New Bretton Woods system must top the G-22 agenda

by Marcia Merry Baker and Gail Billington

On April 16, representatives of 22 nations will meet in Washington, D.C., convened by the United States, to address the crisis in the world financial system. The primary item that gathering must address, which the LaRouche movement is mobilizing to force onto its agenda, is the formation of a New Bretton Woods system.

The deliberations of the "Willard Group" (taking its name from the Willard Hotel, the site of the preparation session on Feb. 17 and of the April conference) will occur in the midst of two other international conferences in Washington: the International Monetary Fund Interim meeting; and the Group of Seven finance ministers (preparatory to the G-7 heads of state meeting in May, in Birmingham, England). However, the key policy fights will revolve around the "Willard Group," and whether it moves in the direction of a New Bretton Woods.

The strategic potential of the Willard Group event, is that it could begin the turn, away from the policies which led to the collapse of the global financial system, now entering a phase worse than that of July-December 1997. The economies of whole nations are being destroyed in the crash. What is required are traditional nation-serving measures to peg currencies, set up trade and investment flows between nations, and hang speculators out to dry. U.S.-China cooperation is critical to lead the way to a new world financial system, and the announcement that President Bill Clinton will confer with President Jiang Zemin in China, in a 10-day state visit in June or July, is an important signal.

The problem so far in putting a new financial system in place has been, first, that governments bungled handling the first round of collapse of the financial system in 1997, and only extraordinary leadership right now can steer a course toward the needed emergency measures. Second, financial interests in London oppose such an option outright.

Lyndon LaRouche, internationally known for his forecasts on the crisis, is central to any solution of the crisis. As we go to print, he was scheduled to be the featured speaker at an *EIR* policy briefing in Washington on March 18, on what must be done. In a radio interview with "EIR Talks" on March 11, LaRouche said, "We are in the opening phase of a new round of crisis, generally comparable in broad terms to what happened between late October and the middle of January, but more severe. How much more severe at this time is not certain. It could go all the way. I would rather think it won't go quite all the way, but it could. It depends on how governments react."

LaRouche had forewarned eight weeks earlier to "beware the ides of March." March is the end of the fiscal year for Japan and other nations; plus, there is a confluence of due dates around the world, including corporate reports, trade updates, tax and budget deadlines, derivatives contracts settlements, and so forth, not to mention deadlines imposed by the zombified IMF, for their failed bailouts and "reforms" in East Asia, Russia, and elsewhere. In particular, Indonesia, the fourth most populous nation in the world, is in an emergency breakdown situation, and in a showdown with the IMF.

Internationally, chain-reactions of plunging volumes of output and trade of physical commodities of all kinds, linked to collapsing currencies and credit, is under way. Meantime, the fuse is burning on the "big one": derivatives, ignited by losses in Asia, which is fuelling a frenzy of global restructuring, mergers, and fire-sales among companies suffering mega-losses from the financial turmoil (see p. 11).

Calls mount for a New Bretton Woods

Under these wild circumstances, statements are being made on a daily basis to the effect that IMF-era business-as-usual approach won't do, and that a new financial system is required—something that LaRouche launched as a campaign for a New Bretton Woods conference in January 1997. On March 12, for example, the London *Financial Times* ran a guest commentary by American economist Judy Shelton, titled "A Walk in Bretton Woods." On March 9, the National Farmers Union, at its annual convention in the United States, voted up a resolution calling for U.S. action for a New Bretton Woods system. And, the statement on March 2 by Japan's Deputy Finance Minister Eisuke Sakakibara, that it is time for nations to confer on a new financial system, is receiving extensive publicity.

In backhanded recognition of this momentum, and of the LaRouche "New Bretton Woods" drive, the London Sunday *Observer* on March 8 panned all the talk of new financial mechanisms. The paper said, "Cool heads in a spin over hot money; go back to Bretton Woods, create more bankrupts. . . . Experts can't agree how to end currency turmoil."

However, no matter what London says, the financial turmoil, and the talk, are intensifying by the hour.

