EIR Economics

Power, not money, is focus of post-crash scramble

by John Hoefle and Marcia Merry Baker

In recent months, the celebrity bankers of the era—Federal Reserve Chairman Alan Greenspan, Bank of England Governor Eddie George, and International Monetary Fund Managing Director Michel Camdessus—have made a point of speaking out, always using the past tense, of how their actions last fall *saved* the world financial system from potential meltdown. Reference is made to such crisis points as the Long Term Capital Management bust of September 1998, the Russian debt freeze, and others.

In fact, their "expert" interventions to date—hyperinflation, money rigging, IMF packages—have resulted in making the scale of crises even bigger, more frequent, and more damaging to the real physical economy along the way—to the point that the whole financial system itself is in the "goner" phase.

On July 14, Lyndon LaRouche commented on events, "The system is finished. It was on life-support, and now the life-support system has died. These guys don't know what they are doing. Their system is finished." Moreover, he advised not to look for rhyme or reason in what various financial power blocs are doing. Their actions are not being guided by financial survival anymore, but rather they are desperately jockeying to hold onto political power *after* the crash has occurred.

The whipsawing of financial hyperinflation and commodity inflation and deflation is under way, made evident in drastic swings in oil prices, all kinds of commodities, and elsewhere. The present situation is comparable to the hyperinflationary summer of 1923 in Germany, when pressure on the financial system drove people into the commodity markets, which, in turn, forced up commodity prices.

LaRouche emphasized that one should not look for exact "cause and effect," in any specific markets and moves. The financial oligarchs are under tremendous pressure, and they lashing out in all directions. They are, after all, not real people; they are "knee-jerks," in LaRouche's words. They are reacting, they have enormous debt obligations, and they have no assets. "Imagine you have a room full of rats, and the lights are out; and the rats are quiet. Then you turn on the lights. Don't look for a rational explanation for what each rat is reacting to. It's chaos."

One startling indication of the state of affairs, is the recent resignation of several of the world's highest-ranking financial officials. U.S. Treasury Secretary Robert Rubin resigned effective July 1, and Dr. Eisuke Sakaibara, Vice Minister of International Affairs at the Japanese Ministry of Finance, decided to retire before the New York stock market crashes.

Market commentator William Fleckenstein wrote in his Internet newsletter, "Market Rap with Bill Fleckenstein," www.stocksite.com, on July 7, about an item which appeared in the *Australian Financial Review* on May 24, written by William Hartcher, on Sakakibara's decision. According to the Austrialian article, Sakakibara "told an acquaintance that he decided not to press for another year in the post because he expected Wall Street would crash during that time and he did not want to try to be around to try to deal with the consequences for Japan.

"It would not only drag down the U.S. economy, he fears, but jeopardize the entire system of global capitalism. It is quite extraordinary, of course, that the Vice Minister of International Affairs at Japan's Ministry of Finance would utter such thoughts aloud.

"It was Sakakibara who first conceived the brilliant nickname for the U.S. economy—bubble.com. The U.S. is vulnerable, he says, to the possibility that the Internet-led stock market bubble would burst with awful consequences."

Bailouts are not working

Only last month, June 11-29, there was yet another gargantuan attempt to rescue the financial speculators, involving coordinated interventions into the currency markets by the Federal Reserve, the Bank of Japan, Germany's Bundesbank, and others, just to rig currency prices to save the Tiger Fund, the second-largest house of speculation in the world. The Bank of Japan alone spent $23 billion in buying foreign currencies, and dumping yen (see *EIR,* July 16).

But only days later, the turmoil has broken out again. Look at just the situation in Argentina and throughout Ibero-America: There are simply no "life-support" infusions that can save this dying system.

Over July 6-12, Argentina's Merval exchange dropped by 14.1%, falling 8.7% on July 12 alone. This, in turn, caused a 10% decline in the value of Global debt bonds which come due in 2017, and a 7% drop in bonds coming due in 2027. Brady paper dropped by between 2 and 4%. On July 13, Stanley Fischer at the IMF rushed to offer $2.8 billion for use as a stand-by credit, which was declined. Tremors were felt around the world, with the July 13 London *Guardian* wailing, "Global Markets Take Fright," as the Argentina plight prompted "fears of new emerging markets crisis."

