

Editorial

The Reality Is the Crash

As we head toward the normally turbulent conclusion of the third quarter, a new set of warnings about a financial blowout, coming on top of the deepening global depression, has been issued. This *is* reality: The global financial system is both bankrupt, and on the precipice of a blowout which could come at any moment.

For example, the lead editorial in the German financial paper *Handelsblatt* on Sept. 8 told its readers to prepare for a new crash, of the sort that broke out in September 1998 with the Long Term Capital Management hedge fund. The piece, headlined “Full Risk,” picked up recent reports on the rapidly expanding hedge fund business, and pointed to what happened six years ago: “On Sept. 22, 1998, top managers of 13 banks met in the office of the New York Federal Reserve. They were very concerned about the stability of the worldwide financial system, because the hedge fund Long-Term Capital Management (LTCM) was in trouble due to failed speculations on Russia bonds. Under pressure from supervision agencies, Wall Street on the next day put together a rescue package for LTCM.” Six years later, “banks and hedge funds are again engaging in risky financial transactions” in order to boost profits. “The entire sector has enormously expanded its risk positions in the last few years.” Financial traders are in particular using derivatives, once described by Warren Buffett as “financial weapons of mass destruction.”

The linkage between hedge funds and banks is even stronger today than it was six years ago, the editorial asserted.

It’s “high time,” the editorial went on, that bank managers remember what happened in September 1998. Since the beginning of this year, the \$900 billion hedge-fund “industry” has not earned any money. “Some funds have been hit by huge losses. Dozens of hedge funds have been dissolved in recent months—so far without receiving much attention. But any moment a big bomb can explode.”

This view is by no means restricted to *Handelsblatt*. A recent report from the Bank for International Settlements indicates a huge new balloon over the recent

months, of high-risk investment in so-called derivatives—i.e., gambling side-bets. A review of the German banking system, in the most recent issue of *Der Spiegel* magazine, points to how all the major banks are turning into de facto casinos. “The dark memories of LTCM” are re-emerging, the *Spiegel* article concludes.

Do you remember LTCM? This was the “little” hedge fund which nearly brought down the world financial system in the Fall of 1998, following the collapse of the Russian markets that August. Thanks to the huge leverage of the derivative and other markets, LTCM’s bankruptcy erupted into a systemic crisis, which was only stanchied by an emergency bailout arranged by Fed Chairman Alan Greenspan. Not until nine months later did the poobahs of the international financial institutions, such as International Monetary Fund Managing Director Michel Camdessus and Bank of England head Eddie George, come out and admit how close the system had come to collapse.

In June 1999, George said: “When we were last here . . . [that is, the year before], I suggested that we were living in a dangerous international financial and economic environment. These were strong words for a central banker—but perhaps not strong enough. That environment rapidly became worse through the Autumn, so that by around the time of the IMF annual meeting in October, there was a good deal of talk about *global financial meltdown, and impending world recession—which is not simply journalistic hyperbole.*”

Today, there is no doubt that the situation is worse—both in the banking system, and the physical conditions of life for billions of people. That is the reality which electoral campaigns, and all political activity, have to deal with, if they are to be relevant to the conditions of life of the people they address.

EIR’s ongoing physical economy features, are the best source you can find for understanding this crisis, and the urgent need to resolve it. But first, you have to face the nature of the crisis as a *breakdown* of the system. Now that even the financial press is again warning of disaster, can you afford not to listen?