FIGURE 10
Indonesia's currency
(U.S. dollars per rupiah)

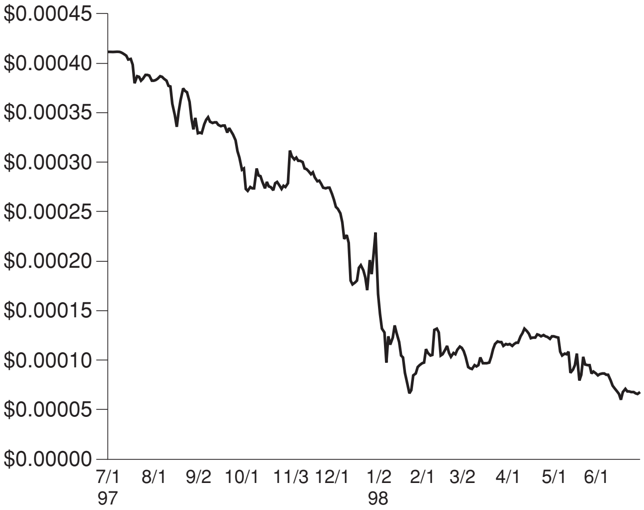
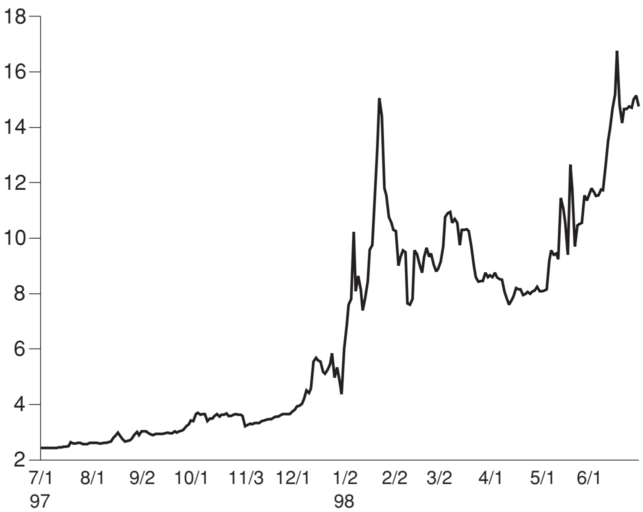


FIGURE 11
Indonesian rupiah needed to pay a U.S. $1 million debt
(billions of rupiah)



Commentaries

Brows furrowed over financial collapse

Germany: Robert Kuttner, a columnist for *Business Week,* wrote a commentary in Hamburg's weekly *Die Woche* of July 10. After complaining that even the leftist governments in Europe kowtow to neo-liberalism, he continued: "Calls for a new Bretton Woods have been voiced. And, in a certain sense, also U.S. Treasury Secretary Robert Rubin and also Federal Reserve Chairman Alan Greenspan have silently joined this critique. . . . It is too risky, to leave the fate of the economy at the hands of speculative capital and unstable currency reserves.

"In the last 20 years, the U.S.A. and other big powers have intervened five times, to contain the damage caused by speculative capital. In the end, these were five violations of the idea that currency exchange rates should be fixed by the market. So far, however, the western governments are undecided, as far as a return to a system of stronger regulation of capital flows and exchange rates is concerned. But that is exactly what the center-left governments would need to gain greater political maneuvering room. They would need it, in order to pursue a policy of high growth rates—the only guarantor of social justice.

"We must recognize the importance of Bretton Woods, again. That conference fixed the exchange rates. Since the central banks were obliged to collectively support the fixed rates, speculative deals and worldwide capital flows were ruled out. This was the most important result of Bretton Woods: The regulation of capital created the protection which enabled governments to build welfare states with a high employment level and high growth rates—free from the downward-pointing competitive pressure of the global capital markets."

France: Major publications predicted financial apocalypse in July: *L'Evénement de Jeudi* on July 7 published remarks by megaspeculator George Soros stating that "we are on the eve of a collapse of the system."

The most outspoken, however, was former adviser to the late President François Mitterrand, Jacques Attali. In a front-page column in the Paris daily *Le Monde,* headlined, "The Titanic, the World Cup and Us," he said: "A financial iceberg? We are heading into it, full speed: It is not possible to have long-term growth in stock market values which is triple that of interest rates, to have insanely overvalued markets, creating fictitious and unjustified wealth for title holders, pension funds, or other investors [who are] convinced that they have the time to turn their virtual formulas into reality just before their values collapse."

