

Editorial

Japan crisis, or global blowout?

The air of unreality concerning the world's financial markets is very thick. But, behind closed doors, there is intense discussion about the possibility of a "Mexico-style" disaster occurring in Asia, or some developing-sector market. There is also heated debate about how to avoid a dramatic banking crisis in Japan. This discussion is a cover story, however. It is the entire world financial system, bloated beyond what any sane person from the 1950s or earlier might have imagined, that is on the edge of a blowout.

One of the most visible Cassandras on the scene is Klaus Engelen, the chief editor of the German economic daily *Handelsblatt*. Engelen has periodically raised the alarm. In early May, Engelen reported on the discussion at the joint conference of the Asian Development Bank and the Washington Institute of International Finance in Fukuoka, Japan. Engelen noted, "A high-ranking official of the U.S. Treasury, who doesn't want to be named, shocked the gathering of bankers in Fukuoka with a quite alarming scenario. His main thesis: Banks and investors should not have any illusion about their emerging market operations, that thanks to the Basel supervision [by the Bank for International Settlements] and the IMF [International Monetary Fund] security net, a new global financial stability is now in the making."

Engelen said that, to the contrary, the U.S. Treasury official, whom he later identified as Timothy F. Geither, head of the U.S. delegation in Fukuoka, was pointing to the rapid globalization and technological change in financial markets, which will result in "completely new dimensions of instabilities and susceptibilities" for bankers and investors. "He explicitly warned about overestimating the impact of the initiatives, that were started since the Mexico financial crisis at G-7 summits, including the recent 25 Basel core principles, concerning the emerging markets." In light of the huge capital flows into Asia, Engelen quoted the U.S. Treasury official, "the smallest causes, for example, *bad press reports* which are spreading doubts among investors, could have ever bigger consequences due to ever more gigantic capital flows."

Perhaps this explains why there have been so few of those "bad press reports."

Engelen, however, has not shut up. On May 22, his paper, *Handelsblatt*, published an interview he conducted with the new head of the Bank for International Settlements, Tom de Swaan. Once again, the warning was stark: "The globalization of financial markets, in particular the banking systems, and the increasing role of the emerging markets in Asia and Latin America, have increased the vulnerability of the world financial system and the corresponding risks," de Swaan told *Handelsblatt*.

Of a similar mind is Norbert Walter, the chief economist for Germany's Deutsche Bank. Walter addressed a meeting of Christian Democratic youth in Frankfurt, Germany on May 23, and responded to a question about the danger of a systemic financial blowout. In a case of fairly obvious hysteria, Walter proceeded to itemize the vulnerable areas of the world financial bubble—Thailand, Malaysia, Indonesia, the Czech Republic, Russia, and Japan, among others—and concluded that "all this does not pose a systemic risk, neither for the financial system, nor for the euro [the common European currency]."

Which underscores the reason why economist Lyndon LaRouche is the only forecaster you can trust on financial matters. LaRouche, *EIR*'s founder, is a physical economist who not only understands why financial crises occur, but who also has developed a competent approach toward putting the world financial and economic system back together.

In his radio interview with "EIR Talks" on May 27, LaRouche again issued a "financial health alert," warning that the June period is likely to see the evaporation of the stock markets' "dead-cat bounce" recovery, with a "lollapalooza" of a new collapse coming. Those who stay in the market for that extra margin of earnings are likely to get slaughtered.

It probably won't be the last round, but, if LaRouche's New Bretton Woods proposal is not put into effect soon, it will only be a precursor of even more devastating shake-outs to come.