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Free Thai movement forms against IMF occupation

Phony scandal aims at Clinton's China policy

Gambling psychosis propels stock market toward implosion

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EIR

From the Associate Editor

In this issue, we assemble a powerful array of material to help readers understand the tragedy that is radiating out from Indonesia, to Russia, and beyond—and to grasp what must be done to stop it.

Look back to last October, just after "Black Monday," when Lyndon LaRouche, Jr. wrote "Alan Greenspan Fairy-Tale Fails to Lull Markets" (*EIR,* Nov. 7). The Hong Kong stock market had just collapsed under speculative attack from primarily European financier interests hostile to both China and the United States. The New York Stock Exchange was threatened with a meltdown, until Federal Reserve Chairman Greenspan and his Wall Street cronies turned on the money-spigots and pumped the speculative bubble up even further. The actions by Greenspan, wrote LaRouche, "can be compared fairly to the fireman who douses a fire with buckets of gasoline: they dampened the fire a bit, by greatly increasing its explosive potential."

Today, that explosive potential is visible on television screens worldwide. (It is interesting to note, that not only did Greenspan, on May 7, belatedly adopt LaRouche's warnings about the danger of a "financial implosion," but on May 19, a *Wall Street Journal* editorial admitted that the International Monetary Fund's policy in Indonesia "has not been fighting financial fires, but dousing them with gasoline." Stick with *EIR,* if you don't want to wait six months to find out what's really going on.)

To fill out the picture, see these stories in the current issue:

- Richard Freeman's *Feature* on the stock market boom: what is really happening, why it can't continue.
- Part 2 of Jonathan Tennenbaum's study of the 30-year history of the financial crisis: a chronology of key developments.
- Rachel Douglas's report on the financial shock hitting Russia, as interest rates soar to 50% and unpaid workers shut down the mines and railroads.
- William Engdahl's case study of the IMF's methods, based on the text of the IMF's April 13 agreement with the Indonesian government, a copy of which was given to *EIR* by sources in Jakarta.
- An interview with an IMF official who cannot contain his fury at those who dare to criticize the Fund's policies.
- Opposition to the IMF from Thailand and the Philippines.

Susan Welsh

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Feature

William Hogarth's "A Rake's Progress" shows a gambling den in London's Covent Garden (detail).

International

National

EIR Economics

‘Asian crisis’ slams Russia, as labor unrest spreads

by Rachel Douglas

Russia should “reconsider its relations” with foreign financial institutions involved in speculative attacks on the ruble and on Russian treasury bills (GKOs), Central Bank Chairman Sergei Dubinin said on May 20, after a week of such attacks. Dubinin, who has worked most diligently to make Russia perform to the standards of the International Monetary Fund (IMF) and its adjuncts, suddenly was questioning the rules and assumptions of the speculation-driven world financial system. “It’s hard to imagine,” he said, “how some Western investment institution can be a consultant to the government on financial operations, and at the same time be involved in collapsing the government securities market and national currency.”

Dubinin’s comments were marked with a red flag by Reuters, the British wire service, as being “reminiscent of those made by Malaysian Prime Minister Mahathir bin Mohamad, in the wake of his country’s currency problems.” Indeed, Dr. Mahathir’s watershed speech to the September 1997 IMF conference in Hong Kong, in which he blasted currency speculation as immoral and detrimental to every national economy, is no secret to Moscow policymakers, having been published by the weekly *Ekonomicheskaya Gazeta* last November, and recirculated by economist Sergei Glazyev in the bulletin of his Information and Analysis Department in the upper house of parliament.

The second shockwave from the Asian front of the global financial crisis, now hitting Russia, has the potential to inspire this other, more hopeful sort of “Asian contagion”: sovereign resistance to the dictates of international financial institutions. The latter are more and more exposed as not only morally, but financially bankrupt. In Indonesia, editorialized the Italian daily *La Repubblica* on May 18, “the IMF task force escaped secretly at dawn, taking a charter flight from the Jakarta airport to evade the rage of the Indonesians.”

The new Russian government, under Prime Minister Sergei Kiriyenko, asserts its official commitment to follow the rules of international finance—Finance Minister Mikhail Zadornov calls it “living within our means,” even as the portion of federal spending that goes for debt service rises further from its current level of 30%—but a rapid politicization of labor protests, taking place throughout Russia in mid-May, sets the stage for sudden changes in either personnel, or policy.

LaRouche’s forecast

The second Asian shock brought to life, with eerie precision, Lyndon LaRouche’s forecast from the beginning of this year. “Indonesia is so big,” LaRouche told “EIR Talks” on Feb. 18, “that its collapse, its disintegration, could blow up all of East and Southeast Asia, would send shock waves through Europe and into the United States, would probably trigger the collapse of the Russian financial system, would probably put enough pressure on the system to ensure the immediate collapse of Brazil. And, by April or May of this year, we could be in something beyond belief. . . . The failure to take appropriate action, against the so-called floating exchange rate system, against the so-called free trade system, that failure of nerve, to reverse course on policies which have failed, by our own government, are responsible for the present situation. The next shoe to drop is going to be a big one.”

The shoe kicked Russia the week of May 11, just as the IMF-mandated price hikes triggered escalation of the social and political crisis in Indonesia. In Moscow, on May 14, U.S. Deputy Secretary of the Treasury Lawrence Summers warned that “developments in emerging markets in general,” i.e., the collapse from their speculatively high levels, threatened Russia. By the end of that week, the RTS index of Russian stocks had fallen 13%. The stock market is relatively small (total capitalization: $60 billion, before the latest crash), but an emergency arose when the May 13 GKO auction ended in disaster: The issue failed to sell, and the yield on the one-year bond jumped to 36%. The Central Bank raised the Lombard rates, which govern commercial bank borrowing, from 30% up to 40%, approaching the over-40% levels of the late 1997 crisis.

