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End in Sight: 'The Party Is Over for the Dollar'

by Lothar Komp

There is a red alert for the U.S. dollar. In July, for the first month this year, the dollar fell significantly against other leading currencies. And this is presumably only the beginning. There are increasing signs that the huge capital flows from abroad into the United States—a half-trillion dollars a year or more—that have protected the excessively indebted U.S. economy from collapse for some time, have slowed down in recent weeks. To quote the Danish financial paper *Börsen,* "The party is over for the dollar."

Börsen editorialized on July 31 that the dollar is now "on its way to collapse," and this "will totally destroy the already weakened world economy." Even the populist American economist Paul Krugman warns of the imminent bursting of the dollar bubble. Krugman, writing in the *International Herald Tribune,* referred to the recent statements by Treasury Secretary Paul O'Neill, that concerns about the enormous U.S. trade deficit were based on "trivial and wrong notions." "You know the end [of the bubble] is nigh," he wrote, "when white-haired executives reject old-fashioned accounting."

Every official statement on American economic policy is suddenly weighed carefully. When President George W. Bush expressed vague understanding for the concerns of American exporters about the high dollar exchange rate, the *New York Times* warned him against such debates, arguing on July 31 that it would be relatively easy to start a devaluation of the dollar, but then much more difficult to stop it. Thus, any change in the official "strong dollar" policy, could unleash turmoil on financial markets.

Household Debt: The Last Bubble?

However, such storms are coming anyway, because the problem of the overvalued dollar represents only one of many symptoms of a global financial breakdown crisis, which will end in a chaotic disruption, unless the economic policy madness of recent years is reversed. Another symptom of the systemic crisis is the accelerating shrinking process of the American economy, which accompanies the collapse of "New Economy" illusions and the crash of high-tech stocks. The most recent economic figures speak eloquently.

U.S. capital equipment spending fell 14.5% in the second quarter, compared to the first quarter, the biggest quarterly drop since 1982. Hardest hit were investments in "information-processing equipment and software," as well as industrial machinery of all types. The National Association of Purchasing Managers (NAPM) factory index in July fell from 44.7 to 43.6 for June, which represents an accelerating downward trend. The NAPM index for Chicago fell from 44.4 to 38 points, betraying a downward trend for the eighth month in a row, something that had not occurred for 11 years. Consumer confidence was also going down in July. The index of the New York Conference Board fell from 118.9 to 116.5.

The last bastion is the consumer spending of private households, which, at least according to doubtful official statistics, has managed to hold firm while corporate capital spending shrank rapidly. However, as the savings rate has collapsed into negative territory since last year, even maintaining the present level of consumer spending requires special efforts to further increase the indebtedness of U.S. private households. The most recent technique that has been developed for this particular purpose is the so-called "cash-out refinancing" of mortgage credits.

Since March 2000, when stock markets started to fall, many investors have transferred their funds from stocks into

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Layoffs mount in Silicon Valley and nationwide, as the U.S. economy gives the lie to Wall Street's claims of a "turnaround." Here, lines of people looking for work in Alameda County, California.

real estate. Therefore, the $11 trillion U.S. real estate bubble is now bigger than ever, and its implosion is yet to come. Home prices in the United States last year rose by 8.9%, the largest yearly increase in home prices since 1979. And as real estate prices go up, banks are granting higher mortgage credits to their clients.

The "cash-out refinancing" scheme existed before but has become endemic throughout the United States in recent months. It means that a home-owner takes out a new, larger mortgage on his home, which then is used, first, to pay off the old, lower, mortgage. The rest is offered to him, by the banks, as a cash loan. According to estimates, for the first six months of this year, mortgage loans were refinanced to the tune of $495 billion, and of that amount, consumers extracted about $33 billion in cash, after paying off the old mortgages, and paying down other debt. Of course, the very same scheme further boosts the debt of private households, and will have devastating consequences for them once the real estate bubble bursts.

The Layoff Factor

But, besides trying to keep consumers spending there is another, even more important issue involved in such mortgage schemes. Usually reliable banking sources report that Federal Reserve Board Chairman Alan Greenspan, despite his "everything is going to be okay" statements in public, is staring hard at the potential for an out-of-control blow-up of the consumer debt bubble. This fear is based on the realization that, with the waves of layoffs sweeping through various economic sectors, the lowered available income is placing in immediate jeopardy trillions in credit card and other consumer debt.

Several banks are setting up special taskforces and others are increasing the size of operations in place to deal with this crisis, including attempting to negotiate write-offs and restructuring agreements on these unsecured loans, to prevent defaults. The problem is further compounded by the bundling of consumer loans into derivatives-based securities, which in turn have been used to prop up already weakened positions of effectively bankrupt banks, including mega-banks such as Citibank.

If there are too many write-offs, and if there continues the already accelerating trend toward defaults on this debt, Greenspan would be faced with the prospect of a quick-term banking collapse, and the need for bailouts that would make the Argentine crisis pale by comparison.

Greenspan and the Federal Reserve are thus encouraging an effort to pump, potentially, trillions into the banking system by encouraging people to take higher-valued mortgages in order to transfer the vast majority of the money back into the banks, as the old mortgages are paid off and the "cash out" is used to pay off credit card debt. The key thing here is a gimmick: In doing this, the unsecured credit card debt is converted into a "secure" real estate loan.