Argentina: Columnist Carlos Scavo, in the July 7 daily *Clarín,* referenced information from *EIR* (although unattributed), and noted that many American Congressmen are concerned about the merger mania going on in the United States. He said that they have warned that this could lead to cartelization, which threatens "healthy competition."

In this context, Scavo reported that "as of now, the group from the Democratic [Party's] right wing, led by the colorful Lyndon LaRouche, has predicted that it will be easy [for banks] to charge any interest rate," because of these mergers.

United States: Former Polish Deputy Prime Minister and Finance Minister Grzegorz W. Kolodko wrote a commentary for the July 7 *New York Times*. Russia, he warned, is killing its economy by complying with IMF conditionalities. This policy, Kolodko says, was "the infamous" shock therapy, or "shock without therapy, as we called it."

Kolodko, whose government service spanned 1994-97, stated that the International Monetary Fund's idea for Poland was to privatize "as quickly as possible," but "this led to growing poverty and unemployment as well as social and political tension." He points to the fact that 45% of the Russian budget now goes to the "ever-rising cost of servicing the nation's debt," as part of the "mismanagement" of the economy. The IMF and Russia "are throwing hot grease on the fire by insisting on stringent measures in return for a bailout," which includes not paying wages or pensions, and shredding the population's social safety net. No further IMF bailouts should be imposed, he insisted.

Asia: "The Case for an Asian Return to Fixed Exchange Rates" is the headline of a commentary in the July 2 *International Herald Tribune* by Malcolm Dowling, a former assistant chief economist at the Asian Development Bank in Manila. Dowling makes the case that, while the IMF and industrial nations would be "outraged" if the Asian debtor nations suspended convertibility of their currencies, and went back to fixed exchange rates tied to the dollar or a basket of currencies, "there would be compensations that outweigh the disadvantages, particularly in the short run."

The advantages that he mentions are the ability of Indonesia, Thailand, South Korea, etc. to "lower interest rates, expand short-term credit to exporters, and begin to revitalize production and stimulate growth." Also, the burden of external debt would be lightened. "At the very least, the Asian crisis should prompt a fundamental re-examination of the way international trade and payments are conducted."

Commodity price fall is harbinger of depression

by William Engdahl

While financial press and governments in Europe and North America have touted a growing economic recovery, the collapse in recent weeks of prices of major industrial and energy commodities is a far more ominous, and more accurate measure of reality. Raw materials prices across the board, from copper, to aluminum, to nickel, to crude oil, have been plunging since the beginning of the year, as the scale of the Asian collapse worsens beyond calculation.

While even leading economists and officials from the World Bank begin to use the word "depression" to describe what is hitting many Asian economies, the fall in commodity prices reflects an imminent fall in production of manufactured products, not only in Japan and Asia, but also in the Organization for Economic Cooperation and Development (OECD) industrial regions of Europe and North America. The following elements are indicative of the dramatic scale of developments which so far have been restricted to the back pages of most European and American press.

The most widely used index of commodities prices, the Commodity Research Bureau's (CRB) Raw Industrial Spot Price Index, has fallen 16% since the onset of the Asian crisis in August 1997, its lowest level since that on the eve of the Persian Gulf War in early 1991. In terms of specific industrial metals which comprise the CRB index, prices in dollar terms (most major commodities are sold on world markets in dollars) since the beginning of January have fallen by 25-30% for aluminum and nickel, up to 40% for copper.

Collapse in demand

Copper, nickel, and aluminum are some of the most basic industrial base metals (that is, metals excluding gold, silver, platinum), essential to any growing manufacturing economy. Their price collapse is not surprising, given what has been under way in the past 12 months radiating out of Asia. Year-on-year demand for purchase of base metals in South Korea, the eleventh-largest industrial economy in the world, is down 25%. In Thailand, demand is down 50%, and in Indonesia, demand for all base metals has collapsed 75%.

This, when, at any given moment, the crisis in Asia is within hours of reeling out of control into a global crisis. Total Asian demand for base metals, including China and Japan, is