'Ides of March' Meltdown: LaRouche Was Right, Again

by Jeffrey Steinberg

With precision accuracy, Lyndon LaRouche's forecast of an "Ides of March" shock to the global financial and monetary system played out during the week of March 12-16, causing panic among government officials and bankers in the United States, Europe, and Japan. LaRouche, in various statments and discussions over the early weeks of 2001, forecast that the conjuncture of the end of the Japanese fiscal year on March 31, and the continuing unravelling of the U.S. economy and financial markets, would trigger a new "shock front," bringing the global financial superstructure one large step closer to disintegration.

"Panic" was the word of the day on March 14, when financial markets in North America, Europe, and Asia were rocked by one of the biggest one-day falls in memory. For the first time in a year, the Dow Jones Industrials closed the day below 10,000, as the Nasdaq "high-tech" index continued its slide. In the past year, the Nasdaq has lost over 60% of its entire value, wiping out more than $5 trillion in paper assets. On March 9, the Federal Reserve Board issued figures for 2000, showing that, for the first time in 55 years, American household net-worth had fallen by a shocking $800 billion.

The Nasdaq crash, and the collapse of consumer spending in the United States, has taken its toll on the real economy, with such major "Information Technology" firms as Intel, Compaq, Hewlett Packard, Motorola, and Dell announcing tens of thousands of layoffs in the past month, and significant reductions in projected earnings for the next year. These earnings warnings have, in turn, triggered further falls in U.S. stock values, which have ricocheted around the globe. For example, on March 14, the day Wall Street sank, the "New Market" (Nemax) of Germany's 50 top high-tech stocks lost 9%, closing at 1,608, and capping a one-year decline of over 80% (on March 10, 2000, it was at 9,600)!

The fall in U.S. consumer spending has also struck the auto sector extremely hard, with car sales for the first two months of 2001 down by over 20%, and truck, van, and sport utility vehicle sales down over 36%. Inventory buildups and revised sales projections are leading to layoffs in the auto sector worldwide, with the U.S. downturn already hitting Brazil, a center of outsourcing of U.S. automobile parts and assembly. Brazilian exports of auto parts are down 40% since Jan. 1, and the decline in export earnings is projected at $1.1 billion.

The Ibero-American crisis has been compounded by currency shocks, first set off by the banking crisis in Turkey ("Turkish Crisis Could Trigger Global Financial Chaos," *EIR,* March 9), which drove up yields on all emerging market government bonds, and rapidly spread to Argentina. *La Nación* reported on March 14 that Argentina has failed to meet the targets of the December 2000 International Monetary Fund (IMF) deal, and the International Monetary Fund is now demanding $2 billion in additional government austerity, as a precondition for delivering a $39.7 billion bailout package.

Japan: The Other Epicenter

In Japan, the Nikkei stock index hit a 15-year low, falling below 12,000, and prompting the Japanese government to launch yet another hyperinflationary intervention to bail out the major institutional stockholders with taxpayers' funds. In an effort to lure small investors into the Japanese stock market for the first time, the government of Prime Minister Yoshiro Mori announced on March 15 that it would cover any losses incurred by investors in a new public-private stock fund, and also granted drastic cuts in capital gains taxes. Unlike the United States, where an estimated 50% of all households have some investment in the stock market, Japanese citizens rarely invest, choosing, instead, to keep their savings in the postal savings system, with minimal interest yields, but zero risk.

Finance Minister Kiichi Miyazawa bluntly admitted that Japan was in a "deflationary crisis." Miyazawa's public pronouncements were unusually blunt. In March 8 testimony before the Diet House of Councillors budget committee, he admitted that Japan was on the verge of "financial catastrophe." "The nation's finances are now abnormal, in a state quite close to collapse," he stated. Citing the looming March 31 fiscal year-end, he continued, "Particularly at this time, we have to create a healthy economy instead of just trying to sound positive with words." After years of flooding world credit markets with zero-interest "Samurai Bonds," Japan is confronted with a mountain of non-performing and in-jeopardy loans, and a public-sector debt balloon that is more than 130% of Japan's Gross Domestic Product, the highest rate of debt burden in the Group of Seven industrialized nations.

