indonesian rupiah has fallen 61%, the stock market has fallen 29%, and now food and other consumer prices are rising at an annual rate of 70%, under IMF orders to implement austerity. Many of Indonesia's largest firms, such as Sukses Indofoods, have been effectively bankrupted. A committee has been mandated to come up with ways to deal with the debt, on which committee will sit many representatives of London and British Commonwealth banks (such as Standard Chartered and National Westminster), which want payment commitments on the billions of hot portfolio funds they poured into Indonesia (as the second-largest investor in Indonesia, after Japan) since the 1960s. Where is the liquidity to come from? No one is saying.

- *South Korea:* On Jan. 29, the government of South Korea announced agreement to a stretch-out plan for some \$24 billion in short-term debt owed by the private sector, after weeks of negotiations with international creditor banks led by Citibank and Morgan. The short-dated debt is to be exchanged for one- to three-year maturing obligations, to be guaranteed by the taxpayers of the Republic of Korea. The agreed-upon interest rate will float from 2.25 to 2.75 points over the six-month London Interbank Offered Rate (LIBOR). The negotiators claimed that international liquidity will now flow into South Korea, and, that the new claims can be met. However, the economy is contracting at a crisis rate by the hour, and no flow of funds is in sight. Since the IMF's Dec. 3, 1997 announcement of a South Korea bailout of \$57 billion, the currency, the won, has fallen 33%.

Meantime, the IOUs among the *chaebol* groups (the industrial conglomerates) now coming due are unpayable, and not even acknowledged internationally. The IOUs are commonly in the 90- to 180-day range, and coming due are those from October-November, totalling an estimated \$5 billion. Companies are already defaulting. There is no collateral, because the practice has been to accept unsecured promissory notes based on the traditional strength of famous-name operations, such as Samsung electronics or Daewoo cars. Now, regardless of the Jan. 29 debt deal, the inter-company debt is set to explode.

- *Japan*: On Jan. 26, Finance Minister Hiroshi Mitsuzuka resigned, in effect as part of the faction fight against moves toward hyperinflation, and diverting public savings into financial bailouts. On Jan. 12, Prime Minister Ryutaro Hashimoto announced a bailout package whose total is approaching \$500 billion. The scheme was agreed upon by the central bankers of the G-10 countries, which met in Basel, Switzerland on Jan. 12, at the Bank for International Settlements.

- *Brazil*: As of Feb. 1, some \$18 billion (20.4 billion reals) worth of short-term government and other debt begins to come due. These debts are part of the build-up of internal obligations, which came about during the self-inflicted IMF-style response to the financial crises since last October. During that month, 6.9 billion reals of new short-term debt was issued; then, 2.5 billion in November; and, 4.4 billion in December. Now, there is no way to pay.

In Davos, Switzerland, where hundreds of world financial leaders gathered for the annual economics forum in late January, Brazilian President Enrique Cardoso planned to attend for the first time, to give a special briefing on Brazil's situation.

- *Russia*: During January, share values on the Moscow stock exchange fell at a rate of 28%, amounting to a fall of 51% since Oct. 1, 1997. Moscow had been considered the "emerging market" miracle of the year. The meltdown was led by a rush exit of foreign "investors," getting out while they can. On Jan. 26, Russian Treasury bills, GKO's, fell especially sharply, due to foreign sell-offs. Average annual GKO interest rates are at 35%, but a roll-over crunch looms as of February and March.

Feeding these prospects for more debt blowouts is the collapse of commodities prices and trade, especially oil. The price of oil has fallen in recent months from more than \$22 a barrel, down to \$14. Russia has been slammed, and many other oil-exporting nations as well.

Venezuela has joined the "Asian" crisis. In mid-January, the collapse in the price of oil and speculative attacks on the Caracas stock market pushed Venezuela into a national financial crisis. During Jan. 2-19, flight capital cost the Venezuelan central bank \$820 million of its reserves. The government raised interest rates as of Jan. 23, to 27% (for 30-, 54-, and 88-day deposits), in a desperate effort to stop the free-fall in the stock market and continuing capital flight. Meantime,

foreign hedge funds continued betting operations against the currency and stocks.

LaRouche: 'March is a very bad month'

Lyndon LaRouche, referring to these erupting crises, warned of the "ides of March," in a Jan. 28 radio interview on "EIR Talks." "As of this week, a de facto debt moratorium was established, partial but very extensive, established with respect to Indonesia," he said. "At the same time, the key director of the [Japanese] Ministry of Finance, who is opposed to looting the public funds, including the savings accounts of Japanese savers for the bailout, this guy resigned.

"The policies which Indonesia has had imposed upon it by the IMF and others, would lead to a hyperinflationary explosion of Indonesia at a very rapid rate. The policies which the Japan government has presently adopted, would lead, very soon, to a hyperinflationary blowout of Japan. Now, we're talking about blowouts on the order of magnitude in Asia, in East Asia, not counting anything that might affect China; we're talking about a couple of trillion dollars of direct banking involvement, assets involvement.

"If you put this together with the implicit explosion of Russia, which is now teetering, oh, perhaps by March: generally, March is a very bad month. And it's a deadline month at this time, for South America, Central America, Russia, and Asia. And, of course, the Middle East crisis can always make things worse.

"So, we're in this crisis, which, by the ides of March, can spell doom. Because you require only a couple of percent or so . . . collapse in the international short-term futures market, especially the derivatives market, coming out of the unregulated, unaccounted off-balance-sheet side of the derivatives market, to start a chain reaction, which can lead to an immediate, apparent operating bankruptcy of every banking system in the world except, possibly, China.

"And that means the exposure of France, of Germany, in particular from Europe—the exposure of the British to this crisis, is massive. The Asia crisis can blow out the entire European system. The United States economy is less directly, immediately affected by this than the British economy, or the British, London, and the European bankers. They can be blown out by this thing, blown out this year.

"Then, the chain-reaction effects of that hitting the United States, can blow us out, too. So, contrary to the rosy picture which the President tries to paint here, President Clinton, the world is in a disaster beyond anything comparable since approximately Fourteenth-Century Europe, when you had a collapse of the Lombard banking system, which led to a disappearance from the map of Europe, of half the parishes of Europe, and, within a relatively short period of time, through economic effects, such as famine, epidemic, and so forth, into a wiping out of one-third of the population of Europe. We can have such effects, and worse, on a global scale, beginning this year."