fictitious and unjustified wealth for title holders, pension funds, or other investors [who are] convinced that they have the time to turn their virtual formulas into reality just before their values collapse."

Argentina: Columnist Carlos Scavo, in the July 7 daily *Clarín,* referenced information from *EIR* (although unattributed), and noted that many American Congressmen are concerned about the merger mania going on in the United States. He said that they have warned that this could lead to cartelization, which threatens "healthy competition."

In this context, Scavo reported that "as of now, the group from the Democratic [Party's] right wing, led by the colorful Lyndon LaRouche, has predicted that it will be easy [for banks] to charge any interest rate," because of these mergers.

United States: Former Polish Deputy Prime Minister and Finance Minister Grzegorz W. Kolodko wrote a commentary for the July 7 *New York Times*. Russia, he warned, is killing its economy by complying with IMF conditionalities. This policy, Kolodko says, was "the infamous" shock therapy, or "shock without therapy, as we called it."

Kolodko, whose government service spanned 1994-97, stated that the International Monetary Fund's idea for Poland was to privatize "as quickly as possible," but "this led to growing poverty and unemployment as well as social and political tension." He points to the fact that 45% of the Russian budget now goes to the "ever-rising cost of servicing the nation's debt," as part of the "mismanagement" of the economy. The IMF and Russia "are throwing hot grease on the fire by insisting on stringent measures in return for a bailout," which includes not paying wages or pensions, and shredding the population's social safety net. No further IMF bailouts should be imposed, he insisted.

Asia: "The Case for an Asian Return to Fixed Exchange Rates" is the headline of a commentary in the July 2 *International Herald Tribune* by Malcolm Dowling, a former assistant chief economist at the Asian Development Bank in Manila. Dowling makes the case that, while the IMF and industrial nations would be "outraged" if the Asian debtor nations suspended convertibility of their currencies, and went back to fixed exchange rates tied to the dollar or a basket of currencies, "there would be compensations that outweigh the disadvantages, particularly in the short run."

The advantages that he mentions are the ability of Indonesia, Thailand, South Korea, etc. to "lower interest rates, expand short-term credit to exporters, and begin to revitalize production and stimulate growth." Also, the burden of external debt would be lightened. "At the very least, the Asian crisis should prompt a fundamental re-examination of the way international trade and payments are conducted."

Commodity price fall is harbinger of depression

by William Engdahl

While financial press and governments in Europe and North America have touted a growing economic recovery, the collapse in recent weeks of prices of major industrial and energy commodities is a far more ominous, and more accurate measure of reality. Raw materials prices across the board, from copper, to aluminum, to nickel, to crude oil, have been plunging since the beginning of the year, as the scale of the Asian collapse worsens beyond calculation.

While even leading economists and officials from the World Bank begin to use the word "depression" to describe what is hitting many Asian economies, the fall in commodity prices reflects an imminent fall in production of manufactured products, not only in Japan and Asia, but also in the Organization for Economic Cooperation and Development (OECD) industrial regions of Europe and North America. The following elements are indicative of the dramatic scale of developments which so far have been restricted to the back pages of most European and American press.

The most widely used index of commodities prices, the Commodity Research Bureau's (CRB) Raw Industrial Spot Price Index, has fallen 16% since the onset of the Asian crisis in August 1997, its lowest level since that on the eve of the Persian Gulf War in early 1991. In terms of specific industrial metals which comprise the CRB index, prices in dollar terms (most major commodities are sold on world markets in dollars) since the beginning of January have fallen by 25-30% for aluminum and nickel, up to 40% for copper.

Collapse in demand

Copper, nickel, and aluminum are some of the most basic industrial base metals (that is, metals excluding gold, silver, platinum), essential to any growing manufacturing economy. Their price collapse is not surprising, given what has been under way in the past 12 months radiating out of Asia. Year-on-year demand for purchase of base metals in South Korea, the eleventh-largest industrial economy in the world, is down 25%. In Thailand, demand is down 50%, and in Indonesia, demand for all base metals has collapsed 75%.

This, when, at any given moment, the crisis in Asia is within hours of reeling out of control into a global crisis. Total Asian demand for base metals, including China and Japan, is enormous. According to *Metals Bulletin Research* in London, in 1996, Asia consumed fully 41% of Western world demand of aluminum, 44% of copper, 42% of nickel, 48% of zinc, and 60% of tin.