Alexander Morozov, an economist at the World Bank in Moscow, warned on May 14 that if foreigners decide to pull out of GKOs on a scale equal to or greater than last fall, this time the Russian Central Bank would probably not be able to avert the bankruptcy of the state. The Central Bank had $24 billion in gold and currency reserves, going into the crisis in October 1997. At the onset of this new round, those reserves were $16 billion, of which approximately $4 billion was in gold. One week later, as of May 19, half a billion dollars had been spent.

On May 15, Central Bank Deputy Chairman Sergei Aleksashenko offered nervous assurances, that he saw no "serious danger either to the ruble, or to the stability of the Russian Federation." But, he added, "we are slightly afraid of a *certain violence of opinions of international investors,* vis-à-vis Russian markets."

On May 19, the Central Bank zoomed both the Lombard rates, and the Central Bank refinancing rate, which defines a ceiling on GKO yields, to 50%. On May 18, the RTS stock index had fallen by 11.8%, for a cumulative collapse of 22% in six days. Three-month GKOs closed with yields of 40-47%, as against 29-32% on the previous trading day. Yields on a one-year bill rose to 42.73% from 39.23%. At the May 20 auction, the yields on one-year and 70-day issues were 45.7% and nearly 42% (annualized), respectively, but the issue did sell.

Russia's federal budget assumes an average GKO yield of 25% during 1998. On May 18, the government issued a statement of its "unconditional priorities" for the year, including a reduction of GKO yields to 20%. Defending the ruble, however, was even more "unconditional." Central Bank official Aleksandr Potyomkin told NTV on May 20 that the rates had to be raised, "to convince everyone that there is now no serious threat to the ruble exchange rate or to our currency policy."

Halfway around the world, "Brazilian bonds were stuck like glue to the Russian bonds," reported *Jornal do Commercio* on May 19. The Rio de Janeiro stock market fell by 6.43% and São Paulo's by 8.96% on May 18, prompted by the news from Russia. Many Brazilian investors hold Russian and South Korean debt, enhancing what *Jornal do Commercio* called a strong "association of country risks" among the speculation-afflicted "emerging markets."

The pyramid

Sergei Glazyev has analyzed the Central Bank's GKO policy as a pyramid scheme, since 1996. In his prognosis of Russian policy options for 1998 (*EIR,* March 27, 1998), he wrote, "Under conditions of continuing depression in the productive sphere and the reduction of investment, a balance is maintained by means of 'hot monies' being artificially tied up in the speculative sphere, through the build-up of the state debt 'pyramid.' The Central Bank and the government . . . are forced to guarantee high returns on investments in the state debt 'pyramid,' and to divert . . . one-fourth of all federal budget spending, for these purposes."

Glazyev recapitulated the pernicious role of the GKO interest-rate trap, and his proposal to restructure the GKOs (including by the write-off of bonds held by the Central Bank itself), in an interview with John Helmer, published in the April 14 *Moscow Tribune* and, partially, in the *Journal of Commerce*. The reaction from pro-speculation economists was livid. Rory McFarquhar, one of the British-dominated Russian-European Center for Economic Policy, consultants to the Russian government, circulated a denunciation of Glazyev's views as "bizarre," suggesting that he was unable to understand Ministry of Finance data on the toll taken by debt service, which she claimed was of negligible causal importance.

By mid-May, nobody could miss the pyramid. On May 7, Deputy Finance Minister Vladimir Petrov tried to motivate strict austerity, and cuts in the already-adopted 1998 budget spending, with a warning that otherwise, in a matter of 20 months, the level of state budget spending on debt service will have risen to 70% of the total, from today's 30%, and "the year 2000 will be just a nightmare."

On May 14, the daily *Nezavisimaya Gazeta* called the Central Bank's operations with short-term, high-yield GKOs nothing but a "financial pyramid scheme," which is about to blow like the infamous "MMM" investment scam of Sergei Mavrodi. After the May 18 crash, *Russky Telegraf,* part of the George Soros-linked Oneksimbank press empire, blamed businessman Boris Berezovsky, part-owner of *Nezavisimaya,* claiming that this article on the GKO "debt pyramid" was translated and distributed to foreign investors in a targetted fashion, in order to panic them out of the market. *Russky Telegraf* suggested that a ruble devaluation and declining share prices would benefit Berezovsky's raw materials ventures.

Such polemical sparring notwithstanding, another Oneksimbank property, *Izvestia,* acknowledged on May 21 that the very design of the Russian financial system invites "periodic attacks by financial players, on the GKO market and against the currency." The Finance Ministry and Central Bank have become adept crisis-managers, but with no solution to the underlying economic depression, "the country has no guarantee against new financial shocks, which may occur at any moment."

Wage actions turn political

As the Russian government tried to manage the financial crisis of May 15-19, it was confronted with the most serious labor unrest since the miners' strikes of 1989, two years before the breakup of the U.S.S.R. On May 20, Gov. Aman Tuleyev declared a state of emergency in Kemerovo Province, the Kuzbass coal region in central Siberia. Miners blocked trains at Prokopyevsk, on the detour route around the nearly week-long blockade of the Trans-Siberian Railway at Anzhero-Sudzhensk, where hundreds of coal miners have camped out on the tracks. Kemerovo was cut off on all sides.

