
Commentaries

Alarm bells ring about threat of global crash

The following is a selection of international commentaries on the danger of an imminent financial explosion—including growing recognition of Lyndon LaRouche’s accuracy in forecasting such a development.

LaRouche was right

Mohammed Aref, *Al-Hayat*, London-based Arabic newspaper, July 29:

In a front-page article, Mohammed Aref, Science and Technology editor, writes that what *EIR* has been writing in recent years on the American economy was just confirmed by a report issued by the Davos World Economic Forum. The article is titled “After the Spring of NATO, Came the Summer of Hot Thoughts . . . The World’s Eyes Are Fixed on the American Gorilla.”

Aref reviews a number of articles published in the American press, an article in the *New York Times* analyzing the impact of the war in Kosovo on the image of the United States and the “terrifying technological power” it has gained since the Gulf War. Aref says that the large number of reasons the author gives for why the U.S. has become a source of envy and even hatred by many nations, make things very confused. “Is it the dramatic rise in the Dow Jones Industrial index, which was only 2,000 points earlier in the decade to 11,000 point this year? Or is it the domination of American Internet and computer programs in the every-day life of people around the world?” asks Aref.

He then explains that “the correlation between the real economic situation and the war cannot be seen anywhere but in the ‘alternative’ Western press, which believes that the war was waged in the first place due to the troubles in the economy.” He stresses that “the amazing euphoria of activity in the American economy is regarded by radical publications as the last gasp of a dying person.

“What is exciting is that the estimations of this sort which have been repeatedly emphasized in the past years in the American magazine of ‘the opposite opinion,’ *Intelligence Review*, also appeared last week in the report of the international Davos Economic Forum’s report. The Swiss institution’s report points out that the United States, like Japan ten years ago, feels as if it were sitting on top of the world. But this may be nothing other than an economic bubble that can burst at any moment.”

Aref has written numerous articles on LaRouche, *EIR* and the Schiller Institute. His newspaper is the most widely read Arabic international daily in Europe, the United States, Asia, the Middle East and North Africa. It is owned partly by Prince Khalid Bin Sultan, son of the Saudi Defense Minister.

***Greenwich Times* and *Stamford Advocate*, Connecticut, July 24, coverage of statements by *EIR* Ibero-America Intelligence Director Dennis Small in New York City and nearby Greenwich, Connecticut.**

“An executive from the Lyndon LaRouche organization said yesterday that risky trade in derivatives and rising global debt could lead to economic Armageddon. ‘If we don’t turn around policy that is now coming out of [Federal Reserve Chairman Alan] Greenspan and the International Monetary Fund and get back to a policy like FDR championed—a policy of growth—we will see a financial blowout that will make the Great Depression of the ’30s look like a picnic,’ said Dennis Small, Ibero-American editor of the LaRouche magazine *Executive Intelligence Review*.

“In an interview at *The Advocate*, Small said the New York City-based Tiger Management hedge fund was risking hundreds of billions of dollars by betting that the Japanese yen would fall, while the value of the yen has been rising in the past couple of months.

“‘What is happening now is an even bigger blowout than what happened to [Greenwich-headquartered] Long Term Capital Management in September 1998,’ Small said. . . .

“Small spoke at Greenwich Town Hall yesterday and at the United Nations Thursday to espouse LaRouche’s economic policies. The 76-year-old LaRouche, a five-time Presidential candidate, plans to seek the Democratic Presidential nomination in 2000. . . .

“Small said global trade and productivity lag far behind the growth of the world’s money supply and debt is mounting.

“‘Russia is more than \$150 billion in foreign debt that they can’t pay,’ he said. ‘The same holds for all emerging market countries. You name it. They can’t pay, Brazil, Mexico.’ Small said LaRouche proposes putting the world economy in bankruptcy protection and getting the United States to invest in a project to link China with Europe via railroads, highways, and economic development corridors. . . .”

Mahathir ridicules ‘textbook’ economists

Malaysian Prime Minister Dr. Mahathir bin Mohamad guest commentary in *Mainichi Shimbun*, Japan, Aug. 2.

“Currency control as imposed by Malaysia is not generally understood by the international financial community,” writes Mahathir. “Their criticisms are therefore based more on their textbook models than on proper examination of what Malaysia has done. To understand the measures, we took it as necessary to look at the root cause of the financial

turmoil that undermined the economy of the country.

