

Editorial

Even the BIS is worried

As *EIR* has long asserted, the question is not *whether* the speculative bubble, which is embodied in the U.S. financial markets and the world derivatives markets, is going to collapse, but *when*. It is a waste of time to wager as to the date and the hour; the only worthwhile enterprise is to build the lifeboat of a sound new financial system, built on the principles which have been laid out in Lyndon LaRouche's New Bretton Woods proposal.

That said, there are plenty of indications that the next phase of the financial storm is about to hit. The open discussion of the possible rise in U.S. interest rates at the end of June has triggered a dizzying volatility on the U.S. stock markets. And a series of statements by prominent financial gurus, as well as some definitive actions, have underscored the seriousness of the threatened storm.

Two remarks from leaders of the Bank for International Settlements are particularly noteworthy. The first came from Managing Director Andrew Crockett, in his report to the annual meeting in Basel, reported at the end of May. Crockett first claimed, "The sense of foreboding that pervaded the economic and financial scene in the period under review [June 1998-May 1999] proved unwarranted . . . [and] events did not unfold as badly as some had feared."

Yet, despite this self-reassuring rhetoric, the rest of the report spoke of such systemic risks as that "the U.S. economy will overheat and fears of a subsequent recession will undermine stock markets, reduce wealth and cut spending. Were the dollar to fall simultaneously, under the weight of capital outflows and a large trade deficit, a period of stagflation [read, global depression] would not be an impossibility. The world has benefitted materially from the continued strength of the U.S. economy. However, exit strategies should now be the preoccupation for all prudent policymakers, including those in the United States."

What kind of "exit strategy"? Put your money under the mattress? Stop the world, I want to get off?

The second telling remark from BIS circles came from the president of the BIS, Swedish Riksbank Gov-

ernor Urban Baekstroem. He told the BIS annual meeting on June 7, in reference to the fact that Brazil and other crises have been contained for the moment, "These favorable developments should not lead us to conclude that the danger has passed.

"Indeed, the principal risk at this point is that the sense of urgency in the need both to manage current problems and to prevent the emergence of new ones will be lost. This would be irresponsible since there remain some evident threats to international financial and economic stability, and, perhaps more importantly, there may well be vulnerabilities that are not so evident. . . . At this meeting last year, no one had anticipated the extent of the turmoil in financial markets that would be generated by the Russian devaluation and moratorium."

Baekstroem then went into the balance of payments vulnerability of the U.S. dollar and "concern that equity markets, particularly in the United States but also elsewhere in the industrial world, might fall back rapidly and in a disorderly manner." Referring to the easy-money central bank policy of recent months to try to contain the global crisis, he noted, "Such policies can themselves contribute to turbulence in financial markets. Easy and low-cost financing over an extended period may drive up the price of financial assets, even at times when the rates of return on the underlying real assets are declining. . . . The buildup of excessive leverage sets the stage for the type of market turbulence seen in the wake of the Russian moratorium."

"Excessive leverage" is an understatement when discussing the hyperinflationary bubble which has been created by the world's central bankers. They have been trying to gradually dry it out over some months, only to be driven to pump it up again when the inevitable wave of bankruptcies is threatened.

It is strongly suspected in the international community that the near-simultaneous exits of three leading financial policymakers in the Clinton administration—Robert Rubin, Alice Rivlin, and Janet Yellen—signals an awareness that the bubble is about to pop. It's not worth speculating; it is worth just getting prepared to put a New Bretton Woods in place.