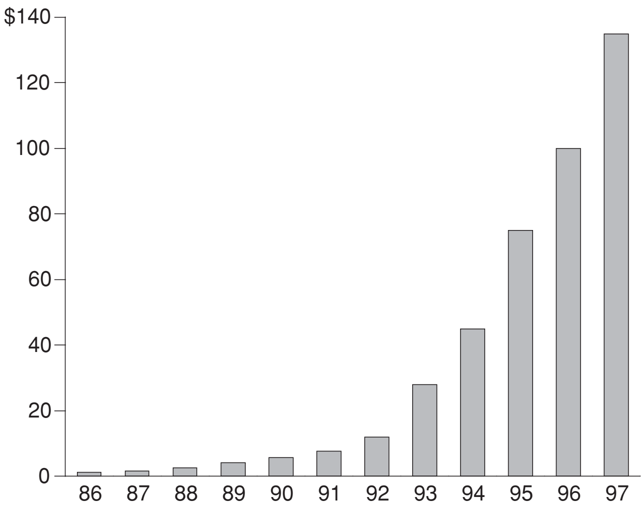
FIGURE 1
World derivatives growth: The cancer takes over
(trillions $)



lion—an increase of 27.2% in derivatives holdings over the year before, of $18.71 trillion. When the significant derivatives holdings of U.S. investment banks like Goldman Sachs and Salomon Brothers, as well as U.S. insurance companies and other U.S. companies, is added in, total U.S. holdings of derivatives swelled to $40 trillion. U.S. derivatives are five times the size of the Gross Domestic Product (GDP).

On March 24, the German Bundesbank revealed that the derivatives holdings of German banks had reached 25.9 trillion deutschemarks in 1997, compared to DM 16.8 trillion the year before, and DM 10.4 trillion in 1995. The German volume had grown two and a half times in two years. The German derivatives bubble is now seven times the size of its GDP.

Figure 1 shows the world derivatives cancer. These bets are future obligations that have to be met, out of the flesh and blood of the world's economies.

It is not possible to believe that the top four U.S. derivatives-holding banks hold only $5 billion in derivatives in Asia, when these four alone hold $20.2 trillion internationally. But the $489 million loss of J.P. Morgan in South Korea, stemming from its dealing with SK Securities, and the potential of $8 billion failed derivatives contracts by the defunct Peregrine investment firm of Hong Kong, in Indonesia, indicate that a swell of derivatives losses in Asia is to be expected, as the "Asia phase" of the world crisis deepens.

Derivatives failures travel electronically, at the speed of light. Derivatives are connected across markets and across countries. The "Asian" derivatives disasters of the morning, are American and European disasters by lunchtime.

International Commentary

Some reality pierces veil of virtual reality

The first two statements quoted below belong in the category of "out to lunch."

IMF Managing Director Michel Camdessus, press conference in Bishkek, Kyrgyzstan, May 27:

With reference to Russia's troubled markets, Camdessus said, "Contrary to what markets and commentators are imagining, this is not a crisis. I believe that with these measures, with the very strong reactions of the monetary authorities to the latest turbulence in the market, the turbulence could normalize soon. I believe and I hope."

U.S. Federal Reserve Chairman Alan Greenspan, testifying before the House Agriculture Committee, May 21:

"There was, and is, a small but not negligible probability that the upset in East Asia could have unexpectedly large negative effects on Japan, Latin America, and eastern and central Europe, that, in turn, could have repercussions elsewhere, including the United States." Greenspan went on to press for Congress to approve the $18 billion funding package for the IMF.

Erik Guyot and G. Pierre Goad, "Off-Balance-Sheet Items Threaten to Balloon Massive Liabilities of Indonesian Companies," *Wall Street Journal,* May 26:

"If you thought the foreign debt Indonesian companies was big at an estimated $80 billion, think again.

"There's another hefty pile of Indonesian liabilities that aren't included in official statistics: so-called off-balance-sheet items such as foreign-exchange contracts and other derivative contracts between Indonesian and foreign firms."

The authors take the case of the now-bankrupt Peregrine Fixed Income Ltd., which had, for every $1 it lent, $10 in foreign exchange contracts or other derivatives. "The total size of Indonesian companies' derivative contracts is almost impossible to calculate," the authors state, "given the wild swings in the value of the rupiah and the hidden nature of many of those transactions."

José Neme Salum, "Russia, in the 'Eye of the Hurricane' of the World Financial System; a Situation like Indonesia's Is Possible," *Excélsior,* Mexico, May 25:

José Neme Salum interviews *EIR*'s Ibero-American editor Dennis Small; the interview was also reproduced in the

Dominican Republic newspaper *Hoy,* on May 26.

Small was in Mexico for an *EIR* seminar on Lyndon LaRouche's "Science of Long-Term Forecasting." Neme quotes him saying that "Russia is an integral part of the European continent, but also of Asia, and forms part of the stability of both regions. Therefore, in the present phase of the systemic, not cyclical, crisis, of the international financial system, a Russian collapse would have tragic effects across the globe."

Small emphasizes that the social explosions in Indonesia must not be viewed as some kind of "failure by the IMF," since it is precisely such a social meltdown that the IMF and its masters seek to provoke: "Not the stability of economies, but rather a rapid process of destruction of national institutions, in the Jacobin mold of the French Revolution, to achieve the so-called New Age: global order."

Neme quotes Small saying that Russia is "being pushed to its limit by the conditionalities which the IMF has imposed on the former Soviet power. . . . Russia today is in a situation similar to that of Mexico in November 1994. . . . In order to sell their GKO Treasury notes, the Russian government has increased interest rates to attact international speculators. . . . But not even 35% interest rates, offered 10 days ago, could attract capital, and the government had to buy its own notes. . . . Last week, they had to raise their interest rates from 35 to 45%."

Neme explains that "30% of the government budget is going to pay debt service, when a year ago only 13% was used; it is expected that, for the year 2000, that percentage will rise to 70%. 'This is a cancer that is destroying and consuming Russia,' says Small. 'With all due respect to Indonesia, Brazil and Mexico, Russia is a different matter—it is a major nuclear power which is being driven out of control.' "

Small elaborates on LaRouche's proposals for great infrastructure projects like the Eurasian Land-Bridge, development of nuclear power, and the colonization of the Moon and Mars. He insisted that Mexico must dare to resist the globalization fanatics, and must acknowledge that the last 25 years of international political economy have been a tragic error. Writes Neme: "Small emphasizes that it is 'a strategic error to say that we cannot go against the current of globalization: the two largest nations in the world are China, with a population of 1.2 billion, and India, with 1 billion. Those two countries are totally opposed to globalization: they don't have convertible currencies, they have exchange and capital controls, and India, as we saw recently, took the sovereign decision to develop a thermonuclear capability to defend itself, under the current destabilizing conditions of the world. They broke with technological apartheid.' "

Small concludes: "The world must dare to travel uncharted paths—not the IMF's way, which takes us to destruction, but a new path, the only one by which we can save ourselves: LaRouche's proposal for a New Bretton Woods."