“The Malaysian economy and finances were very sound prior to the July 1997 attack on the ringgit. We had good reserves and very little foreign debt, either by the government or the private sector. There really was no reason why the currency should have become weak. But the currency traders, in their quest for big profits, borrowed the ringgit and sold it down repeatedly, thus devaluing it greatly. This meant our wealth was halved in terms of purchasing imported goods. Inflation set in, and people found difficulty in making ends meet.

“Clearly, the country’s economy would have collapsed completely, if the currency had continued to depreciate and the share prices remained very low. To prevent this, it was imperative for the government to regain control of the exchange rate of the ringgit and to stop CLOB from destroying the Malaysian share market any further. . . . [The Singapore-based Central Limit Order Book trades in ringgit without the approval of the Malaysian stock exchange or government—ed.] To stop this outflow of the currency, the government decreed that if within one month the offshore ringgit in whatever form was not repatriated to Malaysia, it would not be allowed to be brought back at all. Effectively, this rendered offshore ringgit worthless after one month. This forced offshore ringgits to be repatriated within one month leaving nothing for the traders to borrow and manipulate.”

After elaborating on how the currency controls helped keep the Malaysian economy safe from speculative attacks and to begin recovery, Mahathir adds the following remarks: “Today, Malaysia’s economy is growing again. We believe it is due to the controls we have imposed. But our detractors disagree and point out that the economies of other East Asian countries are also recovering. They say that even without controls Malaysia would recover. We believe that the recovery of other East Asian economies is due to the currency traders stopping their manipulation of the currencies. There are several reasons why they stopped. When Malaysia imposed controls, there was a fear that the other countries might do the same if the attacks continued. Secondly, at about this time, the Long Term Capital Management fund collapsed, threatening to destabilize the financial system of the rich countries. As a result, the banks stopped lending to the hedge funds, thus stopping them from attacking and devaluing the currencies of East Asia.

“The recovery of the East Asian economies also owes a lot to the Chinese government’s decision not to devalue the yuan. Had the yuan been made freely convertible, there is no doubt that the currency traders would have attacked it and plunged China and East Asia in even worse turmoil and recession. As it is, they tried to attack Hong Kong instead, in an effort to destabilize China. The Hong Kong government departed from its laissez-faire policy and defended the stock market strongly. The attack failed but Hong Kong’s economy and its reputation have been damaged.”

Mahathir also announced in his essay that on Sept. 1, Malaysia will “celebrate one year of defying convention,” that is, one year of resistance against the International Monetary Fund and the global speculators.

Wall Street analyst: Fed is in a quandary

Henry Kaufman, a senior Wall Street analyst, interview with *EIR* on July 26.

Within the Federal Reserve, he said, there is concern about the ballooning of stock prices and what Kaufman called “a certain amount of speculative fervor in the market.” The Fed is now monitoring equity market developments much more closely than years ago.

Greenspan’s own public pronouncements indicate that “the Fed really doesn’t know what to do about it,” Kaufman continued. Greenspan claims that a credit bubble is hard to define and to recognize, and Greenspan said it’s very important how you deal with it once it bursts. But they don’t think they can do anything about it while the bubble is in process, Kaufman said, “and I think the Fed is in a quandary on that.”

Kaufman explained the quandary as follows: Any statement Greenspan makes about the bubble today, is bound to contribute to a market sell-off. Secondly, “there really is no public support for the Fed doing *anything* about the bubble.”

The Way Out of The Crisis



A 90-minute video of highlights from *EIR*’s April 21, 1999 seminar in Bonn, Germany.

Lyndon LaRouche was the keynote speaker, in a dialogue with distinguished international panelists: **Wilhelm Hankel**, professor of economics and a former banker from Germany; **Stanislav Menshikov**, a Russian economist and journalist; Schiller Institute founder **Helga Zepp-LaRouche** from Germany; **Devendra Kaushik**, professor of Central Asian Studies from India; **Qian Jing**, international affairs analyst from China; **Natalya Vitrenko**, economist and parliamentarian from Ukraine.



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For example, more individuals are in the stock market today, through mutual funds, etc., and they want to see higher stock prices. Most business leaders don't want to Fed to do anything about the stock market, because corporate profits could begin to slide, and it hurts their stock options. "And I don't think there is anyone in Congress who is supportive of doing anything meaningful about the bubble," Kaufman added.