With those economies going into unprecedented economic breakdown, or, as in the case of China, into a marked slowdown, global demand for the metals has sunk like a stone. And, there is no end in sight. The largest market loss in volume terms has been Japan, the world's second-largest industrial producer after the United States, where most of the base metals are consumed in construction and automobile production.

In May, domestic orders received by Japanese construction companies fell, compared with May 1997, by 28.2%, the third consecutive monthly fall, and foreign construction orders were down 62%, the vast bulk of that in Asia. In production of automobiles, buses, and trucks, Japanese domestic output fell 19.7% in May, compared with a year ago, and exports were down 3%. As Japan's economic depression deepens, inventories of unsold industrial goods have soared. As of May, year-on-year inventory levels had risen 16.6%. A 5% inventory rise is considered alarming. In an economy which pioneered the so-called "just-in-time inventory" system, such record-high inventory of unsold machinery, vehicles, and other equipment means that, even in the unlikely event that Japan were to pull off a miracle and reverse its economic prospects and banking crisis, a return to normal industrial inventory is months, if not years, off.

The decline in Asia has begun to reflect itself in a decline in demand for manufactured durable goods in the United States. In May, demand for such durables fell 2.6% compared with April. The worst affected were orders for aircraft, defense goods, and industrial machinery. Because Europe is significantly less dependent on the Asian export market, the effects have not yet hit as badly there. But, as the collapse in demand continues in the United States, the impact on Europe is assured to worsen later this year.

A new oil shock

The decline in Asian demand for commodities has also affected crude oil, the largest commodity in world trade. Since October 1997, when the Asia crisis became full-blown, oil prices have plunged 49%. In real terms, the International Energy Agency estimates that because of the crisis in Asia, oil demand has dropped 800,000 barrels per day since January. That figure is rising daily as the crisis spreads. Twice in the past four months, major oil-producing countries have held emergency meetings to try to agree on huge cuts in output to stabilize prices. The fact that the oil price has not rebounded at all reflects the reality of a deepening global economic depression radiating out of Asia.

According to estimates by SBC-Warburg oil strategist Geoff Pyne, even if the latest agreement by the Organization of Petroleum Exporting Countries, to slash an additional 1.4 million barrels per day in output, holds, at best it will take six months to a year to work down the extremely high inventory stocks now existing throughout the industrial world. OECD oil stocks today, Pyne estimates, are 130 million barrels in excess of normal surplus. If sanctions against Iraq are lifted later this year, its oil will further add to the glut. North Sea Brent today sells for $12.04 per barrel; a year ago, the price was $19. Saudi Arabian crude sells for $7.88 per barrel. Russian Urals oil now brings $10.19 per barrel, while a year ago it brought $18, a 44% slide in one of Russia's most important dollar exports.

South Africa, Australia, and Russia

In the past three months, the currencies of countries not directly part of the initial "Asian crisis" have fallen precipitously, namely, the Australian dollar and the South African rand. And, the Russian ruble has also been under enormous pressure. These three countries are by far the world's major raw materials exporters. The Australian dollar has plunged 20% since January. Of Australia's ten largest export items, nine are commodity exports. In South Africa, the invervention by the South African Reserve Bank, with assistance from the Bank of England and the New York Federal Reserve, has been to no effect. The rand has dropped 30% since last August. While South African Reserve Bank head Chris Stahls has blamed "at least one large hedge fund" for the fall, the background is the collapse of world export markets for all of its exports.

While Russia's economic situation and its possession of a nuclear weapons arsenal make stabilization of the ruble of paramount importance, the collapse in Russian exports of oil, aluminum, copper, and other raw materials commodities has aggravated Russia's domestic economic and fiscal crisis.

In the midst of the growing chaos and collapse of raw materials prices, however, one constant has largely remained. The ultimate ownership of the mining capacities of world raw materials production remains firmly in the hands of the London-centered mining giants. For them, a collapse of prices, even of two to three years duration, is a part of doing business. As they view it, ultimately, the world will again need their manganese, their chrome, their aluminum, their nickel. At that point, the giant companies, such as Rio Tinto, BHP, Inco, Noranda, Consolidated Goldfields, Anglo American, and Lonrho, will simply mark prices up sufficiently to recoup any short-term losses from the Asian and related crises. In the meantime, given their enormous size and financial resources, they will be the survivors, while thousands of smaller mining firms are forced into bankruptcy. As these elite circles around Britain's House of Windsor and the Dutch monarchy view it, the present "distress" will have been worth the price if the end result is an even greater lock-grip control of the world supply of vital industrial commodity reserves in the ground.