ill-conceived derivatives speculation between 1989 and 1992. The Parliament recently gave Prime Minister Dehaene emergency powers to rule by decree, reminiscent of the austerity-by-decree Heinrich Brüning regime in Germany in 1930-32. Dehaene's mandate is to slash public spending in order to meet European Union public deficit targets for the European Monetary Union, due in 1999.

Standard & Poors has put a number of German banks on its credit "watch list," expressing concern over the depression in German real estate in recent months.

Governments must act

The global financial system is in such a precarious state at present, that any of several events could trigger a collapse. Several European bankers have suggested that a crash in the inflated U.S. government bond market, triggered by soaring oil prices, could do it. Given the sheer size of the U.S. bond and stock market, that market is viewed by many as the greatest danger point. And given the United States' dependence on foreign borrowing to support its debt, a crisis in the dollar would detonate an explosion.

Foreign central banks' holdings of U.S. Treasury securities (long- and short-term), as of Oct. 2, totalled a record $591 billion. Rumors are rife that Asian central banks have begun to quietly dump dollars for other currencies. Were that to accelerate, and were European central banks to follow, and the dollar go into free fall, that in turn would pull stock and bond markets down with it. Given the extent of global financial derivatives contracts, some $40 trillion worth by BIS estimates, such a dollar crisis could spread at lightning speed.

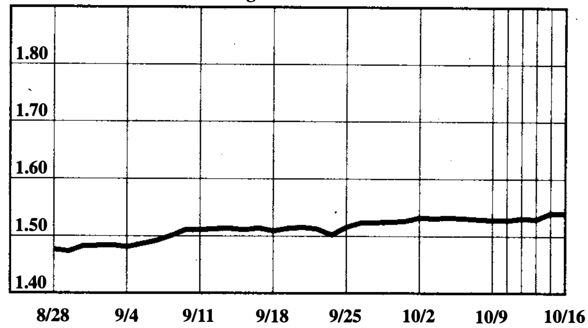
Whatever the possible detonator, the relevant issue at present is what steps governments are taking to preemptively deal with such a crisis. In the last such global systemic crisis, that of 1929-33, it was foolish governments, beginning with Herbert Hoover's United States and Brüning's Germany, which rigidly held to the orthodoxy of Montagu Norman and the Bank of England's gold standard. That monetary orthodoxy dictated savage public spending cuts to maintain budget "balance," and to stabilize the tie to the fixed value of gold. The result turned a stock market crash into a global depression.

Today, the very same governments are replaying the same madness. The deflationary role of the gold standard is now being played by the Maastricht Treaty's rigid limits on government spending for the 15 nations of the European Union. In the United States, the Republican Congress has blocked vigorous government action to rebuild national economic infrastructure, the only way to shift into sustained real economic growth again. When the full-scale financial dimension of the crisis erupts, these political fetters in the world's major industrial economies will prevent emergency action, unless there is a dramatic policy shift by the U.S. administration in the very near term.

Currency Rates

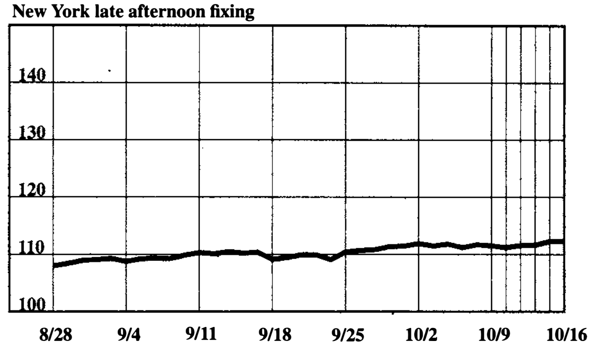
The dollar in deutschemarks

New York late afternoon fixing



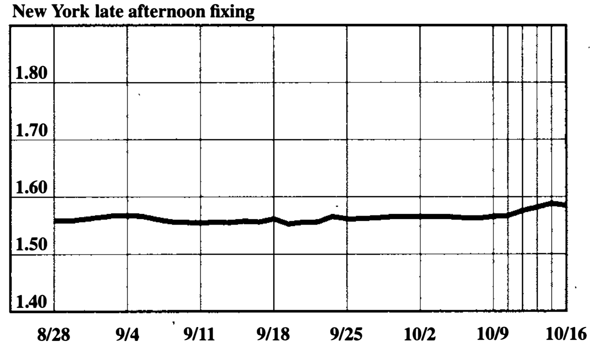
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing