last year, the bank holding company Bankgesellschaft Berlin sailed into very turbulent waters, when its real estate branch, IBG, threatened to pull the entire holding into default, over several billion marks of uncovered loans and acute losses of several hundred millions.

Bankgesellschaft Berlin chose an insane, speculative "flight forward" response: It renamed IBG as IBAG, and moved it (with some help from J.P. Morgan experts) to the notorious Caribbean offshore tax haven in the Cayman Islands! Unreal hopes were raised that IBAG would be able to collect DM 2 billion in a short time, from interested investors, thereby relieving the Berlin holding from the obligation to write off at least several hundred million marks from non-performing real estate speculation.

But not even the many flight capital speculators from Russia and other places who frequent the Cayman Islands, showed any interest in placing their money on the bankrupt Berlin real estate accounts. The holding's problems were not just bank problems: After all, 56% of its shares are held by the Berlin city-state government, the Berlin Senate, which in FY2000-01 was already exposed to a debt of DM 66 billion. And addding to these troubles, was the decision in February by Germany's Credit Control, to look into that Cayman Islands deal, on well-founded grounds that a criminal act was being perpetrated there, at the expense of the German banking laws and of the taxpayer.

Within weeks, the entire IBAG construct collapsed, and by the end of May, it was clear that the majority shareholder of Bankgesellschaft Berlin—the Senate of Berlin itself—would collapse as well. On June 16, Mayor Eberhard Diepgen was voted out; new elections will be held on Oct. 21. Kurt Wowereit, the acting mayor, is a man of the banks: He wants to "consolidate" the debt, which, all of a sudden, climbed to DM 78 billion, according to the first official statements that Wowereit gave on the matter, late in July.

Wowereit wants to mobilize an extra DM 500 million to DM 1 billion, every fiscal year, for extra debt payments. For that, he is willing to sacrifice 15,000 jobs in Berlin's public sector, to privatize even more public property, to cut the budgets, and to sell Berlin Bankgesellschaft shares to other banks.

There is not the slighest hope for paying off any of that debt. The only way out for Berlin, is the same as for heavily indebted countries in Ibero-America and other parts of the developing sector: a moratorium on a large part of the old debt; new credit-lines for investments into the productive-industrial and infrastructure sectors; and continuous build-up of a sound tax revenue base, in the productive sectors of the economy.

This is what the Civil Rights Movement-Solidarity (BüSo), the LaRouche movement's party in Germany, has at the top of its campaign platform for the Oct. 21 election in Berlin. All other parties want to pay off the unpayable debt, leaving Berlin voters faced with a clear alternative: Survive with the LaRouche concept, or go under with the axioms and policies of the bankrupt system.

Only Orderly Bankruptcy Can Save Argentina

by Cynthia R. Rush

Fearful that Argentina's debt crisis could detonate a blowout in Brazil, or the rest of Ibero-America, International Monetary Fund (IMF) Managing Director Horst Köhler announced on Aug. 3, that the Fund had decided to grant Brazil a $15 billion credit line, while speeding up a planned $1.2 billion disbursement to Argentina.

Described by some Wall Street analysts as a way of putting a protective "fence" around Brazil, to cut it off from Argentine "contagion"—an absurd notion—the credit line is actually a pittance, given the magnitude of Brazil's economic dislocation and fragility of its $500 billion debt bubble.

Combined with the impact of the global financial breakdown, the Brazilian government's mismanagement of the ongoing energy crisis has thrown the economy into a tailspin. For the second quarter of this year, Gross Domestic Product grew only 0.8% compared to the same period a year ago, and is down from 4.3% growth in the first quarter. The national currency, the real, has declined by 22% this year, and the government continues to siphon off reserves to prop it up. President Fernando Henrique Cardoso's decision to comply with the Fund's demand for deeper austerity "reforms," in exchange for the paltry credit line, will only accelerate the rate of economic collapse.

When Argentina blows—and anything could set it off, at any moment—there won't be any "fences" to protect Brazil, or any other country from the explosion. Extending the $15 billion credit line to Brazil merely reflects the international financial oligarchy's panic over the unravelling of the global monetary system, and particularly over the growing acceptance of U.S. Democratic Presidential pre-candidate Lyndon LaRouche's proposals for an orderly bankruptcy reorganization of the world economy and creation of a New Bretton Woods system, based on protectionist policies.

The *Washington Post* spilled the beans in an Aug. 6 feature story, noting that since Argentina has always been a poster boy for free-market "reforms," its current difficulties are creating a "backlash to reform." Should the country default or devalue, "the anger and disappointment with market reforms could spread" throughout the continent, causing a return to protectionism, it nervously pointed out.

