

## Stock markets dive

The stock market panic in London began on April 3 when the *Financial Times* index dropped by 56 points in the first half-hour of trading, after polls were released giving Labour a substantial lead in British elections April 9. The stock index has fallen by 166 points since Budget Day, and analysts expected another 100-point drop if the Tories should fail to win.

In addition, the key three-month interbank lending rate shot up sharply, and if the money markets continue to be unstable over the next days, the big U.K. banks will come under increasing pressure to raise their base rates. The City of London "has finally begun facing up to the possibility of the Labour Party winning an overall majority at the polls next week," said the *London Times*, and sees the slump as a "foretaste of things to come."

Tokyo stocks collapsed below 17,000 on the Nikkei index April 8, down from the level of one year ago of 27,000, despite the early April government emergency economic package and a hefty 0.75% cut in the Bank of Japan rate. Bank stock drops led the decline, the worst fall taken by Mitsui Trust, heavily engaged in restructuring troubled real estate companies. Mitsubishi Bank and Fuji Bank fell sharply. Moody's has downgraded four Japanese top banks.

British traders in Tokyo had a field day talking down the Japanese market. Barings Bank has forecast the Nikkei could break below 15,000. "It's like trying to catch a knife," said Simon Smithson, head of research at Britain's Kleinwort Benson brokerage in Tokyo. "The market won't be able to rebound before banking stocks stop sliding," he said. "What's happening to Japanese bank stocks is structural—it's cross-share selling, *tokkin* money trusts, and fund trusts trying to get out of the bank stock market, and foreigners . . . thinking, 'we've got to get out of here.'"

The cross-share selling issue cuts to the heart of Japan's *keiretsu* industrial combine system. Industrial companies like Mitsubishi Steel are being forced to dump shares in their traditional banks such as Mitsubishi Bank. Analysts said investors were spooked by banks' bad loans, real estate exposure, and the need to meet strict capital adequacy ratios by end-March 1993.

The news from Japan hit markets across the Far East. In Hong Kong, shares extended sharp losses as investors eyed Tokyo and worried about New York. In Sydney, news from Tokyo sent panic through the stock market which closed at a seven-month low.

## Resistance builds shock therapy in

by Denise Henderson

Russia's 6th Congress of People's Deputies opened April 7 amid an ongoing debate over the proposed \$24 billion aid package being offered by the International Monetary Fund (IMF) to Russia. On April 8, however, the debate appeared to be over, as Russian President Boris Yeltsin claimed that thanks to the IMF reforms, as implemented by Harvard's adviser to Yeltsin, Jeffrey Sachs, and his Russian crony Yegor Gaidar, Russia was experiencing an economic turnaround.

Flagrantly ignoring reality, Yeltsin claimed that the Russian economic situation had improved, and defended the decision taken at the 5th Congress in November 1991 to press ahead with reforms. "We have got a clear understanding of the course of transformations," he said. "For the first time in many years we managed to make the economy speak the language of finance. The monetary policy becomes, although slowly, the major factor and incentive of economic activity. We have renounced senseless military spending. . . . Positive changes have started to take place in the economic and political spheres."

Yeltsin was forced to give his speech after the Congress voted down a proposal that Gaidar, who has been removed from his finance post but who remains an adviser to Yeltsin, report on the state of the economy. Although the speech was at least an hour long, Yeltsin only mentioned productive activity in the context of conversion of the military-industrial enterprises, and did not mention badly needed infrastructure at all.

Yeltsin called on the Congress not "to play politics, to fight for an illusionary primacy. We have a common cause that we are responsible to Russia, to the international community, to our own people. It is highly irresponsible to stir up disagreements. . . . But I am sure that the majority of the population understands that it is necessary to live through this period of falling living standards in order to prevent a catastrophe, to start moving away from this poverty."

Gaidar also spoke and ignored economic reality, claiming that there has been a turnaround in the number of businesses engaged in production, in exports and imports, and in agriculture. Gaidar laughably compared the proposed \$24 billion IMF aid package to the Marshall Plan, whose success, he claimed, Russia could repeat today.

But, as Russian speaker of the Parliament Ruslan Khas-