Credit guarantees won't stop global financial mudslide

by Chris White

The immediate run against the Mexican peso was brought to an apparent, temporary, shuddering halt on Friday, Jan. 13, when the Clinton administration and the Federal Reserve Board announced that the United States would provide credit guarantees, subsequently revealed to be in an amount of up to $40 billion, to do just that. This second package was required because the first $18 billion, from all sources, had not been sufficient to turn the tide against the predators already gathering over the carcass of the Mexican credit system.

Such a stabilization package, designed to burn out the speculators, ought to have been on the agenda of any American President, and was properly the subject of bipartisan agreement between President Clinton's administration and the Republican leadership of the House and Senate.

But no one should kid themselves. No stabilization package, no matter if 10 times $40 billion, or 100 times $40 billion, no matter how much oil, or revenues from oil, is presumed to back it up, is, on its own, going to stem the slide. Nor is it going to put food on the tables of those who need it. Nor, given the gathering instabilities worldwide, and the outbreak of cultish infantilism in Washington, led by refried wind-bags like Sen. Phil Gramm (R-Tex.), is there any guarantee that the $40 billion will be any more than a very brief holding action.

It can be assumed that action was taken when it was, even if three weeks after the Mexican crisis first erupted, because various people, in various positions, began to grasp the idea, under the pressure of unfolding events, and the failure of the usual countermeasures, that yes, a systemic threat to the world financial system did in fact exist, that action not taken would have jeopardized everything.

This, despite all the nonsense from those who insist that nothing of the sort is going on, just some "asset reallocation," out of the so-called emerging markets, and into "safe havens" for investment. They're nuts, whether they work at Goldman Sachs, or in the City of London.

The financial system is the threat

But those who put together the $40 billion package have got it wrong, too. There is no systemic threat to the financial system. The financial system, so-called, is the threat. Not the Mexican financial system, but the whole darn thing.

You can't stop a global mud-slide by throwing mud-balls into it. The $40 billion might be a lot of mud-ball, but it's still a mud-ball.

Number one, it's not a Mexican crisis. Number two, the editors of London's *Financial Times* to the contrary, they wrote ludicrously, on the same Jan. 14, of "isolated separate bouts of instability," to wit, simultaneous crises in Argentina, Brazil, Hongkong, Thailand, Malaysia, China, Russia, Spain, Italy, Sweden, and Canada. Not to insult any country left out, none of these are sufficient unto themselves, arbitrary eruptions in some inchoate void, but part of the same process of global financial breakdown that engulfed Mexico in the days before Christmas.

It all makes those who are opposing the stability package look pretty stupid. There are those who opposed the North American Free Trade Agreement, two years ago, but didn't fight effectively for fear of what would happen to the financial system. Now, the financial system is coming down, they want NAFTA repealed—as if that would accomplish anything. There's Ross Perot, back with his sucking sound, demanding the takeover of Mexico's oil. There are others, like Kemper's David Hale, proposing the establishment of a British Empire-modelled "currency board," to put Mexico effectively out of independent existence. There's the second-childhood crew from the geriatric ward, like Sen. Jesse Helms (R-N.C.), who want the whole tied to the immigration question. And there's Gramm, so far out, he might be using cast-off NASA boosters for his presidential campaign: "I would like a helluva lot less risk than we're talking about." What does he want? The certainty, and the misery of a global breakdown, now?

This global breakdown process was the subject of Lyndon LaRouche's Ninth Forecast, "The Coming Disintegration of the Financial Markets," now circulating nationwide in a publisher's run of 100,000 copies. The $40 billion "stability package" may delay, but certainly won't stop, never mind reverse, the process that is even now under way, worldwide. This for the very reasons that brought about the crisis in the first place.

LaRouche's Ninth Forecast proves why the disintegration of the present monetary and financial system will occur, at some point, probably over the coming two years. He shows that it is impossible to tell when precisely that eventuality might occur. That it might be delayed. But occur it will, and must, failing political action to put the present degenerate arrangements through top-down international bankruptcy reorganization.

It is a quality of proof that those who delude themselves that they are protecting the "system" from some threat would do well to take on board.

Creativity is the source of wealth

Economy and monetary systems are not directly correlated in the way the professional idiots assume. Human creativity is the sole source of wealth, developing the technology which permits more people to live better lives through increases in productivity.

Assign a financial value to an asset, on the basis of a price-earnings multiple, without regard to the economic replacement cost of that asset, or even whether it could have a replacement cost (nowadays intangible assets, and assets which derive their "value" from some other asset have equal claim to loot with old-fashioned real assets), extract the income claimed by that asset, in the way a New York slumlord would extract the rent from his tenants, capitalize the income stream thus looted compounded with the existing asset. The result is a financial bubble. Loot populations, and economic capacity to sustain the price-earnings multiples on the arbitrary, and economically fictitious assets, relative to their replacement costs. The result is inevitably bankruptcy and collapse. What's left open to question, is the rate at which that bankruptcy and collapse occur.

The better the bubble process appears to sustain itself, the worse the results will inevitably be, for the bubble is only perpetuated, like a cancer, by consuming the healthy, wealth-producing tissue of the human economy.

The misnamed "Mexican" crisis blew up in the first place because Mexico, looted to the bone, and bankrupted, could not continue to service its debts. Now, a 40% currency devaluation later, Mexico's foreign debt is that much larger in dollar terms, and swollen further by the obligations that may yet be incurred under the name of the two successive stability packages.

If Mexico could not service approximately $150 billion of debt on the eve of Christmas, why should it be any better able to service $230 billion, and more, just two weeks into the New Year? If the United States went beyond loan guarantees, and assumed some or all of the debts, that would really change nothing either.

Canada, Sweden, Italy, and Spain, to name but four countries, each indebted comparably to Mexico, are in no different situation. Each faces a tumbling currency, and demands that public expenditures be drastically curtailed to free up revenues for debt service. Each is in the process of putting together a state budget designed to comply with the price-earnings multiple calculations of the country's international creditors. Each will attempt to do this by enforcing austerity measures against the aged and the employed, the young and the sick, which are guaranteed to make the deficit and debt problem they claim to address, worse.

Russia, too, is in a similar plight. There the ruble has fallen below 4,000 to the dollar, lower even than it was on that Black Tuesday last October, while deficit-busting budgets are concocted. But, so too is Russia in the same bankrupt shape.

Are they all going to qualify, in their turn, for upcoming $40 billion loan guarantee packages? Or do we learn that the "system" did actually die, and killed off the "liberal" market reforms which Mexico and Russia both are supposed to exemplify?

What the package does

What does the stability package do? At best, it may buy some time, stretching out the maturities on debt falling due, and guaranteeing, inevitably in the not too distant future, since maturing debt and interest are added onto the preexisting mass of unpayable debt, to create a bigger mass, demanding more payment, and thus a future bigger crisis. And, where will that bigger crisis hit? Well, who are the creditors who are being underwritten by the U.S. loan guarantees? You did not think they were Mexican, did you? It is the usual crew: Citibank, Fidelity Investments—one of the larger purchasers of Mexico's dollar-pegged, short-term government debt, over the past year.

We are merely lining up a bigger crisis, with an expanded U.S.-based explosive charge, as long as the operative presumption is that which underlay the development of the $40 billion stability package. There is no threat to the financial system from which it can be saved. The financial system is bankrupt. It is dead. It ought to be given a proper burial. After the stability package there's got to be a reorganization which puts the speculators out of business, and assumes that we stop the worldwide stealing in the name of preserving a bankrupt monetary system, and start to put people back to work.