

Financial System Could Implode in Next 90 Days

by L. Wolfe

The big news of the beginning of April, albeit unreported by the major media, was that the hopelessly bankrupt global monetary system had somehow managed to limp into the next quarter. While some in the City of London, Wall Street, and similar dark environs breathed a sigh of relief, most, even among these fellows, know that this game of smoke and mirrors cannot be played much longer, and that, sooner rather than later, the whole shebang is coming crashing down.

Lyndon LaRouche, the Democratic Party figure who is also the world's leading economist, said on Mexican radio on March 29, that given recent developments, the system is likely now to collapse before the next rollover date of June 30: "We're now at the point, we have gotten rid of Alan Greenspan, [who] was in charge from 1987 until recently. Alan Greenspan was one of the worst things that ever happened to the United States. And to the world. . . . The leading bankers of the world have realized that this is the case. Therefore, they're not going to put any more monetary expansion into the system. They're going to allow the bubbles to collapse. . . . The housing bubble is about to blow—all kinds of things are about to blow. April, May, June—these three months are potentially three months of an incalculable rate of financial collapse internationally."

According to LaRouche, while there are multiple possible scenarios that could trigger a collapse, there are really only two alternatives on the table for dealing with both the crisis and collapse: Either, as LaRouche proposes, sovereign governments, led by the United States, will put the system through a bankruptcy reorganization and formulate a cooperative recovery program based on the issuance of long-term sovereign credit, for the benefit of their populations; or, the central bankers will attempt to put governments through a fascist reorganization, demanding that they implement draconian austerity programs for the benefit of those same bankers. The LaRouche proposal, centered around the creation of a New

Bretton Woods monetary system, will lead to a period of unprecedented progress, while the latter plan, for a global bankers' dictatorship, will plunge humanity into the hell of a New Dark Age.

Triggers for Collapse

A leading European financial insider, responding to LaRouche's analysis of a second-quarter collapse potential, indicated that he saw three prominent triggers for such an occurrence:

1. The growing crisis in so-called emerging markets, which has itself been given impetus by the announcement last month by the Bank of Japan of its intention to shut down the "yen carry trade"; these funds have both fueled the huge U.S. housing bubble and fed speculation into such markets as Iceland, Australia, and New Zealand. Nearly every one of these markets is now in crisis, ringing alarm bells of a potential blowout threat bigger than the so-called Asia Crisis of 1998, which nearly blew the whole system.

LaRouche, in his recent discussions in Mexico, said that the decision to dry up the carry trade was made by the central bankers, including the Fed, because they feared that the growing size of the speculative bubbles it created would pop the system. While they have opted to try to do this in a gradual process, keeping Japanese rates at or near zero for a while, to allow for the unwinding of various speculative contracts, any major decrease in the flow of funds in the system as a whole will blow it out. Thus, the post-Greenspan decision to end the carry trades is, de facto, a decision to blow up the system.

2. Related to the above, is the likely collapse of the U.S. housing bubble which has seen unprecedented rises in property values and produced the recent housing boom. The carry-trade operations had artificially kept long-term U.S. interest rates low, despite the Federal Reserve's "drip-drip-drip" method of monetary tightening.

As long-term interest rates rise, and as a gloom sets in on the economy, housing sales have slowed, and, as analysts have noted, this market is not built to withstand even a limited slowdown. At some point, the growing inventory of expensive new homes will collide with the reality of an expanding inventory of older homes, producing a logjam—and a blow-out. However, such a blowout can occur even before that, if over-leveraged homeowners perceive a crash coming, and seek the nearest exit from the market, at any price. That perception is growing, and even realtors, with their notoriously thick rose-colored glasses, are becoming alarmed.

3. The likelihood of a blowout of the huge derivatives market, and a collapse of a few of the various hedge funds that have played it. One immediate trigger to such a crisis could be the collapse into bankruptcy of General Motors.

According to the Federal Deposit Insurance Corporation (FDIC), the volume of derivatives held by banks and others continues to grow, even if the rate of growth has slowed a bit. The numbers are so large as to set one's head spinning: \$101.9 trillion in notional amount for U.S. commercial banks, and the Office of the Comptroller of the Currency (OCC) reported

\$105 trillion for the top 25 U.S. bank holding companies with derivatives at the end of 2005. Internationally, the numbers are even more staggering: an estimated total for 2005 of around \$365 trillion, which "official" figures are reportedly far lower than the actual amounts.

What alarms many bankers is that the sector of this market showing the most explosive growth, is also the most vulnerable to any financial or other shock—the credit derivatives, which reportedly rose by more than 16% last year.

It will not take much to blow this entire house of cards over. As LaRouche insisted, the bankers might think that they are riding this tiger, but the tiger is out of control. Only fools now believe that the monetary system can muddle through; but equally foolish are those who believe that they control the pace and timing of its collapse. What the Fed and other bankers are doing won't work; the system will come down when it is ready—and that will be soon.

LaRouche urged those who want to save humanity from a New Dark Age to join him in preparing a workable solution to the crisis, in which sovereign governments assert their power over financial policy in the interests of their citizens.

GM's Sale of GMAC Worsens Crisis

The conditions of the announced sale by General Motors of 51% of its financial unit GMAC, to a combine led by the giant hedge fund Cerberus Capital Partners, show GM's desperation for cash to pay for the effects of its drastic ongoing shrinkage as a productive company. No policymaker or union representative should think that the sale will slow down that drastic shrinkage, even if it goes through in late 2006.

Immediately after the announcement on April 3, all three major credit rating agencies said that they would *not* change GMAC's current junk-bond rating. Thus, GM's stated purpose in planning the sale—to enable GMAC to escape GM's deep-junk debt status—is not being met. And despite reports of a "\$14 billion sale" in the press, when one sets aside projected transfers of cash and assets from GMAC itself to GM, General Motors is receiving just \$7.5 billion for the majority share of GMAC, universally estimated last Fall to be worth \$11-15 billion, and a unit which was paying GM a \$2.5 billion-or-so dividend yearly. Cerberus, grown to huge asset size in just a few years, is a global private-equity shark, not the kind of major bank or financial-services institution to which GM wanted to sell control of its financial division; thus, both the stocks and the bonds of GM have *dropped sharply in value from the*

announcement of the sale, with GM 30-year bonds reaching a low of 71.75 cents on the dollar. There are multiple conditions—most strikingly, that the deal is off if the Federal Pension Benefit Guaranty Corp. (PBGC) doesn't agree that GMAC now has no liability to the General Motors employee pension funds. PBGC may, in fact, try to compel GM to invest at least part of the sale proceeds into the pension fund, which it considers underfunded by \$30 billion.

Under the blows of globalization and bankruptcy, the outsourcing of what remains of U.S. auto sector work, is now an official, general stampede, led by Delphi's move to use bankruptcy to transform itself into a global holding company, with very little auto supply work remaining here. One group of GM suppliers in Michigan leaked a memo to them from GM, *requiring* they be at least 30% outsourced to a list of countries including China, Brazil, and Namibia, in order to keep GM work. The company pathetically called the memo "a purchasing manager's error," even as it announced April 6 it is outsourcing more engineering/design work to Brazil, Mexico, and India.

That Congress is denying the gravity of auto's shrinkage, was clear when New York Senators expressed "relief" on April 4, that Delphi had listed its Lockport and Rochester plants among the few it would keep open. But it became known from union sources within days, that the Lockport plant itself was to be "consolidated" in a single building and part of its work outsourced to Ciudad Juárez, Mexico, promising the loss of at least hundreds, perhaps over a thousand jobs there.—Paul Gallagher