Ides of March confluence of crises

A few of the crisis spots upcoming in March include:

• Japan. On March 31, the fiscal year closes for most companies and banks, many of which cannot demonstrate solvency, especially in South Korea. Already, the Japanese government has pumped $76 billion into the banking sector, aggravating, not relieving the crisis.

• South Korea. International banks were to decide on March 12 on roll-over of loans. Domestically, South Korea also has $370 billion worth of won-denominated debt, a significant part of which is due March 31.

• Global markets. Settlement of 6- and 12-month contracts for foreign-exchange and derivatives contracts come due in March and thereafter. Huge losses exist.

• Trade credit blow-out. Emergency export-import financing for Asian trade, mostly 90-day letters of credit, arranged during November-January, as currencies and credit blew out, are now entering a new crisis phase.

• Hyperinflation. The record peaks of stock exchanges, such as the New York Exchange's Dow Jones Average exceeding 8,675 on March 11, or the German DAX spiking to 4,900 on March 11, reflect not only speculative funds fleeing Asia, but high rates of money-pumping by the Federal Reserve and other central banks.

The systemic scope of the crisis was summed up by the Bank for International Settlements in its latest report, "International Banking and Financial Market Developments." For example, one of the global implications of the financial meltdown in Asia has been a sharp reduction in the issuance of international bonds. The BIS reports that in the fourth quarter of 1997, the total issuance of international securities, or "stand-alone international bonds and paper issued under euro medium-term note facilities," dropped by almost 30% compared to the previous quarter, that is, to $188 billion. With repayments on such instruments taken into account, the net issuance of international securities dropped by more than 50%, from $163.3 billion to $66.8 billion. The BIS added, "The panic which followed the attack on the Hongkong dollar at the end of October led to an almost complete drying-up in the issuance of lower-rated and subordinated instruments. Secondary market spreads on higher-risk issues widened sharply, forcing a large number of borrowers to postpone or withdraw issues."

The Indonesia crisis

At the top of the list of national crises is Indonesia. Economic activity in this nation of 202 million has been reduced to the point of shortages of vital necessities, including food. Its currency, the rupiah, has dropped from 2,600 to the U.S. dollar in July 1997, to below 10,000 to the dollar in March 1998. Since January, the foreign debt of some $74 billion has been in de facto moratorium. Of immediate concern, is securing 3-4 million tons of rice for this year, and basic medicines.

What of the IMF's $43 billion bailout package, pledged last Halloween? The IMF is now withholding funds from the country. Among its complaints, for example, is that Indonesia is not totally relinquishing its right to secure supplies of food staples for its population (cereals, cooking oils, sugar). An IMF tranche of $3 billion set for March has been held up, and funds from the World Bank and the Asian Development Bank are in limbo.

President Suharto, who was recently re-elected, told the members of the People's Consultative Assembly on March 9 that the IMF deal did nothing to stabilize the national currency, and also violated the 1945 Constitution, Article 33, on the public good. This article states, in part: "Branches of production essential to the State, and governing the life and living of the public shall be controlled by the State. Land and water and natural riches contained therein shall be controlled by the State and used for the greatest prosperity of the people."

On March 13, Japanese Deputy Finance Minister Sakakibara will be in Jakarta, in advance of the March 14 arrival of Japan's Prime Minister Ryutaro Hashimoto, to confer on the emergency. The previous week, President Clinton sent former Vice President Walter Mondale to Indonesia, as a special envoy.

The ticking time bombs in Indonesia for the world financial system, are in derivatives. For example, on March 6, PT Bank Ekspor Impor Indonesia (Bank Exim), one of the country's biggest, confirmed it has multimillion-dollar losses coming due from currency contracts made in summer 1997; and, the bank will be unable to pay international creditors. The Indonesian newspaper *Kontan* states that under forward contract, Bank Exim is obliged to deliver $2.23 billion at some time later this year; the size of its losses will depend on the exchange rate of the rupiah to the dollar at that moment. As the European edition of the March 9 *Wall Street Journal* noted, such losses, common throughout Asia, are "a reminder of the financial landmines buried in the books of Asian companies: derivatives contracts."