On July 13, Brazil's National Treasury cancelled its planned auction of notes, previously announced for that day. This action was the first time the Treasury had ever interrupted a planned sequence of auctions. Four had been announced on July 6, through which 2 billion reals (Brazil's currency) in LTNs were to be sold, all coming due on July 5 in the year 2000.

A Treasury spokesman said the decision not to auction the bonds was due to "difficulties foreseen in the process of setting the prices of the bonds, given the moment of volatility in the prices of diverse financial assets." In an auction at the end of the previous week, the Treasury had had difficulty selling its paper, and then over the week of July 12, things got worse. The Brazilian government guarantees the yield on these notes, regardless of what happens to interest rates, currency, etc. Brasilia takes the losses, not the buyer. But still, on July 13, no buyers were expected.

In Mexico, where, in June, a stand-by credit line of $23.7 billion was announced by the IMF and the United States, it is already termed not nearly enough. On July 10, the Swiss daily *Neue Zürcher Zeitung* observed that the Mexican government and the nation's private sector owe $53 billion in foreign debt payments in the next 18 months, more than double the credit line. Mexico has been given some $100 billion in bailout funds and credit lines since 1996 (funds which go mainly to the big Western banks), and even though the Mexican government has intervened to help 16 of the nation's banks, the level of bad loans is still rising.

Breakdown of physical economy

The physical economy in Mexico is paying the price of years of such financial "rescues." Bufete Industrial, the nation's second-largest construction and engineering company, is on the verge of bankruptcy, and saw trading in its stock halted on July 7, to avoid "disorder in the market," according to officials at the Mexican stock exchange. Bufete, which has a market capitalization of $50 million, must refinance $100 million of bonds by July 15. AHMSA, Mexico's largest steel producer, just defaulted on $2.4 billion in debt, and faces dramatic cuts in production and personnel.

In Argentina, the effects of IMF looting are similarly devastating. Some 70,000 members of the nation's Armed Forces have been compelled to take "forced vacations" due to IMF-mandated budget cuts. By the end of this year, according to *Clarín*'s Ismael Bermúdez, Argentina's foreign debt will reach $160 billion, more than double what it owed in 1990. In order to finance a raise in teachers' salaries, the government voted to impose a 1% tax on the value of all vehicles, prompting a three-day strike by truckers which paralyzed the nation. The strike ended when the Argentine Congress voted to delay the imposition of the tax until November. But, what then?

Struggle for 'post-crash' power

These examples show that whole sections of the $300 trillions in financial obligations sloshing around the world financial system—debts, futures, derivatives—are collapsing, and nothing can prop them up.

Among the most blatant features of the battle over who will hold power after the inevitable crash, is the scam to drive down the gold price, and then consolidate control over supplies. The Bank of England's highly publicized announcement in May that it intended to sell off 415 of its 715 metric tons of gold holdings, for example, is designed to transfer that gold to the oligarchy, to use in establishing a system after the crash, in which the oligarchs, not sovereign nations, will call the shots. In effect, the customers (called "nominees") at the July 6 gold auction, were taking possession of the gold through rigged sales, and then parking it, against future need after the crash. This is not a money matter; it is a *power play*. On July 6, gold dropped to the lowest price in 20 years, $256.80 per troy ounce; and by July 13, it was down to $255.40.

Gold-producing nations from Africa to Russia to the Philippines have been hit hard. In South Africa, since May alone, six gold mines have established plans to lay off more than 11,000 workers, in an attempt to survive at the forcibly depressed gold prices. On July 6, East Rand Proprietary Mines Ltd., one of South Africa's oldest and deepest mines, filed for bankruptcy, which could threaten 5,000 jobs. With 103,000 mine layoffs already over the past three years, and 80,000 more threatened, South Africa's fragile economy is in trouble.

