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World financial storm is now gathering

by Criton Zoakos

On July 7-8, for two days in a row, the New York Stock Exchange registered a combined loss of nearly 5% of stock values, the worst since the 1929 Crash. Also on July 8, the London Stock Exchange joined Wall Street in a frantic selling session, resulting in one of the most spectacular plunges in "The City's" history, wiping out an all-time record of $8.2 billion of share values in one day.

The day following, July 9, the Federal Reserve's Open Market Committee met, this time *sans* Preston Martin, to set monetary policy for the next three months. Over the vehement, and unprecedented, objections of senior European financial circles, this body lowered its discount rate to 6%, its 1977 level. The Central Bank of West Germany, the Bundesbank, warned that it will not tolerate a cheaper U.S. dollar and, in uncharacteristic tones, demanded that the Fed not decrease the interest rates which it charges to U.S. banks.

The secret concern behind these metaphysical matters of interest rates, is the question of whether or not to refinance the worldwide U.S. dollar-denominated indebtedness. In the balance hangs the survival or ruin of the 10 largest U. S. banks. Low interest rates, it is believed by leading New York bankers and by White House Chief of Staff Donald Regan, will enable the debt-strapped U.S. money-center banks to get refinanced, at least for a few months; whether this belief is justified or not is questionable. In fact, British and Swiss financiers—and many representatives of American "old money"—are betting that the scheme will not work.

The general causes

Who is right? The reader can judge for himself, provided he is supplied with some important—but ignored—facts and figures. There are two sets of such facts and figures, one which identifies the more general causes for the present tendency toward world financial collapse; the second which identifies why the period between now and Sept. 30 is most likely to be the time for such a collapse to occur.

On the first, the causes leading to financial collapse: The total level of worldwide indebtedness, domestic and foreign, as of mid-1986, is an estimated $27 trillion, which requires an annual debt service of some $6.6 trillion—far in excess of the monetary value assigned to the industrial output of all the nations of the West combined. The situation of total worldwide debt service surpassing the value of tangible means of payment produced, has existed for some years now, but, since the 1979-82 period, the rate of growth of debt service has been outstripping the nominal (i.e. monetary) rate of growth of output by leaps and bounds. In fact, the Volcker interest rates of 1979-82 had, as their net effect, the further acceleration of the rate at which the growth of debt outstrips the growth of output. In the case of the United States domestic economy in particular, not only debt service increased by growing rates, but actual physical output declined instead of growing.

Approximately 90% of all new credit generated by all the developed nations' central banks, was employed to finance speculative ventures which raised fictitious amounts of nominal money, which in turn were repeatedly applied to refinance existing loans in both the private and public sectors. The major brokerage houses which manage what they have come to call the "worldwide capital market," accepted the hard cash of the $400-500 billion-per-year global drug trade, sell four-to-five times the amount in option to various financial instruments, and then turn to the Eurodollar market to raise bonds covering the difference. These operations, from 1983 to date, have produced the single most important component of present world indebtedness, a $3 trillion total of liabilities of the international banking system, known as "off-balance-sheet" liabilities, owed by banks, to banks. Most of this incredible debt burdens the U.S. banking system. The top 15 U.S. banks are officially estimated to carry $1.26

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trillion off-balance-sheet liabilities, almost twice their combined assets. This far outweighs Mexico's $0.1 trillion debt, or South Africa's $0.025 trillion debt, or the combined total $0.8 trillion debt of the entire Third World.

From 1983 to early 1986, the collapse was prevented because the major players were able to get out of bad investments in time, and unload them on someone else. The "someone else" would get out in a similar manner, and thus the hot potato was being tossed from player to player. Bad financial instruments were not being called, presumably because they were backed by the good reputation of the institutions, the players, backing them; this "good reputation" was held up by these players' ability to introduce new hot potatoes into the game. We have now reached the point that the "hot potatoes" outnumber the number of hands of all the players together.

