

Group of Seven meets as financial mudslide quickens

by Anthony K. Wikrent

The pace of the great financial mudslide is quickening as the finance ministers and heads of state of the Group of Seven (G-7)—Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States—gather for their annual economic summit in Halifax, Canada on June 15-17. Yet, despite the series of shocks in the past six months, which herald the end-phase of the collapse of the world's monetary and financial systems, it appears that the champions of usury, speculation, and post-industrial madness have squelched consideration of reality-oriented proposals, such as a tax on currency speculation or a return to fixed exchange rates, that have been advanced in recent weeks by the Canadians and Japanese, among others.

The crises, such as the Orange County, California bankruptcy, the collapse of the Mexican peso, the collapse of the U.S. dollar, and the obliteration of the British merchant bank Barings PLC, which, it is being claimed, have been effectively contained, are now more serious than ever. That's because it is a systemic crisis, as U.S. physical economist Lyndon LaRouche has repeatedly said, not isolated problems which can be solved by administrative means. Thus, in February-March the crisis involved Barings Bank; now, it is a crisis of confidence for all the British investment banks. In December, the peso collapsed; now, the entire Mexican banking system is sliding into the abyss.

Also on the crisis list is Japan's banking system. In early June, the Japanese Ministry of Finance unveiled its plan to rescue Japanese banks, which, the ministry revealed, have 40 trillion yen (\$474.4 billion) in problem loans, about 6% of all Japanese bank lending. (The U.S. savings and loan debacle, by comparison, amounted to 5.6% of all bank lending in the United States as of the middle of 1991.) Yukiko Ohara of UBS Securities told the *Wall Street Journal* on June 7 that the amount of problem loans could more than double

to 100 trillion yen.

Some Japanese banks are reportedly so weakened by bad loans that they are unable to continue lending to riskier borrowers, such as small or struggling companies. The Ministry of Finance had encouraged such lending, in the now-vain attempt to keep these borrowers afloat until an economic recovery would begin, and land prices begin rising again, shoring up the banks' balance sheets.

The crisis in Mexico

In Mexico, the business newspaper *El Financiero* reported on June 5 that a limited-circulation report was issued by Salomon Brothers which warned that, "in Mexico, the banks do not present accounting of cash flows, and in some cases do not even prepare cash flow accounts for internal audits. . . . It is impossible to determine to what point the bank is capitalizing interest. . . . Furthermore, application of government restructuring loans tempts bank managers to continue counting uncollectible loans until the point they are restructured."

The June 7 issue of *Economista* ran an interview with Bear Stearns' economist Tulio Vera, who noted that "Mexico will have to pay \$12.3 billion between June and August of this year, against income of only \$5.5 billion, therefore requiring the Mexican government to use \$6.8 billion of its international reserves which at the end of May totalled \$11 billion." Vera's numbers contradict those of the Mexican central bank, which claims that June-August payments will total "only" \$7.7 billion.

Vera said that "the weakest point of the Mexican economy is the banking system, which will see a further deterioration in its loan portfolios in the second and third quarters." *Economista* reported that, according to Mexico's National Banking Commission, the country's 15 commercial banks

have confiscated assets equalling some \$670 million—almost double last year's seizures. Nonetheless, the arrears of those same banks leaped 70% during the same period.

London has the runs

In the City of London, the Bank of England revealed that British merchant banks (such as Barings, Hambros, Kleinwort Benson, Morgan Grenfell, N.M. Rothschild, Schroders, and S.G. Warburg) had suffered a run by depositors following the sudden collapse of Barings PLC in February, with deposits falling from £51.7 billion in late February, to £46.8 billion at the end of April.

Foreign currency deposits also fell, by 12%, to £5.02 billion. This is a matter of special concern for the British, who have recently completed a study on how to maintain the City as a world financial center. The June 5 *Financial Times* reported that one senior banker noted it was only the third time in 35 years that the British investment banks had faced a crisis of confidence in the interbank market.

