industries in a cash squeeze. Now the Korean banks refuse to provide any lending to the Korean economy—now they are U.S.-style, lending only for profit, avoiding risk. The Korean government would provide funds to the banks, but the banks would just put the money in government bonds at 20%. That's why we had so many small and medium companies go under, not to mention the giant industries we lost, such as Hanbo Steel, Daewoo, and Hyundai. But this was all very profitable for Western investors," he concluded. "Now, foreign hot money controls about 30% of the Korean stock market—whereas before 1997 it was only about 9%."

Based on the stock bubble, the Korean government and banks issued a large, additional consumer credit bubble. On advice from the IMF, Korean banks and companies began handing out credit cards on almost every corner, even house to house. Since 1997, Korea has gone from a nation with no credit cards, where spending was based almost entirely on saved-up cash, to an average of four cards per capita. Total household debt has been rising at 34% per year, to almost $400 billion.

But as *EIR*'s source foretold, the IMF's Seoul bubble did not last. This Summer, when Wall Street tanked and Japan's Nikkei index followed, the bottom fell out in Seoul. KOSPI stocks have dropped almost 30% since April, as foreign hot money leaves as quickly as it came. With the stock collapse, the consumer bubble is popping, too. The Bank of Korea (central bank) issued a report on Oct. 8 entitled "Household Debt Feared To Spur Mass Bankruptcies." It concludes: "Households are increasingly exposed to credit risks by taking out more loans from financial institutions, causing worries over a possible massive number of household bankruptcies." One official told the *Korea Times* that "the increase in loans to the retail sector accelerated last month due to a hike in housing mortgage loans caused by real estate price increases"; but he said that these mortgages were taken out to be sold in real estate speculation, he said.

Worse, the ratio of household debt against the GDP reached 70%, which is "fast approaching the U.S. level of 80% of GDP," Bank of Korea warned. "Having a credit expansion when real estate prices are in a bubble, is a dangerous signal for the economy."

"Anxiety Over Hard Landing" was the *Korea Times* Oct. 9 editorial. "Besides Morgan Stanley's warning of a hard landing for Korea's economy, omens of deflation are visible throughout our society, while a series of negative economic factors overseas, like the crashing U.S. stock markets and the persistent risk of a U.S. war against Iraq, are adding to the concern. The nation's household debts are quickly approaching U.S. levels, with the average debt per household expected to reach 30 million won ($25,000) by the end of this year. This trend, needless to say, is causing worries over a massive number of household bankruptcies."

Korea will be back in the dark days of 1997, and worse, unless Asia dumps the IMF policy for good.

Trouble Hits Elite Insurance Sector

by John Hoefle

The global economic meltdown, of which the stock market collapse is just the tip of the iceberg, is now visibly hitting the heart of the global financial system, the interlocked network of giant insurance companies, reinsurance companies, investment banks, and commercial banks which dominate the imperial "casino mondiale." The almost daily reports of layoffs at the big banks, and recapitalization attempts by the insurers and reinsurers, reflect the relentless process expressed by Lyndon LaRouche's "Triple Curve" collapse function. The financial system is caught between hyperinflationary increases in money supply and derivatives, and a worsening deflation of financial assets such as stock market values, all on top of a collapsing physical economy.

Insuring the Collapse

The halving of world stock market valuations since early 2000 has devastated the insurance sector, which invests much of the premiums it collects in stocks, bonds, and related financial assets. As stock markets vaporize, so does the insurers' ability to pay future claims, throwing the entire insurance chain into jeopardy.

Analysts estimate that European insurers alone have lost more than $98 billion in capital over the past year—half from stock-market drops and half from claims related to the attacks of Sept. 11, 2001; with another few billion in claims from the European floods of August 2002. To try to offset this, according to A.M. Best, the reinsurers have raised some $30 billion in new capital.

Scor, the big French reinsurer, recently announced plans to raise nearly $400 million in new capital, a move which would roughly double its capital base, and insurers Aegon NV and Zurich Financial Services have also sought capital increases. Prudential Financial, parent of Prudential Insurance Co. of America, is seeking bids for its property and casualty business, and Standard & Poor's recently downgraded Swiss Re, the world's second-largest insurer, stripping it of its coveted triple-A rating.