As of May 19, four railroads—the Trans-Siberian, the Krasnoyarsk, the Northern, and the North Caucasus—were blockaded by protesting workers. Hundreds of trains are stalled, and industrial plants are running short of raw materials. In Siberia, teachers, doctors, and other professionals who have not been paid for months, joined the protests. On May 20, thousands of teachers and students marched outside government headquarters in Moscow, protesting wage arrears and the overall state of Russian education. They represented 30 regions of the country, and were among 350,000 teachers taking part in a nationwide protest.

On May 18, came reports that the coal miners' demands had shifted from immediate wage payments, to political demands. NTV said that the miners who began the Kuzbass protests were now refusing partial payments, and would "hold out for a total victory." *Nezavisimaya Gazeta,* in its May 19 coverage of the actions, asserted that they were becoming more "spontaneous," and more highly politicized. It raised the specter of a demand for President Boris Yeltsin's ouster, calling this "the scenario which is being implemented in Indonesia." Reporter Aleksandr Zhelenin wrote that payment of back wages is now only the third demand of the miners, after "dismissal of the President" and "resolution of the [coal] sector's global problems to provide for its viability."

Nezavisimaya Gazeta editor Vitali Tretyakov, known as an independent and honest analyst since long before Berezovsky bought his paper, wrote on May 21 that the miners' protests were the last chapter in the "history of economic reforms in Russia," i.e., the fanatical monetarism of the 1990s. The political direction of Russia, he wrote, is toward anarchy and collapse, unless a very different policy were adopted.

Deputy Prime Ministers Boris Nemtsov and Oleg Sysuyev cancelled trips abroad, in order to head for the coal regions of Rostov in southern Russia, and Kemerovo. Premier Kiriyenko said on May 21 that it was "rather difficult" to manage simultaneous social and financial crises. He expressed sympathy for the coal miners, but said there was no, and would not be any, extra budget money available to make payments, beyond $83 million freed up by emergency 25% cuts in government administrative spending. "The first principled position," said Kiriyenko, "is that any change in Russia's obligations concerning its internal or foreign debts . . . has not, is not, and cannot be considered."

Meeting with Kiriyenko and parliamentary leaders Gennadi Seleznyov and Yegor Stroyev on May 21, Yeltsin agreed to convene a national political roundtable on an anti-crisis program, in June. The "systemic political crisis, caused by an economic crisis," as Stroyev put it, may force changes on an even faster track.

How IMF methods destroyed Indonesia

by William Engdahl

Since the Asia currency crisis erupted in Indonesia more than one year ago, the International Monetary Fund (IMF) has ensured that it would lead to the situation we see today, which already has cost the lives of hundreds, likely thousands of innocent Indonesian students and civilians, and brought the once-growing economy of the world's fourth most populous nation to a point of complete economic, financial, and, possibly, political breakdown, ultimately threatening not only China and the rest of Asia, but also the entire global monetary and financial system.

The demonstrations which erupted in early May across Indonesia were triggered by the government's announcement that it was removing state subsidies on vital foodstuffs and petroleum products. Prices for gasoline, public transportation, rice, and palm oil soared overnight, leading to protests that left more than 500 dead. The government action on subsidies was part of the revised April 13 agreement signed in Jakarta by IMF Managing Director Michel Camdessus and then-President Suharto.

The IMF creates panic

Last November, the IMF ordered the Indonesian government to close 16 banks that the IMF said were insolvent, including one owned by a son of Suharto, in order, the IMF claimed, "to restore confidence" in the Indonesian banking system. The results were predictably the opposite. A full-scale national banking panic erupted, with citizens demanding cash from their banks.

A confidential, internal IMF memorandum to Camdessus on Jan. 13, which was leaked to the press, admitted, "These closures, however, far from improving public confidence in the banking system, have instead set off a renewed 'flight to safety.'" Citizens pulled $2 billion worth of funds out in a matter of hours. By the end of November, the IMF move had created a crisis in which two-thirds of all Indonesian banks had had "runs on their deposits," according to the IMF memo. The situation became so critical that the Indonesian Central Bank was forced to pump an enormous sum of new money, a sum equivalent to about 5% of GDP in two months, into the banking system to prevent complete collapse. That flood of new money in turn weakened the rupiah, so that panic on the currency set in by late December, as wealthy Indonesians scrambled to sell rupiah for dollars in mass capital flight.

The latest, "revised" IMF Memorandum of Understanding with Indonesia mechanically imposes the same IMF monetarist dictates that it has used since the 1982 Mexico debt crisis—despite the entirely different nature of the Indonesian crisis. *EIR* has been given a copy of the April 13 IMF agreement by sources inside the Indonesian government, who are justifiably concerned about the deadly medicine being forced on their country. The IMF has demanded a number of basic conditionalities of Indonesia, for it to receive a promised $40 billion IMF-led bailout package.

Indonesia must keep inflation below 20%, while avoiding an economic recession. In April, inflation was officially at 45% and rising. The country is now in a depression, with Gross Domestic Product forecast to contract this year by more than 10%. Under the new IMF accord, the government must curb state spending to a deficit no more than 3.5% of GDP. (The November agreement called for a 1% deficit.) Germany and France, under the stringent Maastricht Treaty terms, have 3% deficits, and that, only through huge fiscal and accounting frauds.

To control the state budget deficit as an economy collapses is not possible in industrialized nations, let alone in a developing economy such as Indonesia. Every major European economy, as well as the United States, has run deficits in times of economic recession in order to contain the downturn and speed recovery. The IMF medicine is the opposite. It demands, in effect, that the government worsen the economic downturn in the cause of "stabilizing the rupiah."

To contain the public deficit to 3.5% of GDP, the IMF has mandated that the government slash subsidies on food, petroleum products, and electricity. At the beginning of May, gasoline prices rose overnight by 71%, along with similar enormous price hikes for key foodstuffs as well as for public transportation and electricity.

The government must all but eliminate remaining state subsidies by Oct. 1. It must slash investment in state enterprises, including such economically vital companies as the state petroleum giant, Pertamina. Because all this will not be enough to cut the deficit to the level the IMF demands, the state must auction off all its companies which operate in "competitive markets." This would mean that Indonesia's aerospace, electricity, oil, auto, and other infant national industries, which it has labored to establish in recent years, must be auctioned off to private investors. Privatized will be PT Telekom, PT Indosat, a state cement company, and others. In the current crisis, this forced privatization will mean that only foreign investors, who may or may not have an interest in sustaining a national economic capacity in Indonesia, will be potential buyers.

Further, the IMF demands that Indonesia abolish certain domestic cartel arrangements and impose "free-market" reforms. This includes the state import agency, BULOG, which organizes import of rice and other necessary foodstuffs. Given the record drought which has devastated Indonesia's rice and other food crops in the past year, to demand abolishing central import purchase of vital food stuffs in favor of free-market mechanisms, is to ensure severe added price rises in critical food necessities. The marketing monopoly organization in the country's important plywood production and export, as well is in sale of cloves and other commodities, are included in the shutdown.

Tightening monetary policy

All these draconian measures, the IMF admits, will not suffice to fulfill their stated goal of stabilizing the rupiah at 6,000 to the dollar. Before the August 1997 crisis, the rupiah had been near 2,500. Today, it fluctuates around 12-13,000. In order to stabilize the rupiah at 6,000, and thereby make possible repayment of Indonesian corporate and bank debts to foreign banks in Germany, France, Japan, the United States, and elsewhere, the IMF has demanded that Bank Indonesia, the central bank, "tighten monetary policy."

The central bank, the IMF says, must "adjust interest rates as necessary," should the rupiah deviate from the 6,000 level. But to get there will be a labor of Sisyphus. With inflation officially at 45%, the IMF demands that Indonesia "curb the expansion of central bank credit," itself largely a response to the IMF's November bank closings.

Such monetary tightening amid an economic collapse, as IMF economists well know, was precisely what turned the U.S. economic decline of 1929-31 into the worst depression in American history. Moreover, much of the inflation is a result of soaring food prices caused by the drought. As well, with a rupiah devaluation since August of some 80%, the cost of vital food imports (which have to be paid in dollars) has soared for the Indonesian consumer, as have costs of all other imports. In such a circumstance, to demand, as the April 13 IMF agreement does, that Indonesia "adjust interest rates as necessary to reduce inflation rapidly and strengthen the exchange rate," is tantamount to ordering mass murder of large sections of the population.

On May 21, the new President, B.J. Habibie, clearly aware of the powerful grip of that institution on his nation's economic life, pledged to honor Indonesia's agreements with the IMF. Should that IMF control not be dropped soon by the governments of the OECD which now stand behind it, including Germany, France, the U.K., the United States, and Japan, the consequences will be grave. Indeed, one reason the U.S. Congress reportedly is not likely to grant the requested $18 billion IMF quota increase so urgently sought by Camdessus, is growing realization that, far from resolving the problems in Indonesia and across Asia, the IMF has worsened the crisis.

IMF: 'Bankers are dangerous people!'

Hysteria is spreading at International Monetary Fund (IMF) headquarters. Contacted on May 21 by a reporter for Resumen Ejecutivo *about the latest Indonesian developments, an IMF official said he could not speak for attribution, but was eager, in fact, aggressively so, to expound the IMF's view on background. The following is a portion of the exchange, which is revealing of the state of mind reigning at that institution: defensive, but ferociously committed to doing whatever is required to crush opposition to IMF dictatorship.*

Q: There are reports that the IMF is now saying that [Indonesian President] Suharto went "too far" in implementing price increases.
A: There was no schedule agreed . . . with the IMF. The general agreement was that the budget and costs associated with below-market prices had to be resolved at some point, but never had the IMF requested in the agreement that the gap should be filled at once, and immediately. In this regard . . . the decision to raise them at once, was of Mr. Suharto's own making. . . . In this regard, Mr. Suharto went *way* beyond what the IMF had agreed with his own government.

Q: Is the IMF feeling the heat on this, and is that why you're insisting on this point?
A: It's a fact! It's a fact! Why should the IMF feel the heat on this? It's factual!

Q: And you had to pull your people out?
A: Well, everybody did too, Ma'am. . . . To keep Indonesia in perspective: The restructuring of the banking sector which triggered the financial crisis was *urged* by the IMF executive in 1996, as written in public documents. . . . The IMF *urged* Indonesia *urgently* to restructure its banking sector. What Indonesia shows is that we have no leverage whatsoever on a government which doesn't want to do anything. That's the bottom line. That's a fact, and it's proven in the public record. That's the big lesson of Indonesia. . . .

The origin of the crisis, as in Thailand and South Korea, was the private banking sector, as it was in the savings and loans crisis in the U.S. The bottom line is that *bankers* are dangerous people!

Q: And not the IMF.
A: *No. Bankers* are dangerous people. And until now, we were not in charge of supervising private bankers. That was the job of the Fed and Office of the Comptroller of the Currency in the U.S., and in other countries, the central banks. And it is a fact that those central banks have *miserably failed,* for sure. . . . Proposals now, are to change completely the legal framework of the central banks. To devise an international banking code that can be applied everywhere. . . .

