This approach seems to go in the direction of the bankruptcy reorganization proposals LaRouche has often proposed. But the acute, terminal nature of the present systemic crisis requires that any "new architecture" take on the fundamental features of the LaRouche "New Bretton Woods" proposal, which is gaining wide support throughout the world.

Global collapse demands a New Bretton Woods

by William Engdahl

A banker with one of the largest European banks told *EIR,* "I am now convinced the world is coming into currency and capital controls, to a new Bretton Woods as Mr. LaRouche calls it, as the only way to save things." The banker added, "Clinton's New York speech to the Council on Foreign Relations is very important in this light. The American President is the only one who can make such a call. It should have been made before Russia's crisis, but better late than never."

Remarking on the content of Clinton's CFR speech, he noted, "Re-organization of the IMF [International Monetary Fund], development of a new architecture similar to the original idea of Bretton Woods, these are big proposals which Clinton now has put on the table. This is the response I have been looking for for some time. It at least signals an attempt by the President to try to forge some consensus on the crisis."

By all indications, the President's call for an emergency meeting of the Group of 22, an ad hoc gathering which met first in April in Washington, to consider measures to deal with the growing global financial and economic crisis which broke out in Asia, comes not a minute too soon.

While major stock markets of the Organization for Economic Cooperation and Development (OECD) industrial countries appeared for several days in mid-September to have momentarily recovered some lost ground, following drastic plunges of several weeks, the global economic crisis had gathered momentum, with prospects of a financial system blowout likely to erupt at any moment.

Japan at the center of the crisis

On Sept. 17, Tokyo's Nikkei Dow stock index fell to 13,800, its lowest level in 12 years. Japanese banks calculate the market value of their core, or permanent stock holdings in related companies, the Japanese Keiretsu, two times per year, on March 31 and Sept. 30. At a Nikkei level of 14,800, the OECD estimates that these hidden stock assets of Japan's 19 largest banks fall to zero, or become a loss for the banks' balance sheets. The severe slide in the Nikkei, should it last until Sept. 30, is likely to force several banks below the internationally mandated Bank for International Settlements' 8% bank capital ratio, fuelling new fears of a Japanese banking meltdown.

The proximate trigger for the Nikkei slide in recent days was the failure of the Obuchi government to come to a compromise with the opposition-controlled Upper House of Parliament, on emergency measures to deal with country's estimated $2 trillion in bank bad loans. The size of the problem is so mammoth, that it defies attempts to deal with it within the current, bankrupt financial system. "I am very pessimistic on Japan," commented Alex Balfour, manager of a London-based fund specializing in Japan. "The Bank of Japan last week cut call-money interest rates to 0.25%, as an act of sheer desperation over the continuing policy paralysis of the government. It was an attempt to shame the government into acting. The economy is collapsing, housing starts are down 40%, bankruptcies are soaring to a postwar record."

Even without a new phase of Japan bank crisis, the first-ever default by a sovereign debtor, Russia, on its foreign and domestic loans in late August, has set off global shock waves, which are far more awesome than anyone admits openly. By defaulting only weeks after the IMF gave it an unprecedented $22.6 billion rescue package, and after the United States had backed it up, Russia has let fund managers around the world know that the "impossible" is possible. The result has been a universal collapse of confidence in "crisis management" techniques, leading to a severe contraction of investment in every market around the world considered even remotely risky.

Russia default hits Brazil

"By casting doubt on the integrity of all emerging and developing debt, [Russia's default] has triggered a global margin call and credit crunch," David Hale, chief economist of Zurich Insurance, told *Barron's* on Sept. 14. "As a result, interest rates have soared in places like Brazil, Mexico, and Venezuela, raising the specter of a recession in 1999 in a continent which is a major trading partner of the United States." The Russia default has hit Brazil "like a tornado," says Hale, driving interest rates to almost 50% in a desperate bid to prevent devaluation of the Brazilian currency, the real, or at least postpone it until after the Oct. 4 Presidential elections.