The conundrum is, "what do you do, from a policy standpoint, to correct this?" Kaufman said that when Greenspan made his "irrational exuberance" comments several years ago, he had the opportunity to do something, which was to raise margin requirements on stocks. "He didn't do that, because the Fed and the chairman really don't believe in selective intervention in the marketplace," Kaufman explained, so now, "here we are much later, at a much higher level of prices, and there is certainly no quandary here.

"I know of no time in the post-World War II period, when so much of the economic well-being of the United States and the world, hinges on the level of American stock prices."

Kaufman said that what everyone would like, is a modest sell-off, and then prices to "go sideways" for an extended period of time, so earnings can catch up. "I've never seen that," Kaufman chuckled.

The problem is not just hedge funds, Kaufman continued, although there is a lot of focus on hedge funds—especially around LTCM last year, in fact the issue of leveraging in the financial system is much broader. Most large financial institutions—securities firms, banks, insurance companies—conduct a huge amount of proprietary trading and positioning. The extent of this leveraging "is difficult to quantify," and the accounting profession hasn't caught up with this situation.

In fact, Kaufman said, hedge funds have slowed down their leveraging, but that void has been filled by traditional financial institutions. "That doesn't make it any better, but it's under a different cover." And it brings a lot more of this activity under the umbrella of the "too big to fail" doctrine.

The risk-taking now is moving much more into the open credit market, Kaufman points out. Formerly, the risks lay much more with commercial banks, around earlier crises in the 1970s and early '80s, such as Brazil and Mexico, and the problems were much more clearly definable and discernable, "and you could put your arm around it, from a management viewpoint as a central banker."

"Now, when you get into the open credit market, like LTCM was—and is—that makes a situation much more complex," Kaufman concluded.

Germany: Judgment Day coming

Hans Tietmeyer, outgoing Bundesbank president, speech in Frankfurt on July 27.

In what was probably one of his last appearances as Bundesbank president before he leaves office at the end of August,

Tietmeyer said that if the world economy looks like it is out of the worst danger right at the moment, nobody should be complacent, since we had a similar situation exactly one year ago. Shortly after that there was the Russian crisis, then the shock waves created by the bankrupt hedge fund LTCM. The prevailing outlook at this time was, said Tietmeyer, that "the Judgment Day" seemed to be very close. Turning to European Union monetary policy, he warned against neglecting the bad experiences of the 1980s, when permanent U.S. pressure led to a series of interest rate cuts all over the world. The result was the emergence of a "bubble economy," from which Japan is still suffering up to the present day, he said.

"Interest Rates Cause Fear of Stock Market Crash," *Die Welt*, Aug. 3.

The article quotes Roland Leuschel of Banque Bruxelles Lambert, saying, "After last year's turbulences, the crash had only been postponed. Now there are many parallels to the crash year 1987."

"The Crash Is Coming in Late Summer," *Frankfurter Allgemeine Zeitung*, Aug. 4.

The article summarizes the views of various financial numerologists, such as Walter Murphy of Merrill Lynch, who are invoking the "Elliott wave theory" and "Fibonacci number chart analysis" to warn of a major downturn on the stock markets.

Denmark: IMF is destroying Russia

***Politiken*, Copenhagen daily, editorial, Aug. 2.**

The editorial attacks the policy of the International Monetary Fund in Russia, writing that the average Russian was not impressed by the new IMF loan. Russians have not been helped by the old ones, and don't expect anything out of the new one. "That the impoverishment of the people continues, with the IMF's blessing, is shown by the economic plan which Moscow has signed, in gratitude for the loan." Moscow has agreed to produce a budget surplus, by slashing public services, mostly education and health care.

Besides increasing taxes, an effective bankruptcy law is the "big mantra" in the plan. "To let fall what cannot stand is healthy, but mass layoffs without investments in new jobs will just increase the number of poor people. Capital flight is greater than investments, and the new plan does not seem to change that. Those with economic power, called the oligarchs, who were created through hundreds of years of robbing wealth from society, seemingly do not need to fear the new, old government and IMF plan. They find it easier to go after average Russians, than after the oligarchy. According to the IMF, the state should not find money to invest in new production, rather the private sector, but without a policy that promotes that. We must draw the same conclusion as a Moscow newspaper, 'Russia has great need of change, but so do its Western creditors and advisers.' "