Let me tell you about Korea, to reframe the whole thing. . . . When the IMF did the program urgently in December, in less than a week for them, they had $6 billion left in their coffers. On Dec. 4, 1997. The whole country, the 11th country [largest economy] in the world, had $6 billion in their pockets, knowing that they owed $150 billion, and that money was flowing out at more than $1 billion a day. They were five days away from being completely bankrupt. The whole country! Five days away. Not two weeks or three weeks away, but *five days* away. . . . Indonesia is on a smaller scale than South Korea. Korea was a financial nuclear explosion in the making. And let me tell you: We save the world. We really save the world. . . . And I want you to reflect on that! . . .

If there had been a default situation, what happens in an economy when you don't pay for your imports anymore? Total trade operations are disrupted. *Petroleum imports stop*. Right away. . . . Less than three weeks later, the strategic stocks of the country are probably exhausted. That means transportation stops in the country. All transportation: ground, air. Air transportation with the rest of the world is cut off, because no planes can land, because you have no supplies in the country. Total breakdown of delivery of goods and services. Total breakdown of transportation of food from rural areas to the cities. To some extent you see that happening today in Indonesia. . . . What else is the next thing that collapses if there are no petroleum imports? Electricity! . . . Maybe 10% of Korea's energy comes from nuclear sources; the rest is from petroleum and coal. They collapse, you have no electricity after two weeks of time, maybe three weeks, electricity collapses completely. You are talking about a whole country going back to the Middle Ages. In less than three weeks. . . .

In the first half of March, the Bank of Indonesia lost $6 billion in reserves in 10 days, by paying banks $600 million a day, so they could pay their creditors. But none of the creditors got the money. What was going on? *The rats were leaving the boat, and we couldn't stop it*. This is corruption at its worst—

Q: Are you referring, as did [IMF Managing Director] Michel Camdessus last January, to the need for revolutions like the French Revolution?
A: There are many similarities. . . . No one thinks of the French Revolution as a magnificent example of a structural adjustment crisis, but it's a *perfect* example of a structural adjustment crisis!

A new 'Free Thai' movement forms against IMF occupation

by Michael O. Billington

A coalition of business leaders, farm and labor organizations, professionals, and intellectuals in Thailand have come together to defend the nation against a deadly enemy: the International Monetary Fund (IMF). The Thai economy, battered during the last year's speculative attack by the likes of the British-directed George Soros and his fellow derivatives shysters, is fast approaching terminal collapse under the dictates of the IMF's supposed medicine of austerity, usurious interest rates, forced sell-off of state industries to foreign interests, and dozens of similar poisonous policies. A diverse alliance of citizens, with support from at least some of the nation's political leadership, have begun to rally the nation against this destruction, naming the IMF as the source of the problem. Some of these individuals and groups have compared their campaign to the "*Seri Thai*" ("Free Thai") movement during World War II against the Japanese occupation of Thailand, and against Britain's effort to colonize Thailand after the war.

At the founding rally of the "Community to Build and Revive the Country" on May 11 in Bangkok, 28 civic groups representing rural doctors, labor, farmers, and other social organizations, were joined by university professors and industrial leaders in denouncing the IMF as the cause of the exploding rate of corporate bankruptcies and unemployment, and for usurping the nation's economic sovereignty.

At the same time, the three leading business associations, the Federation of Thai Industries (FTI), the Board of Trade, and the Thai Bankers Association, have petitioned the government for a debt moratorium for small and medium-sized firms. The new chairman of the FTI, Tawee Butsuntorn, also warned that three out of five of Thailand's industrial workers could be out of work if the corporate debt crisis is not resolved immediately.

The new "Free Thai" leaders are placing certain demands upon the government, but it is extremely important that the target of their complaints is not the government itself, but the new occupying force, the IMF. In fact, the Prime Minister, Chuan Leekpai, and several members of his cabinet have themselves demanded changes in the IMF policies, even though those policies are staunchly defended by the Minister of Finance, Tarrin Nimmanahaeminda, and the new chief of the Bank of Thailand, M.R. Chatumongol Sonakul. Despite the government's official adherence to IMF demands, Prime Minister Chuan angrily demanded that his cabinet members solve the crisis of liquidity for Thai businesses, while the Ministry of Industry released a statement, denouncing the Finance Ministry's failure to provide adequate protective tariffs for the steel industry, as reflecting "a lack of understanding or serious support from the government."

The alliance of Thai business leaders and social organizations against the IMF stands in stark contrast to the situation in Indonesia, where the brutal austerity imposed under the gun of the IMF has provoked mass demonstrations and anarchistic rioting—but with barely a mention of the IMF, which provoked the breakdown crisis, by the opposition. The Thais know that a similar social explosion is possible within their country if the economic dissolution continues. The only way to prevent such anarchy is to identify the real problem—the failure and bankruptcy of the world economic system under the IMF—while directing all available domestic resources to sustaining the national economy, rather than servicing the fraudulent portions of foreign debt created through speculation and deceit on the world financial markets.

A symbol of national sovereignty

The "Free Thai" movement against the World War II occupation by Japan is still the most powerful symbol of national sovereignty to the Thai people. It was led by Pridi Banomyong, a hero of 20th-century Thailand. Pridi created the alliance of intellectuals, business leaders, and military officers who carried out the peaceful revolution in 1932, overthrowing the absolute monarchy and establishing a constitutional monarchy. As Foreign Minister and Finance Minister during the late 1930s, Pridi abrogated the unequal treaties imposed upon Thailand by British and French colonial armies during the previous century. He established protective tariffs, formed a national bank and national industries, and founded Thammasat University.

