the very problem they were trying to avoid. No exact data on the amount of yen loans are available, but indications are that the total is staggering. Japan's banks are the world's largest.

The crisis spreads

The effect of the panic has been, reportedly, that hedge funds and others began to liquidate their investments in Thailand and other Asian emerging economies, to get yen. The Thai baht, which is firmly pegged by the Thai central bank to the dollar, came under enormous selling pressure on May 14, as a result. To stabilize what some termed "a potential mini-Mexico crisis," the central monetary authority of Singapore, with its huge dollar reserves, announced, with Thailand, on May 15, a joint baht stabilization support against speculators. In the Philippines, banks began to get alarmed as the huge speculation boom in Manila's luxury real estate construction of the past two years came under threat. The Manila stock exchange index had plunged 19% since April, as foreign investors fled, eager to repay yen loans.

In South Korea, where heavy debt and the strong currency had devastated Korean exports, banks announced on May 20 an emergency rescue of a series of companies including Midopa Group, and Dainong textile company. The reason was to "prevent a chain-reaction bankruptcy crisis" in Korea. In January the famous Hanbo Steel Co. was forced to be bailed out by Korean banks, a victim of the collapse of exports, along with the interventions by the International Monetary Fund (IMF), the Organization for Cooperation and Development (OECD), and related London and New York financial interests, to "deregulate" and end the very labor and investment practices that built up the South Korean economy in the first place.

In Europe and the United States, hedge funds have been reported to be conducting massive selling of bond futures and bonds in German, British, and U.S. bonds, forcing interest rates higher as a result, potentially threatening a new international stock market crash. Unconfirmed market reports are that one large hedge fund may have lost upwards of $1 billion over recent market shifts.

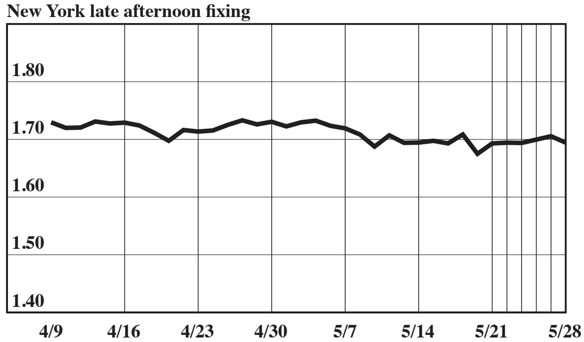
This is the non-Japanese side of the Japanese liquidity trap. To continue the low-interest, cheap-yen policy, will devastate Japanese insurance companies and weaken their banks, but will feed the global speculation bubble. But, ending the low-interest policy and raising the yen more, while it may help Japanese restructuring, will threaten a chain-reaction series of banking crises, which could bring down some of Japan's largest banks. Were that to occur, the U.S. financial system and that of Europe would follow.

That is the real reason for Greenspan's fear of raising U.S. interest rates even a mere ¼% more—the dilemma of a global liquidity trap. It is also the grounds for U.S. Treasury Secretary Robert Rubin's latest call, on May 21, for a strong dollar. This problem, however, will require more than words and cautious inaction.

Currency Rates

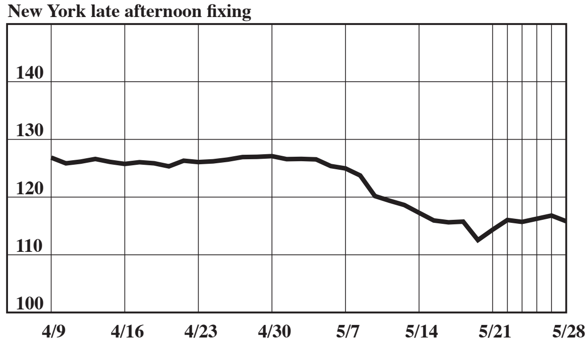
The dollar in deutschemarks

New York late afternoon fixing



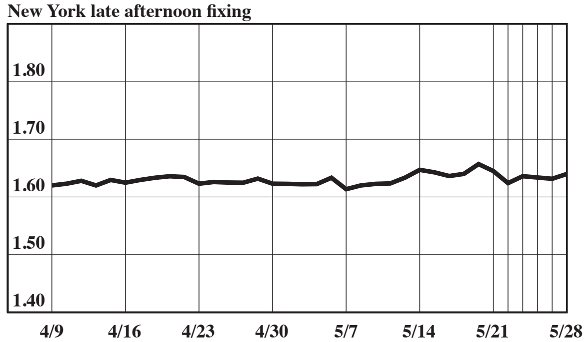
The dollar in yen

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