

Editorial

Deepening financial crisis raises war threat

Some time between Jan. 27, when President Clinton hailed the supposed successes of the U.S. economy in his State of Union address, and Feb. 1, when the National Bureau of Economic Research announced that the United States was in the longest economic expansion in history, yet another panic hit financial derivatives markets. The turmoil continued and intensified, even while the Senate confirmed Alan Greenspan for a fourth term as Federal Reserve chairman on Feb. 3. Now, we are in the midst of yet another new crash. It is reminiscent of the collapse which followed Russia's default in August 1998, and caused the Federal Reserve to bail out the bankrupt multibillion-dollar Long-Term Capital Management hedge fund, because the Fed feared that otherwise the world banking system would "seize up," and bring all economic activity to a stop.

Like repeated influenza attacks upon an elderly person, each successive financial panic leaves our rotten world financial system less able to fend off the next one. As Lyndon LaRouche insists, soon one of them will bring this system to its end, whether in a hyperinflationary blowout, or in a deflationary collapse, or will inspire a new plunge into war, this time a war, or wars, which will become uncontainable. Will it be this panic, the one in process now? No one can know; this depends on political decisions which no one can predict in detail. But if this current crash turns out not to be the "last straw," it is nevertheless certain that the last straw will come soon.

Reports assembled by *EIR*'s John Hoefle show that, if you take the Feb. 3 afternoon financial wire reports, and add them to those of the previous week (*Wall Street Journal* Jan. 31, *Barrons*, etc.), all allude, either implicitly or explicitly, to a derivatives crisis involving the bonds markets.

Three-quarters of all derivatives are interest-rate derivatives, which largely means bets on bonds. Whatever may have specifically triggered the rush into bonds, it is now under way at gale-wind force.

There is, according to all of the financial commentary accounts, a flight to safety, in which people are selling riskier investments, and moving into govern-

ment bonds. There are rumors that the Federal Reserve is arranging a meeting with bond dealers — meaning derivatives players. The Fed has denied this, as of Feb. 4.

There are rumors that hedge funds are in trouble; there are rumors that financial institutions are in trouble. There are references to the problems of the "meltdown of 1998." A Feb. 3 newswire cites a trader at a U.S. bank, who admits that he is confused, and says his only goal is to continue to be employed tomorrow.

Typical are these statements of Feb. 3:

- "Rumors of financial institutions in trouble, are causing the flight to quality." This is from Mark Mahoney, chief Treasury market strategist at Warbug Dillon Reed (UBS).

- "There are rumors going around about a hedge fund in trouble, dealers in trouble. There is a little bit of concern about liquidity and accounts blowing up. So you've got a little bit of flight to quality here," said a trader at a U.S. primary bond dealer (a broker authorized to handle U.S. government bonds). "People are looking for substantiation, and they haven't been able to get it. Until it's denied, they're going to believe that it's true."

The financial panic of Autumn 1998, caused Vice President Gore and Secretary Albright to plunge the United States into military actions and wars, beginning with the needless bombing of a pharmaceutical plant in Sudan, and ending up with the long, futile bombing campaign against Serbia. But much has changed since 1998 and early 1999: The new Russian government, for instance, reflects a change in the underlying outlook of the Russian elite, with echoes and analogies, not only in Belarus, but throughout much of Eastern and Central Europe. The Indian Subcontinent is closer to general, possibly nuclear war, than it has been for decades. There are changes in China.

Where the effects of some loony U.S. or NATO military action may have been more containable in 1998 or even 1999, they are far less containable today, or tomorrow. A concern about the possibility of World War III down the line, now dictates that Al Gore, Madeleine Albright, and Tony Blair be closely watched and very tightly contained.