When the Japanese occupied Southeast Asia, with virtually no resistance from the British military forces controlling their Asian empire, Thailand had no choice but to acquiesce to Japanese occupation. It maintained the semblance of sovereignty by formally allying with Japan. Pridi, however, established the "Free Thai" movement with support from the U.S. Office of Strategic Services. His co-leader was the

Thai Ambassador to the United States, Seni Pramoj. Pridi, who was also regent for the young King at the time, ran underground cells in the Thai countryside in league with the OSS, while maintaining networks within the government, the military, and among the Chinese-Thai business families in Bangkok.

There were Thai collaborationists, of course, who served as Quislings to the Japanese occupation forces, but following the war, Pridi and his Free Thai movement easily took power. The British, however, were not interested in Thailand's sovereign rights, nor its development, and insisted that, as formal allies of Japan, Thailand must be treated as a defeated enemy. Besides demanding reparations of rice to feed the British colonies, the British also wanted to occupy Thailand itself. Pridi called for support from his friends in the United States, and the British scheme was defeated.

The second round

Last January, *EIR* Founder and Contributing Editor Lyndon LaRouche warned that the international financial turmoil of October to January would be dwarfed by the crisis which would hit during the second quarter of 1998. That crisis is now unfolding worldwide, and even the huge financial bubbles on the U.S. and European exchanges are likely to explode in the weeks ahead. The "second round" in Asia has begun, proving that the IMF's destruction of production in order to bail out financial markets is an utter failure. The case of Thailand is exemplary.

LaRouche offers a strategic perspective for Thailand

The following exchange between Lyndon LaRouche an official from the Thai embassy, took place at a seminar for a New Bretton Woods system, in Rome, Italy, on April 2.

Q: As you know, in Thailand, the IMF has closed, as one of their requirements for their "rescue" package, 56 out of 58 financial institutions. In a country like that, you have a situation in which, had the government refused those measures, there probably would have been a popular uprising against it. So, how do you gain support for something like that?

LaRouche: You don't, because you can't deal in one country at a time. You have to deal strategically. Now, what's happening is, you have the King in Thailand, and other institutions, who echo the views of [Prime Minister] Mahathir from Malaysia, and represent part of what I referred to, is this reaction to this process to get a political movement: "Oh! What happened to us?"

So now you have a change, and the questions of the military and the King in Thailand are very important questions, as you know. Therefore, you have a process in which the popular preconditions for a government to act in a different manner, are being pre-created. So, this is like military command. You can not treat it like a schoolbook exercise. You can not arbitrarily react. Sometimes you have to submit and retreat. You have to understand the situation, but prepare to act, and say, "We've been taken once, we're not going to be taken the same way again. We must prepare."

But you must always be patient. People think of democracy in terms of a vote. It doesn't mean much. You have to think of it in terms of responsibility to the people, a sense of justice, as Plato describes it through the mouth of Socrates, a quality of commitment to truth and justice. If you want to be a leader, you must be committed, above all, to truth and justice. You must look at truth and justice for all the people. You must treat *everyone* justly.

And, if you have that instinct, then you can be a leader who can do this. And when people who have great compassion for the suffering of their people, of all their people, of each part of their people, who want nothing but just solutions, look at the problems, then they become great leaders, by virtue of simply becoming an instrument of justice, like the person in a theater that's on fire, eh? Somebody who's an ordinary person arises to help organize the people, with his quiet, calm voice, to lead them safely out of the theater. And that's leadership. You look for this in a time of crisis, which tends to bring forth people who show that they have these qualities of leadership.

And, to me, what can you do? I'm a thinker. I do everything, but I'm a thinker, essentially, a philosopher. What I try to do, is present those ideas which I hope that people reflect upon and discover among themselves the ability, the qualities of leadership needed to meet this situation.

Now, the Thailand situation for the time being is very agonizing, and they're really brutalized. And thus, they have to prepare. They can not solve it in Thailand's terms alone. It involves all of Southeast Asia, which is in a crisis. Japan is in the same crisis, from a different standpoint. China has an interest in the whole area. India also has an interest. We would hope that the United States, and these other nations, concerned nations, would be prepared, the next time the crisis comes, to come up with a more just solution to these problems. In the meantime, we have to suffer and fight. It's like fighting a war: You suffer and fight.

But, I'm hopeful. I'm hopeful. It's difficult. I understand suffering.

The Thai Chamber of Commerce has released a report that without $10 billion of liquid capital immediately, fully one-half of the nation's businesses will close. The chairman of the Federation of Thai Industries, Tawee Butsunthorn, who is himself executive vice president of the nation's largest industrial group, Siam Cement, ridiculed IMF demands for maintaining 20-30% interest rates: "You tell me," said Tawee. "Is there any business that is managing a 25% profit margin at present?"

In April, the country's pre-eminent business leaders, Dhanin Chearavanont, of the CP Group, and Chatri Sophanpanich of Bangkok Bank, warned that if the interest rates did not come down by June, Thailand's businesses would face catastrophe. It is of note that this warning came after a high-profile trip to China by the two men, accompanied by Deputy Prime Minister and Commerce Minister Supachai Panitchapakdi. Supachai, the Prime Minister's closest ally, is another cabinet member who has expressed his disagreement with the tight-money policy and the rapid deregulation demanded by the IMF.

However, the mounting opposition is not likely to achieve results as long as Tarrin has his way as Finance Minister. Sticking to the IMF policy, his ministry released a statement on May 14 saying:

"Any signs of weakness or lack of commitment to follow strict fiscal and monetary policy would send a wrong signal to the markets." One wonders if hundreds of deaths and massive destruction in Indonesia do not convey a "signal to the market," about IMF conditionalities. Tarrin's choice as new Governor of the Bank of Thailand took office with the pronouncement that "interest rates will remain high because of the high level of foreign debt."