Euro Bank Loans Were Sucked into U.S.

Concerning the indebtness of American businesses, other methods are used. According to the quarterly report on international loans, published on July 30 by the Bank for International Settlements (BIS) in Basel, Switzerland, there was a real collapse in the first quarter 2001, of international credits by European banks to European businesses. These credits amounted to only $11 billion, compared to $224 billion in the whole year of 2000. In particular, the big telecommunications firms in Europe were affected. U.S. firms, at the same time, were able to increase their borrowings from American financial institutions by $200 billion; and from international (mostly European) banks by another $110 billion for the first quarter alone.

As the Bank for International Settlements stressed, it was the German and Swiss banks that were on the front line here, followed by French and Dutch banks. As a whole, the American non-financial businesses were able to contract three times more debt in the first quarter 2001, from all banks, than in any average quarter in the previous year. This is occurring at a time when bad loans in the U.S. banking system are piling up, and the rate of default on corporate loans is set to break all previous records.

When will the credit pyramid come down? According to

the Jerome Levy Economics Institute in the United States, the "implosion" has already started. The Levy Institute belongs among those institutions that themselves offer no solution to the crisis—other than perhaps a little bit of dollar devaluation coupled with a little bit of protectionism—but nonetheless present some useful analysis. In an 18-page investigation entitled "As the Implosion Begins . . .," the institute notes that its warnings have been circulating for years, that the expansion of the U.S. economy would sooner or later end up in disaster, "because it relied upon a continuing growth of private spending in excess of disposable income, and thus created an enormous growth of debt." At the same time, the U.S. economy has produced increasingly large balance-of-trade deficits, becoming increasingly dependent on net inflows of foreign capital. The institute has been cautious, so far, about estimating "when the turning point would come." But in the last six to nine months, "it has become pretty clear" that the "process of implosion . . . has now begun."

Many things are converging now, states the Levy Institute: Increasing numbers of households are no longer able to keep up debt payments. The bad loans in the banking system are growing, so that even Federal Reserve Board Chairman Greenspan had to acknowledge the "deteriorating" health of the U.S. banking system. The net inflow of foreign capital into the United States cannot be maintained. In sum, "all the ingredients are now present, including rising unemployment and reduced or stagnant asset prices, which normally characterize the inception of a self-reinforcing credit implosion."

Global Debt Bonfire Is Consuming Argentina

by Cynthia R. Rush

In the early 1960s, with a highly skilled labor force and significant industrial infrastructure, Argentina was poised to replicate Japan's economic achievements. Today, after three decades of free-market looting, which especially intensified after 1990 under the direction of then-Finance Minister Domingo Cavallo, who occupies the same post today, what stands out to the thoughtful observer is the country's human and economic devastation, and the fear and despair of its citizens who have seen their country's potential squandered in criminal fashion.

Today, Ibero-America's third-largest economy is bankrupt, and its $212 billion in real foreign debt is unpayable. Every single lunatic scheme applied over the past six months—right down to the most recent July 30 passage in the Argentine Senate of Domingo Cavallo's murderous "zero deficit" austerity plan, or the $1.3 billion debt swap concluded the following day—has failed to do anything except worsen the country's dramatic breakdown crisis.

National disintegration is such, that the province of Buenos Aires, the country's largest and most populous, has followed smaller and poorer provinces in creating a new currency—the "patacon"—to be used to pay a percentage of provincial workers' wages.

This breakdown is not, as the pathetic U.S. Treasury Secretary Paul O'Neill initially tried to explain to the London *Economist,* the result of "local conditions. . . and they like it that way." It is a microcosm of the financial blowout occurring globally, a systemic crisis deepening by the day. Argentina's disintegration is also the world's, if not today, then tomorrow, or next week or next month. Brazil, Mexico, Turkey, Poland, could all become the next Argentina, at any time.

The sanest thing to do in Argentina, Lyndon LaRouche recommends, is what he also proposes for the world: write off a large part of the unpayable debt and embark on an orderly bankruptcy reorganization of the economy, based on protectionist measures and respect for the sovereign nation-state.

'The New Vampires'

But the Anglo-American financial oligarchs who have dictated policy for this nation in recent months, are not sane. Terrified that Argentina will ignite Ibero-America's, or the world's fragile debt bubble, they are going to extraordinary lengths, to maintain the myth that Argentina's crisis is "fixable"—that the debt is performing and will be paid they insist—so long as the government agrees to sacrifice enough human lives.

Because Argentina is shut out of international lending markets, and must come up with funds to cover $8.8 billion in debt due this year, the Anglo-American oligarchy demanded that the de la Rúa government get congressional approval for the "zero deficit" plan Cavallo and de la Rúa announced July 15. The plan, which subordinates all payments to tax revenues collected, and prioritizes foreign debt payment above all, mandates 13% cuts in state sector wages and pensions, and provincial budgets, purportedly to eliminate a deficit for the second half of the year which is much larger than the $1.5 billion figure cited.

President de la Rúa had already put through the plan by decree, but needed the vote in Congress, not only to get around the problem of local courts contesting the decrees' constitutionality, but also to send a message to "the markets" that the bill had broad support—a lie.

Passed in the House of Deputies during the third week of July, the bill exempted from the 13% cut, all monthly pensions and wages of $500 and below, although opposition Peronists