Washington meeting fails to discuss global financial crisis

When will the US bubble burst?

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22 April 1998

All of the press statements and public pronouncements centred on the need for new guidelines for the international banking system following the Asian meltdown, and the demand for "financial restructuring" in Japan. But another crisis hung over the meetings of the treasury and bank officials of the major capitalist powers in Washington last week. There are now growing signs that the third major financial crisis of the 1990s—following Mexico 1994-95 and East Asia 1997-98—will take the form of a Wall Street sharemarket collapse.

Even as the finance ministers and bankers met to consider the stagnation of the Japanese economy, the world's second largest, and the crisis in Asia—responsible for half of the growth in world output in the 1990s—Wall Street surged ahead to new record highs. Yet, except for some warnings by German Bundesbank President Hans Tietmeyer that Wall Street had to be "closely watched," there was no official discussion of the US "bubble economy."

And the Asian crisis was, to a great extent, swept under the carpet as well. While the April 16 meeting of the Group of 22 countries was called to discuss a new "architecture" for the international monetary system, discussion of major reform proposals was pushed aside by a pre-emptive strike by US Treasury Secretary Robert Rubin.

He set out the US agenda in an address to the Brookings Institute on the eve of the G22 meeting. Rubin called for greater information to be provided to international markets, a higher standard of domestic banking regulations, and measures to ensure that banks and financial institutions suffered greater losses for bad lending decisions, rather than being bailed out by the International Monetary Fund (IMF).

Rubin's proposals formed the basis of discussion at the G22 meeting, which resolved to establish working groups to develop concrete proposals on their implementation. But the failure to undertake more substantial measures leaves all of the questions arising from the Asian meltdown hanging over the international financial system. The biggest issue is the absence of a central authority which can both regulate the global financial markets and provide lender-of-last resort facilities when the collapse of a bank or financial institution poses dangers to the entire system. This problem is causing increased concern in financial circles.

In an editorial published on the morning of the G22 meeting, the London-based *Financial Times* said that the Asian financial crisis had shattered "complacency." It welcomed a review of the architecture of the global financial system.

"At least policy makers are grappling with some of the difficult questions," it declared. "The biggest issue, however, is how to balance the lender-of-last resort function against the need to ensure private sector responsibility for mistakes. To this Mr. Rubin has not provided the solution, perhaps because there is none."

Warnings of disaster

In an editorial published two days later, entitled "The global standard of capitalism," the newspaper raised even more far-reaching issues. "The 20th century," the editorial began, "seems to be ending where it began. Imperialism, fascism, socialism and now Asian dirigisme seem to be diversions en route between the unregulated liberal capitalism of a century or more ago and its more institutionalised form of today. Or so many in the west believe."

However, there were dangers in what it called "Anglo-Saxon" capitalism, based on "shareholder dominance," becoming the "global standard." According to the editorial, "The contemporary triumph of the US may rest, in part, on a financial bubble. The liberal order of a century ago was destroyed by national rivalry and financial collapse. The same dangers could lie in wait. The new global standard has much to commend it. Its enduring triumph cannot be assumed, all the same."

Similar warnings about the Wall Street spiral have been sounded in the current issue of the *Economist* magazine in a report on "America's bubble economy." The magazine's editorial noted that while the spring meetings of the IMF and World Bank were dominated by discussions on Japan and the Asian financial crisis, "It is asset-price inflation, especially in the United States, that now poses a bigger and more imminent threat to the global economy."

It dismissed the widely-repeated claims that the stock market spiral, which has seen share values increase by 65 percent over the past two years, was due to the fact that America "has entered a new economic era of faster, inflation-free growth, and hence stronger profits, thanks to new technology and globalisation."

Pointing out that assertions of a "new economy" have preceded past collapses, the *Economist* reproduced the following comment from *Forbes* magazine: "For the last five years we have been in a new industrial era in this country. We are making progress industrially and economically not even by leaps and bounds, but on a perfectly heroic scale." That statement, it noted, was issued in June 1929, just four months before the stock market crashed.

A spectacular disparity

A series of statistics have revealed the rapidly widening gap between US sharemarket values and the real economy. US company profits are expected to rise between 3 and 5 percent this year, but sharemarket values have risen by 15 percent over the past four months alone. The share value of a single firm—Microsoft—rose by more in the first quarter of this year than all the growth in the entire US economy.

Figures like these recall the calculations made in 1989 when, according to market values, the land on which the Imperial Palace stood in Tokyo was worth as much as the entire state of California. Today the Japanese sharemarket index stands at 40 percent of its 1990 value. The economy has been virtually stagnant since the Tokyo "bubble" burst in the early 1990s.

One of the major factors pushing up US share prices is a record wave of mergers and acquisitions. The Dow passed through the 9,000 mark earlier this month in the wake of the world's largest ever merger, between Citicorp and the Travelers Group.

Deals worth $957 billion, or 12 percent of Gross Domestic Product, were announced last year—an increase from $138 billion, or 2 percent of GDP, in 1991. This year is set to be another record, with $441 billion worth of mergers announced by the middle of April.

The stock exchange upsurge is being fuelled by a continuous flow of cash from mutual funds which, for the first time in history, are estimated to be larger than the savings bank system. Tens of millions of working class and middle class families have been forced to channel their savings into the funds in the hope that they can earn a sufficient rate of return to cover health, education and retirement costs. Money allocated to these funds from pension schemes alone amounts to between $30 and $40 billion per month.

Consequently, unlike in 1987, when ordinary families were relatively unaffected by the sharemarket crash, a social disaster is in the making. When the stock market bubble bursts, as it inevitably must, tens of millions of people will see their savings and assets disappear virtually overnight.