LaRouche's View Gains Ground

In remarks on Aug. 14, LaRouche reiterated that the only possible solution to the desperate global financial crisis, of which Argentina is a microcosm, is a declaration of debt mor-

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atorium and orderly bankruptcy reorganization. The government of Argentine President Fernando de la Rúa should take the lead in initiating such action, LaRouche said, adding that support for this option is gaining ground internationally. The July 28 editorial in the Swiss financial daily *Neue Zürcher Zeitung,* pointing to the inevitability of an Argentine default, and several articles since then reflect that fact, although none offers any solution outside of the existing, decaying system.

The opposing view, LaRouche said, is the one that throws nations, such as Argentina, to the wolves—a "screw you" attitude. There will be no relief from debt obligations, no bailouts. Even if this approach results in chaos, there are those today who have no qualms about allowing growing portions of the world to degenerate in this way. The IMF's dealings with Argentina underscore the insanity, and criminality, of this latter view.

The Argentine portion of the global debt bubble cannot be sustained. The country's $212 billion real foreign debt is unpayable—an incredible 80.3% of its export revenues now go to debt-service payments. A $40 billion IMF-led bailout last December, and a $30 billion debt swap this June, premised on intensified looting of the economy and the population, failed to do anything except exacerbate the crisis.

Yet, as *EIR* goes to press, Finance Ministry officials are engaged in yet another round of negotiations with the IMF, seeking $8-9 billion in new funds—the primary conditionality for which is a government promise to kill more people. Negotiations which began in Washington on Aug. 10 have as yet yielded no results, with the United States reportedly resisting any kind of new bailout.

Before agreeing to anything, the Fund wants a guarantee that the government can successfully impose the barbaric "zero-deficit" law rammed through Congress on July 30. The law makes all payments contingent on tax revenues collected—"we'll live with what we have," is the slogan—and while setting 13% cuts in state sector wages and pensions, it makes clear the percentage could go much higher should tax revenues drop. Tax revenues declined 8.7% in July, continuing the downward trend of the last several months.

Kill More People

Revenue-sharing funds to Argentina's provinces are exempted from the 13% cuts, but the Fund wants that exemption removed, and is further demanding a strict, monthly monitoring of the plan's implementation. Given the social volatility in the country, any attempts to cut revenue-sharing funds to the near-bankrupt provinces, where unemployment is much higher than the national figure of 16.4%, would ignite a political explosion that could finish off the already ineffectual de la Rúa government.

With or without new funding, Argentina has nothing more to sacrifice. Despair reigns in the country, as unemployment and bankruptcies grow. According to the government's statistical agency Indec, 4 million people in metropolitan Buenos Aires, the capital and home to almost half of Argentina's 37 million people, and historically one of the country's wealthiest regions, live below the poverty line. Industrial output for July dropped 4.1% compared to July 2000, and car production—the auto industry is one of the country's most important—fell 20% in July compared to one year ago.

In exchange for IMF funds, Argentina must promise to kill more people. Here, Harvard-trained Argentine Finance Minister Domingo Cavallo, whose 1991-96 policies helped create the disaster which the country faces today.

Terrified citizens are pulling their funds out of banks at an accelerating rate—$2.9 billion having been withdrawn so far this month. Fuelling the panic is the fact that Central Bank reserves have dropped to $20.3 billion, down 43% from the July 2000 figure of $35.6 billion, suggesting that the government may not be able to defend the currency board system, which by law mandates that each peso in circulation must be backed by Central Bank dollar reserves. Argentines fear a devaluation, or a government seizure of bank deposits.

Given the shortage of money, at least 800,000 people in Buenos Aires, now resort to barter to obtain food and clothing. In markets created especially for that purpose, the unemployed "sell" food, pastries, books, for which they receive a form of fake money known as "*créditos,*" which they then exchange for food, clothing, and other vital necessities.

Farmers unable to purchase fertilizer or other inputs, regularly exchange some portion of their crops, either with other farmers or with stores, to obtain what they need to continue producing. Indicating growing hunger in South America's "breadbasket," packaged bread sales fell by 5.5% in the first quarter of this year. Fargo, the country's top bread producer, just defaulted on a $1.5 million payment due on a $30 million loan.

Undeterred by this reality, monetarist ideologues continue to propose schemes such as a debt restructuring, an outright devaluation, or dollarization, as recommended by Mont Pelerin Society fanatic Steve Hanke and Harvard University drug-legalization advocate Robert Barro. Finance Minister Domingo Cavallo's indignant Aug. 14 response to these proposals, denouncing "foreign" economists who want to make Argentina a "guinea pig" for their "monetary experiments," has the ring of "the lady doth protest too much." The Harvard-trained Cavallo made Argentina his "laboratory" as Finance Minister during 1991-96, and Argentines are paying the price today.