Some of these infusions have come from parent companies. For example, Munich Re, the world's largest reinsurer, recently injected $1.4 billion into its American Re subsidiary, and General Electric has boosted the capital of its Global Insurance Group and its Employers Re subsidiary. Crédit Suisse Group, the giant and very troubled Swiss bank, recently made a second $1 billion infusion into its Winterthur

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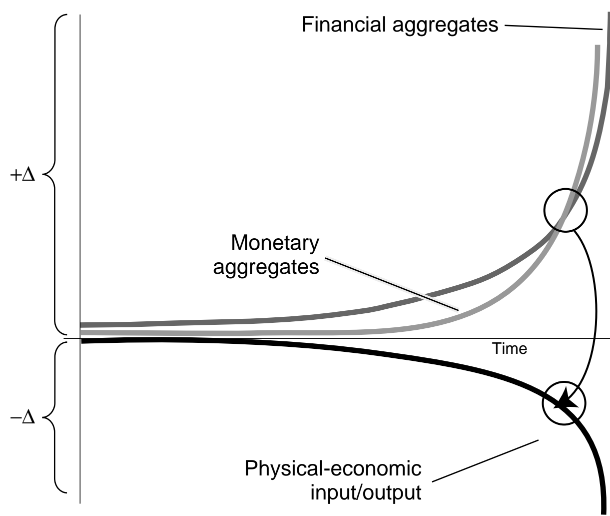
LaRouche Triple Curve: The Critical Point of Instability



insurance unit.

Some insurers seem headed for the bankruptcy courts. In the United Kingdom, Equitable Life is fighting for its own life, in the wake of disclosures that the Crown's Financial Services Authority (FSA) has expressed doubts that the company can "meet the required margin of solvency," as an FSA official stated in correspondence which was subsequently made public. Conseco, the financial conglomerate which is the 26th-largest U.S. insurer, is in negotiation with creditors over its $6 billion in debt, and some analysts doubt the company will survive.

The Fondi

The giant insurance and reinsurance companies, together with a small group of merchant, investment, and commercial banks, lie at the very heart of the oligarchic financial system, which is grouped around the *fondi,* or ancient family funds. Assicurazioni Generali of Venice, for example, was identified in *EIR*'s book *Dope, Inc.* as the heir to Venetian fortunes dating back to the time of the crusades. Allianz, of Munich, serves a similar role for German oligarchic families—including those of Wittelsbach and Thurn und Taxis—as does Lloyd's of London for the Brits. These *fondi,* acting through fronts such as the Rothschild and Lazard banks, control the big insurers and many of the much better known, and seemingly more powerful, financial institutions of Wall Street, the City of London, Switzerland, Frankfurt, and Paris. Some of the players have changed since *EIR* first published *Dope, Inc.* in 1978, but the principle remains, and with the sweeping reorganizations and consolidations on Wall Street and in the City, the *fondi* are more in control of the banking system than ever before.

Exemplary is the role of Lazard's Felix Rohatyn in reorganizing investment banking on Wall Street in the 1970s. Rohaytn, as head of a New York Stock Exchange Crisis Committee, oversaw a series of mergers among bankrupt investment banks, paving the way for the giants which today dominate the Street. One of the major beneficiaries of Rohatyn's efforts was Sandy Weill, who today heads Citigroup, the giant U.S. insurance company, investment bank, and commercial bank conglomerate. Rohatyn and Lazard also played a key role in launching the corporate mergers-and-acquisitions boom which did similar damage to corporate America.

Bailout?

The oligarchy has never been shy about demanding bailouts from governments and their taxpayers, and there are indications that they are maneuvering to receive preferential treatment for their insurance companies. For the public's own good, of course.

One indication of this is the recent move by the G-7 nations and the Bank for International Settlements/IMF crowd, acting through the Organization for Economic Cooperation and Development (OECD), to increase their oversight of the reinsurance sector.

"There is a conjunction of factors which have weakened the financial situation of the reinsurance companies, and we're putting them under greater scrutiny," said Cecile Vignial, who handles insurance issues for the OECD. "The reinsurers are an essential link in the stability of the financial sector and the collapse of any large reinsurer would have an important knock-on effect. All insurers on both sides of the Atlantic have been profoundly shaken in the past year," Vignial told the *Wall Street Journal* on Oct. 3.

There are some valid concerns about the trouble hitting the insurance companies. Reinsurers play a special role in the insurance world, as the companies which insurer the insurers. When an insurance company writes a policy for a client, it turns to a reinsurance company to share the risk. When the insurers and reinsurers run low on capital, that can limit the amount of insurance they can write. As the insurers continue to erode, this will become a more significant problem, raising insurance costs and making insurance harder to obtain.

However, the insurance problem cannot be treated as separate from the global financial disintegration, and there is no way to save the insurance system without LaRouche's New Bretton Woods reorganization plan, which would involve writing off many of the assets the insurers hold most dear. The turmoil hitting the insurance sector is an indication of the systemic nature of the collapse, in which tens of trillions of dollars of financial assets have simply vaporized. It is the system itself which is breaking apart, and the only insurance policy which can save it is the one offered by Lyndon LaRouche.