shortage is rapidly developing, aggravated by the soaring price of crude oil, which by Organization of Petroleum Exporting Countries rules must always be sold in dollars. According to this estimate, "The United States is now absorbing about 70% of the net savings of all surplus countries combined." This is in turn creating the kind of crisis which a soaring yen created in 1996-97 for the Asian currencies.

The shortage of cheap dollars means that oil-deficit developing economies, many just staggering out of the International Monetary Fund-induced depression of 1997-99, must pay exorbitantly high interest costs to borrow dollars to import oil. Countries such as South Korea, Taiwan, Peru, Thailand, Argentina, Malaysia, Bulgaria, the Philippines, and Turkey are all facing a new liquidity crisis. To date, it is not yet to the breaking point of 1998, but it is getting there, fast.

Worst hit are developing economies with high dollar debt compared to their Gross Domestic Product. Aside from the basket-case economy of dollarized Ecuador, among the worst are Chile, Bulgaria, Thailand, Argentina, Indonesia, the Philippines, Peru, and Brazil.

"Argentina is the country to watch," says Bridgewater Associates in a recent statement. "It is the bellwether; it could be the first to go. It has an exchange rate pegged to the dollar, so its competitiveness is eroded by dollar strength." Written into Argentina's Constitution is a mandate to have a currency board which ensures a rigid peso-dollar link. Bridgewater continues, "It has a sizable amount of dollar-denominated debt, a slug coming due over the next year; interest on dollar debt is now over 3% of GDP, and principal payments coming due are large. The economy is stagnant and deflation exists. So, Argentina needs to come up with lots of dollars at a time that they are especially hard to come by. Classically, the next move is to devalue and stimulate monetary growth, but that is not an option. Deflate, contract, or default are the more viable alternatives."

The default of Russia on its sovereign bonds in August 1998 was the trigger which set off the worst crisis in global financial markets since the end of World War II. Today, an estimated $1 trillion in dollar-denominated high-yield or high-risk bonded debt of emerging economies hangs over the global financial system. One or more defaults, or new debt crises at this point, could set off a chain-reaction collapse. Bonds, unlike stocks, are the securities at the heart of the global money mechanism. A full-blown bond-market crisis, notes City of London bond strategist S.J. Lewis, "for this reason strikes at the very heart of the global credit system."

Smithers: Asset Bubble Is Worse than 1929

British consultant Andrew Smithers, head of London's Smithers & Co. firm, told *EIR* on Oct. 20, that the U.S. equity market is now "probably three times" what it should be, and that this "is very frightening, much worse than the asset bubble of 1929." He stressed that "a good central banker would do anything possible to avoid an asset bubble," but U.S. Federal Reserve Chairman Alan Greenspan has done exactly the opposite, creating "the worst asset bubble in modern history."

Smithers concurred with *EIR*'s assessment, that Greenspan has allowed an excessive expansion of the money supply, and seems anxious to keep the stock market from collapsing. He wishes, perhaps, to avoid going down in history as the man whose policies led to a major crash. But, paradoxically, he noted, "the more Greenspan postpones the crash, the worse the eventual crash will be, because of the massive build-up of debt."

Smithers recently co-authored a book, with Cambridge University economist Stephen Wright. In the Oct. 20 discussion, he stressed that "the asset bubble has driven down savings. The household sector is not saving, and the cash deficit of the U.S. private sector is 6% of GDP. The growing deficit on current account, is financed by vast flows of debt. The debt is expanding, because the bubble is, necessarily, debt-financed." He noted that lenders are becoming "increasingly nervous," as seen in Europe, over the telecom sector, and the pressure by European banking regulators on banks, because of the increase of telecom debt. In the United States, Deputy Comptroller of the Currency Nancy Wentzler recently predicted that this year would show a 50% increase in banks' delinquent commercial loans.

Smithers noted, that in both the United States and Great Britain, the major buyers of shares are companies, which is why the debt is rising so rapidly. Respecting the U.K., he has recently co-authored a report, entitled "Britain: The World's Largest Hedge Fund," in which he shows how Britain has become an enormous beneficiary of the asset bubble. He said, "We are almost a mono-economy. As with the Saudis and oil, so it is with us and financial services. As the Americans would say, we have been living high on the hog, from the asset bubble. We are, actually, in far worse shape than is being acknowledged. The current account is being held up, despite a massive trade deficit, because of the very big income from abroad, which comes from financial services. Meanwhile, we have negative external assets. Such a situation cannot go on for long."

—Mark Burdman

© 2000 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.