Virtually all of Third World debt has been non-performing during 1986; the $400 billion debt of the world shipbuilding industry similarly; with the drop of oil prices, the same situation is progressing in the energy sector; real estate values are plunging; the rate of bank failures in the United States during 1986 is double that of the previous year. Industrial output has been steadily declining across the globe, driving down the prices of raw materials and primary commodities. As a result, during the first six months of 1986, all the senior players in the world capital markets have realized—some to their utter horror—that the rate of growth of world debt is speeding up in inverse proportion to the rate of decline in world physical output.

The world capital markets, as of the second quarter of 1986, are in the same position as an individual whose unemployment checks have stopped coming at the same time as his monthly credit-card repayment requirements have grown to double his monthly living expenses.

The immediate triggers

As to the particular triggers which define the present financial quarter as the most likely timeframe in which the financial collapse may occur:

The present form of world financial insanity began in January 1977, when the Trilateral Commission imposed the Carter administration on the United States, with a mandate to implement a worldwide economic program titled "1980s Project." The authors of "1980s Project," were the same leading financial families of the Anglo-American Establishment which had earlier organized the 1971 destruction of the gold standard and the 1973 oil hoax, both perceived as emergency measures to save them from their overextended positions in the unregulated, speculative "Eurodollar market," which the same interests had brought into being during the 1963-71 period—i.e. after President Kennedy's murder.

The purpose of the "1980s Project," and of the Carter administration, guided by Fed Chairman Paul Volcker, was to eliminate all governmental regulatory or other influence on all economic matters throughout the world, to turn the world economy into an unregulated, "offshore" Cayman-Islands haven for unbridled speculation. The published policy papers of "1980s Project" boasted that "the principal rival for the 1980s will not be either Communism or Socialism, but, rather, mercantilist [i.e., American System based], economic systems in which sovereign governments maintain economic functions."

In midyear 1986, an unprecedented and potent opposition to the Trilateral Establishment's world economic strategy emerged, where none existed before. This opposition, for the time being, centered in the governments of Japan and the Republic of South Africa and, in a different way, in the growing reluctance of Ibero-American governments to repay their debts as the creditors and the IMF propose—namely, their reluctance to trade in their national equities for their debt.

Japanese Prime Minister Nakasone's landslide election victory the Sunday before the New York stock market collapse, was acclaimed as a mandate for a strong nationalist, dirigistic economic policy; this means that the Japanese economy's resistance to the Trilateral Commission's nation-bashing around the world will grow. The South African government's decision to openly organize for a worldwide debt moratorium against the Trilateral Commission's instigations for "economic sanctions," is another major strategic threat to the Anglo-American liberal bankers' Establishment.

Organized opposition has emerged from 1) the West's most efficient industrial economy—Japan; 2) the West's greatest reservoir of strategic metals and industrial raw materials—South Africa, and 3) the potentially most cohesive sector of the debt-strapped Third World—Roman Catholic Ibero-America.

During the week before the July 7 events on Wall Street, at an international financial symposium in Zurich, held by bankers and for bankers, the main problem of the world economy identified was the discrepancy between the mass of financial speculative paper and actual wealth produced. As a Bank of England spokesman put it, "Only a tiny fraction of the money placed in the world capital market is in any way connected with actual commercial and industrial activities."

The leading financial interests of London have been talking their U.S. banking brethren into collapse since the Mexican debt renegotiations went awry. The same has been the case with the Swiss banking powers, which also control banking policy in France and Germany. It is no secret that London and Swiss finance has entered into an agreement with Moscow to remove all U.S. influence from Europe and proceed with what NATO General-Secretary Lord Carrington has dubbed a "New Yalta Agreement."

Moscow wishes to enter into its imputed "New Yalta obligations" only after the American Strategic Defense Initiative program is defeated and not before. Moscow also estimates that the SDI can be defeated only if its FY1987 funding is cut. Oct. 1, the date on which the 1987 budget is expected to be approved, is also the day after the end of the current financial quarter.