Tarrin has also confirmed that none other than Paul Volcker will serve as chairman of an advisory commission to oversee the Bank of Thailand. Volcker, as head of the Federal Reserve under Presidents Jimmy Carter and Ronald Reagan, raised U.S. interest rates to more than 20% to achieve what he called "controlled disintegration" of the economy. It worked. The U.S. productive economy has steadily collapsed ever since, while a speculative bubble replaced the real economy. That bubble is only sustaining itself today through the globalization of financial speculation and looting, a job that Volcker will, to Thailand's grief, perform quite well. He will certainly pay no heed to the "Free Thai" cries for relief from IMF conditions.

Rumors of Tarrin's resignation as Finance Minister have been firmly denied, and Prime Minister Chuan has attempted to smooth over the obvious fissures within his cabinet. But, as the second round of global, systemic collapse unfolds, the alliance of Thai patriots opposed to the IMF must be in place to provide leadership. It will be crucial to their cause to join with nationalist leaders from other nations in demanding the creation of a new world monetary system based on sovereignty and global development to replace the IMF and outlaw speculators.

A worldwide chorus of attacks on the IMF

José Neme Salum, *Excélsior*, Mexican daily, May 18.

Indonesia is "the cruel mirror" in which all nations which follow International Monetary Fund policies, such as Mexico, can see themselves, Neme Salum writes. Where will those who refused to see "the Hitlerian nature of the IMF" now hide their heads? It is the IMF, not the Indonesian government, which is responsible for the deaths of the past days, he writes. "Suharto opposed the IMF program," but the IMF and the "markets" forced Indonesia to accept, for example, sudden 70% increases in the price of fuel. So far, some officials in South Korea and Japan have recognized themselves in this mirror.

"What is left? What the economist Lyndon LaRouche has been proposing since 1975: Replace the system over which the IMF rules . . . with a new, just international financial order, which can call on, among its principal institutions, an International Development Bank."

Neme reviews LaRouche's forecasting track record—the 1980s debt crisis, 1987 stock market crash, the Ninth Forecast of 1994, the Mexico blow-out, etc.—all signs which governments refused to see. "It is enough to remember what the IMF and World Bank did to Zaire in 1985, or the way in which they have sunk Mexico into growing poverty since the conspiracy against the peso in 1982, to put an end to the cruel system of these supranational bodies. It is the moment for '*Ya Basta!*' [Enough!], and to demand that the rulers of the nations of the world stop the lies, the banking pseudo-bailouts to collect, now even in blood, speculation's usurious debts."

The only reasonable alternative is on the table: a New Bretton Woods, with great development projects, such as the Eurasian Land-Bridge, Neme insists. Naming various books published by *EIR* on the development projects needed around the globe, he concludes by inviting his readers to attend a conference by *EIR*'s Dennis Small on May 22 in Mexico City, on "The Scientific Premises of LaRouche's Economic Forecasts."

Paolo Savona, "Global Finance, the Mount Etna of the Markets," editorial, *Corriere della Sera*, Italian daily, May 17.

Global finance, and not Indonesian President Suharto, is the problem, writes Savona, a prominent economist and former Italian government minister. He attacks the opinion according to which "lack of democracy" is the cause of the Indonesian crisis, but points to global financial markets, derivatives, and the IMF as the ones responsible for a crisis which is systemic.

Savona compares the post-Bretton Woods system to "Mount Etna, where once in a while a crack opens and swallows a gorgeous slice of land." In recent times, "the cracks have become larger and more dangerous." Savona compares the Indonesian case to Albania, where the state disintegrated under the financial collapse.

What is the reason? It started with the unregulated creation of currency through the Eurodollar market, which collapsed the Bretton Woods agreements, which had introduced "some discipline at the international level." Since then, "the world currencies have been on a roller-coaster. . . . Through the spread of digital communications and financial innovations (derivatives), the currency has lost its natural connection to productive activity, of which it should be a servant, transforming it into an industry in itself. All this, almost to the indifference of the authorities."

World leaders and financial authorities believe they can face the situation by "imposing austerity policies on people who live on a dish of rice or cereal. No wonder social disorders break out, for which they blame a lack of democracy." Sure, some countries need more discipline, "but they need, above all, for international authorities to control financial volumes, to make them consistent with the rate of growth of productive needs."

Looking at the results of the Birmingham summit of the Group of Eight, he said, "it does not seem that the birth of the euro [the European single currency] has changed the authorities' 'benign neglect' in international money creation and, therefore, social welfare will again be threatened. Many will keep believing that what happens in distant countries does not concern us, whereas it is part of a monetary mechanism which we are all in, up to our necks."

***Corriere della Sera,* "IMF Blows on the Fire," unsigned comment, May 17.**

Suharto's "corruption" aside, it is the IMF which has to be blamed for the explosion of chaos in Indonesia. "The Indonesian case helps us to see the incapacity of international institutions, such as the IMF and the World Bank, to foresee and, in some way, to manage economic and financial crises that will come more often and more intensely in the era of globalization. The last yearly IMF report celebrated the extraordinary macro-economic results of some Asiatic economies, praising, for instance, the good results of the Thai economic policy, which was then swept away. Rating agencies were no better: They kept, for instance, rating positively (as a function of sustainability of foreign debt) Korean solidity, then spectacularly contradicted themselves.

"To this, must be added the debate over sacrifices imposed on governments and populations, and over those who are responsible, including in the West, for so many easy credits asked for and given. Jakarta had $43 billion from the IMF and, with the Jan. 17 agreement, committed itself to a zero growth that meant guaranteed unemployment . . . a belated aid program that risks fanning the flames instead of putting out the fire."