The Nikkei has lost 40% of its value since April 2000, and Japanese banks—despite last year's government infusion of bailout cash—are now again sitting on an estimated $1.5 trillion in non-performing debt. To attempt to get through the year-end accounts balancing, Japanese banks and corporations are repatriating cash in a last-ditch effort to limit the damage. This panicked call-in of yen has already dried up global capital markets, producing the preconditions for even greater shocks, particularly in the so-called emerging markets, which could experience a new round of capital flight. A study by the Bank of Holland, reported by Reuters on March 10, identified Argentina, Brazil, Indonesia, and Slovakia as countries also on the verge of currency crises.

Panic in Washington

Adding further fuel to the crisis across the Pacific, an unnamed senior Bush Administration official told the *New York Times* on March 14 that the Bush-Mori summit, scheduled for March 19, was a "waste of time," referring to the persistent rumors that Mori is expected to step down as Prime Minister in late April—as soon as the leadership of the Liberal Democratic Party can come up with a replacement (see article in *International*). Such unbridled stupidity on the part of the Bush Administration is bad enough under normal circumstances. Coming on the day that markets across the globe were crashing down, it was tantamount to committing hara-kiri.

In fact, the *New York Times* reported on March 14 that crisis meetings on the Japan meltdown have been taking place for a week at the U.S. Federal Reserve, at the Treasury Department, and at the White House. Treasury and Fed officials are reportedly scared to death that the downturn in the U.S. economy, highlighted by recent figures on declining consumer spending and falling capital goods purchases by major manufacturers, means that the United States is no longer the "importer of last resort," able to offset the Japanese crisis, and keep the world economy from sinking.

A Dark Age in Progress

No assessment of the global crash process forecast by Lyndon LaRouche would be complete without including the crisis rocking Western Europe, Africa, and Ibero-America, as the result of the spread among commercial herds of hoof and mouth disease (HMD), and the continuing fear of an epizootic spread of "Mad Cow" disease (bovine spongiform encephalopathy, or BSE). Great Britain has admitted losses of more than $4 billion, as the result of the HMD-driven slaughter and burning of its livestock herds.

Canada and the United States have banned the importation of meat products from all 15 of the European Union nations, as well as from Argentina. Argentine beef producers warned that, if the export freeze continues, it will mean "the bankruptcy of the system," not to mention tens of thousands of job losses. As reported above, this comes on top of a renewed currency crisis and IMF demands for even harsher austerity measures.

Officials at the U.S. Department of Agriculture, at a March 14 press conference, candidly admitted that they are bracing for an outbreak of HMD in the United States, which, if unchecked, would wipe out American beef and pork production for the next five years—with billions of dollars in losses to the country's already-faltering agricultural sector.

Emergency Meetings, but No Sane Solutions

On March 16, the *South China Morning Post* reported that on March 22-23, the Financial Stability Forum will hold an emergency meeting in Washington to assess the systemic risks to the global financial system. The group is comprised of the top financial officials from the Group of Seven, the World Bank, the IMF, and the Bank for International Settlements, and is headed by BIS General Manager Andrew Crockett.

But the prospect of this Forum taking serious action to deal with the accelerating crash is near-zero. The Bush Administration continues to peddle the fantasy that the global crisis can be "managed" by a combination of Federal Reserve interest-rate cuts, and Bush's $1.6 trillion tax cut. According to the fractured logic of the Bush scheme, the combined interest-rate and tax cuts will pump enough liquidity into the economy to cause consumer spending to jump, restoring the United States to its status as the "consumer of last resort" for the rest of the world. Some Bush boosters, like former Federal Reserve Board Governor Wayne Angell, now chief economist at Bear Stearns, showing signs of panic, are demanding that the Fed drop interest rates at a greatly accelerated speed. In a March 14 commentary in the *Wall Street Journal,* Angell demanded that Greenspan go the way of the Bank of Japan, by dropping rates to 0-2%, to flood the U.S. economy with liquidity. As LaRouche has warned, that will accelerate the takeoff of the hyperinflationary process that is already well under way.