A Gold Crisis Committee of government, labor, and mining companies has been formed in South Africa, to try to deal with the job crisis. Pretoria is approaching the 14 nations in the Southern African Development Community to join forces. President Thabo Mbeki denounced the British move as "incomprehensible and unacceptable."

In London, on July 13, Her Majesty's government of Prime Minister Tony Blair reaffirmed that it will continue its policy of selling gold. The IMF plans to sell 10 million troy ounces, or 311 metric tons of gold.

But the oligarchs are also fighting among themselves. Look at the investigation now under way into Coutts & Co., for money laundering and fraud. Coutts is the British royal family's favorite private bank. Fraud investigations are under way by Manhattan District Attorney Robert Morgenthau, and by the New York Federal Reserve. Civil actions filed at the New York Supreme Court against Coutts charge that the bank specializes in tax evasion and money laundering. Coutts' customers, who must prove they have liquid assets of at least £100,000 before they are taken on as clients, include Britain's Queen Mother.

While the thieves fight among themselves, the opportunity presents itself for the friends of nations to make the post-crash period one of nation-building and economic development. In this regard, immediately below is a report on the trip to China on July 8-10, by Japanese Prime Minister Keizo Obuchi.

Japanese Foreign Minister looks to 'New Silk Road'

"Japan has set forth its Eurasian diplomacy as seen from the Pacific Ocean side, a new perspective announced in 1997 in building diplomatic relations with various countries in this vast continent." These are the words of Japanese Foreign Minister Masahiko Komura, in the January-March 1999 issue of *Japan Quarterly*. In an article entitled "Japan's Eurasian Diplomacy: New Perspective in Foreign Policy," Masahiko discusses Japan's attention to the "New Silk Road," or Eurasian Land-Bridge project for global international relations based on economic cooperation and reconstruction.

"Ten years since the Berlin Wall came down, the outlines of a new international order that can replace the stable order under the Cold War structure are still difficult to detect," he wrote. "It is now widely accepted that trying to stabilize international relations on the basis of balance of power backed by military force is impossible, and that the issues facing the international community cannot be solved, and stability cannot be maintained, without cooperation among countries, regardless how they align vis-à-vis the traditional west-east and north-south camps."

"Through Eurasian diplomacy," Komura continued, "Japan now seeks to build closer ties with Russia, China, and the Republic of Korea [South Korea], as well as with the nations of Central Asia and the Caucasus that make up the Silk Road region, and hopes thereby to foster stability on the Eurasian continent. The significance of Eurasian diplomacy thus resides in its propelling force for Japan's enhanced role in fostering a more stable environment in the continent."

The cornerstone of Japan's policy

He elaborated: "The cornerstone of Japan's Eurasian diplomacy is its relations with China and the Korean peninsula. . . . Strengthening relations with Russia is one of the top diplomatic priorities of Keizo Obuchi's cabinet.

"Diplomatic relations with the countries of the Central Asia and Caucasian region—the so-called Silk Road region—are an important dimension of our Eurasian diplomacy. . . . The Silk Road region has recently drawn worldwide attention as a potential source of supply of energy resources such as oil and natural gas. . . . Important not only for its energy resources, this hinterland of Russia, China, and Middle East nations is a key to the stability of the Eurasian region as a whole. . . . Based on these perceptions of the region, the Japanese government has sought to forge closer relations there in accordance with its specific action plan since the beginning of 1998. The effort is three way:

"Political dialogue to promote trust and mutual understanding;

"Economic and resource development cooperation to facilitate regional prosperity;

"Cooperation for peace through non-proliferation of nuclear weapons, democratization, and stabilization."

The Foreign Minister concluded: "Japan's foreign policy from the viewpoint of Eurasian diplomacy has only just begun. . . . It is my sincere hope that people will eventually come to realize that the adoption of this perspective will prove the occasion of greater strides in Japan's foreign policy."

In August, Foreign Minister Komura will travel to Iran, as one of the first initiatives of this Silk Road diplomacy. His trip follows Prime Minister Obuchi's recent successful three-day visit to China, where Prime Minister Zhu Rongji accepted his invitation to come to Japan for fuller discussions on economic cooperation.—*Paul Goldstein*