"My major worry right now is Latin America, especially Brazil," a senior director of one of Europe's central banks stressed to with *EIR*. "Brazil faces elections, and its short-term dollar debts coming due in the next three months are very, very high. If Brazil begins to have frictions, then the world has real problems. It is the largest economy in Latin America and a major U.S. trade partner."

Adding to worries over Brazil is the growth of flight capital. In the first two weeks of September, more than $13 billion left Brazil, almost $1 billion daily, forcing the Central Bank to hike interest rates to 49.75%, up from an already high 29.75%. The Brazil government has let itself become hostage to its foreign creditors for the second time in two decades. In August, $12 billion left the country. Brazil foreign currency reserves have fallen to $452 billion. Between now and Dec.

31, Brazil must repay $15.3 billion in dollar-indexed debt, much of it short term.

But, by Sept. 17, even the short-lived rally in stock markets around the world had ended with a stampeding sell-off. Confirmation by Federal Reserve Board Chairman Alan Greenspan and central bankers from other members of the Group of Seven nations, that there was no prospect of a coordinated global interest-rate cut to calm the financial markets, triggered heavy selling from Frankfurt to Paris to São Paulo to New York. At this writing, the question seems to be whether the world can afford to wait even 30 days for the emergency G-22 meeting asked by President Clinton.

Allais: 'World is now one big casino'

France's Prof. Maurice Allais, Nobel Laureate in Economics, sent greetings to the Labor Day conference of the International Caucus of Labor Committees and Schiller Institute. In addition to his economic expertise, Professor Allais has done research in physics, which has been published in 21st Century Science & Technology *magazine. At 87 years old, he comes from the generation that remembers industrial production and what a real economy looks like.*

Professor Allais asked us to excerpt some of his remarks on the economic situation from a 1992 paper he wrote, on "The Monetary Conditions of an Economy of Markets." Emphasis is in the original.

[p. 6] The disorders which took place in the Western economies can in no way be considered as the inevitable result of the working of an economy of markets: They were, and they are generally, the very consequences of the implementation of inappropriate policies.

[p. 8] The world economy as a whole rests today on gigantic pyramids of debts, buttressed one against another in a fragile equilibrium. Never in the past had such a colossal accumulation of promises to pay been witnessed. Undoubtedly, never will it be so difficult to master.

Be it speculation on currencies or speculation on stocks and shares, the world has become one big casino with gaming tables distributed along every latitude and longitude. The game and bids, in which millions of players take part, never cease. The American quotations are followed by those from Tokyo and Hong Kong, then from London, Frankfurt, and Paris. Everywhere speculation is supported by credit *since one can buy without paying and sell without owning*."

[p. 9] Both in the case of exchange rates and in that of share prices, there arises more often than not *a gap* between the data of the economy in real terms and the nominal prices determined by speculation. Frenzied and feverish speculation is everywhere enabled, fuelled and amplified by the credit *as it operates*. Never in the past had it attained such a magnitude.

[p. 10] Indeed the responsibility for the disorders we see does not lie with the speculators themselves but with the present institutional framework, which is totally inappropriate.

[p. 11] Certainly it is intellectually and politically scandalous in the extreme that after two centuries of recurrent major crises, the Western democratic societies have still proven unable to specify the economic institutions within which conjunctural fluctuations would be, if not eliminated, at least considerably reduced.

[p. 13] For two centuries at least, deep monetary disorders have been observed within Western economies of markets. These disorders have had major consequences on output, employment, and the distribution of income.

They have given rise to considerable variations in the real value of money, to the impossibility of sound economic calculus, to a highly inequitable distribution of income, to ethically unacceptable rates of unemployment, and finally to a permanent tendency to the despoiling of savings.

[p. 38] The weaknesses of *Wall Street* today are the same as those that led to the 1929 depression. They have merely become more acute. Nor are they a specifically American characteristic. . . .

Its effects are fundamentally very bad: *The generation of a permanent potential instability and a growing disconnection between the financial system and the real economy*.