Also on June 5, the U.S. credit rating agency Moody's issued a report warning that the Barings debacle casts doubt on the credit worthiness of all other British merchant banks. In its news release, Moody's "acknowledges that U.K. merchant banking firms . . . have enjoyed a long history of success and still dominate their home market," but warns that "Britain's merchant banks may be burdened by too many weaknesses to preserve their current level of credit strength over the next few years." Pointing to the British merchant banks' lack of strong operations in Europe and the United States, and their rapidly rising costs, Moody's concluded that the "absolute capital [of the British merchant banks] may not be adequate for a modern, global investment bank," and they may be "ripe for consolidation and acquisition."

On June 8, the *Financial Times* reported that Hambros had seen its profits drop 58% in 1994, to only £37.1 million (\$58.9 million)—not enough to cover the scheduled dividend payout, which had already been cut in half from the previous year. The paper's "Lex Column" noted that "no continental European commercial bank looking to build an investment bank would buy Hambros. . . . It could be an ideal candidate for a break-up bid."

The apparent response of the G-7 seems to be to increase the powers of the International Monetary Fund (IMF)—the very institution that is most responsible for steering the world into this morass. A draft of a proposed G-7 final communiqué, prepared by Canada, the host government, and leaked via a Greenpeace-Friends of the Earth press conference in Washington, D.C. on June 7, states that "the prevention of crisis . . . requires an early warning system . . . [and] surveillance of national economic policies," and urges the IMF to: "establish benchmarks for the timely publication of key economic and financial data; establish a procedure for the regular public identification of countries which comply with these benchmarks; and insist on full and timely reporting by member countries of a standard set of data, provide sharper policy ad-

vice to all governments, and deliver franker messages to countries that appear to be avoiding necessary actions."

This may not go as far as giving the IMF authority to oversee the bankruptcy of nation-states—the idea which Harvard punk economist Jeffrey Sachs and House Banking Committee Chairman Jim Leach (R-Iowa), among others, have put forward in the past few weeks as a counter-proposal to LaRouche's call for the elimination of the IMF system—but it is also clearly inadequate when one recognizes the reality that administrative measures can no longer contain what is, in fact, an ongoing systemic collapse.

IMF under attack

The G-7 leaders would do much better to take heed of the increasingly vocal opposition to the IMF around the world. On May 28, Pakistan Prime Minister Benazir Bhutto attacked IMF conditionalities (of reducing tariffs and imposing a general sales tax), for preventing a recovery of Pakistan's economy. "We have to see whether these conditionalities suit our economy," she said.

On June 6, Venezuelan Finance Minister Luis Raúl Matos Azocar announced that plans for reducing the 1995 budget deficit did *not* include either a devaluation of the bolivar or an increase in gasoline or other fuel prices this year, as the IMF has repeatedly demanded.

In Toluca, Mexico on June 7, *EIR* correspondent Carlos Cota Meza delivered a hard-hitting speech to the Business Coordinating Council on "why Adam Smith is a gnostic, and why the practice of free trade is the worst sin against man made in the image of God." Replying directly to the chairman of the Bankers Association, who complained that Cota had "spoken in unacceptable and insulting terms of banking practices," Cota said: "For once, let us be humble and honest. . . . In any country of the world where the government has to come to the rescue of the banks, this is called a government intervention. In Mexico, we call it by such euphemism as the 'Fund for the Protection of Savings,' or some such nonsense.

"Under these covers, bankers have sucked \$35 billion in public subsidies. The entire world financial system is on the verge of total disaster, and the bankers are getting subsidized, all the while insisting they are for 'free trade.' Where has that money gone? What was it spent on? Meantime, the productive industries go under. Under those circumstances it is totally understandable if industrialists get mad . . . and even take such extreme measures as suspending their debt payments to the banks."

A businessman present said he had been reading *EIR* for four years. "They have been right in everything they said. They were right on Chiapas, which they warned about long before it happened, and, unfortunately, they were right on the economy. And they were right, alone, when all of us were saying the opposite; they stood their ground. I myself called them fear-mongers, extremists, crazies, and other names, but they have proven to be correct, and the rest of us were wrong," he said.