***Jyllands-Posten,* "The Tragedy of Indonesia," editorial, Danish daily, May 16.**

Jyllands-Posten denounces the IMF failure in Indonesia, and calls for reform of the IMF to ensure that the failure never be repeated. It chronicles the crises in Southeast Asia, from the baht crisis in Thailand, beginning on May 14, 1997, through the May 15, 1998 riots in Jakarta which left more than 200 dead. "The riots have turned the world's eyes toward Indonesia's President Suharto, who had to rush home from an official visit in Egypt. . . . His first act was to lower gasoline prices. They had just been raised as part of a comprehensive austerity package negotiated with the IMF. . . .

"The riots in Indonesia might be a failure for Suharto, but they are a complete declaration of bankruptcy for the International Monetary Fund, who were among the first ones to fly the employees from their Jakarta office, out of Indonesia on a chartered airplane. From the very beginning, the Fund has had a knee-jerk reaction to the economic meltdown in Southeast Asia. The IMF has followed its worn-out script in crisis control and crisis solving.

"It has been done with little consideration for the local circumstances. This has especially been the case in Indonesia, where, for a long time, President Suharto tried to convince the IMF, that the standard medicine from the Fund, would be poisonous for the tropical island realm.

"The IMF has shown some flexibility in the process, but not at all to the degree the situation called for.

"The work and methods of the International Monetary Fund must be subject to a critical review.

"The heads of state and government leaders from the largest IMF contributors, and most dominating countries, are gathered this weekend in Birmingham. The reaction from here has to be strong and unambiguous. The fiasco of the IMF in Indonesia must never be repeated."

Jamaican Prime Minister P.J. Patterson, remarks in Cairo, May 13, closing the G-15 summit, reported by *The Star* online.

Irrational speculation threatens the global economy, said Prime Minister Patterson. He expressed the concern of this group of African, Asian, and Ibero-American nations that "the global economy has to be steered in our own interests. We do not allow others to maintain sole control of the steering wheel. We have already experienced the rapid and irrational movement of short-term capital in the form of highly speculative activities that manipulate our currencies and undermine even economies which are pursuing prudent macro-economic and fiscal policies. . . . We are indeed likely to experience continued instability in international financial markets so long as unconstrained speculative currency activities are neither monitored nor regulated."

Free trade slashes agriculture

Deputy Prime Minister Tim Fischer is leading the charge for the policies which are destroying Australian farmers.

In mid-April, desperate pork producers across the country began shooting their stock, as the market collapsed to its lowest level in 30 years. Producers were hit with pork prices ranging from $1.28 to $1.70 per kilogram, against production costs of $2 per kg. An average piggery of 100 sows, with a weekly production of 32 pigs, is now faced with a loss of $35 per pig, or $1,120 per week. On April 17, Pork Council of Australia (PCA) head Brian Ramsey charged that "the industry situation is deteriorating rapidly."

Australia's pork producers, and the PCA, unanimously lay the blame for the crisis on cheap imports. According to the PCA, current prices have been caused by the record imports in 1997 of more than 11,000 tons, which drove down prices before Christmas, prices which have continued to fall. They are also angry at the federal government, especially Deputy Prime Minister and Trade Minister Tim Fischer and Primary Industries Minister John Anderson, both farmers, who have pushed the free-trade policies responsible for the present plight. Glenn Baker, general manager of the Queensland-based Monto Pork Enterprise, bitterly told the May 8 Brisbane *Courier-Mail,* "The politicians just don't want to know about the damage that has been inflicted on this industry by cheap imports."

In an April 30 memo to the pork industry, PCA head Ramsey was blunt in his assessment of a recent meeting with Fischer: "The message from Mr. Fischer to producers facing financial ruin was: 'The pork industry has had 25 years to get its act together, so don't blame us for your problems.' "

Meanwhile, Primary Industries Minister Anderson brazenly endeavored to explain the inexplicable logic of free trade in the April 1998 *Australian Pork Newspaper*. "Australia is dependent on overseas markets for the prosperity of our farm sector," he wrote. "If we retreat to Fortress Australia and erect protectionist walls, we are hardly going to get a good hearing from our trading partners."

In fact, it is some of Fischer's own "trading partners," in particular those in the Cairns Group, a body of 15 nations devoted to global free trade in agriculture, who are helping to destroy Australian agriculture.

The Cairns Group was first convened by Australia in Cairns, North Queensland, in 1986, to spearhead free-trade initiatives at the Uruguay Round of the General Agreement on Tariffs and Trade, the predecessor to the World Trade Organization. It is the main vehicle used by Fischer and Anderson to peddle free trade globally. Fischer chaired the latest Cairns Group meeting in Sydney on April 2 and 3, which was hosted by those other champions of rural industry destruction: the National Farmers Federation, a group of free trade lunatics founded by Australia's rural oligarchy. In a speech to the forum, Fischer lobbied strongly for even more free trade, as soon as possible, and claimed that the "biggest single failure on all sides of Australian politics" in the past 30 years was the failure to convince the people that free trade was a "win-win" situation.

It is not only pork producers who are being decimated by free trade. Australia's citrus industry is also in its death throes, after being swamped with cheap orange juice concentrate imports from Brazil. In 1997, growers pulled out or burnt almost 1 million citrus trees as they deserted the industry, after being offered only $30 a ton instead of the $200 per ton they expected, and despite the fact that Australians consume more orange juice than the nation's growers can produce.

The free traders are also on a crusade to eliminate all quarantine rules, which have been crucial to keeping Australian agriculture relatively disease-free. Now targetted is Australia's pristine salmon industry, which, until now, has been protected by strict rules banning any disease-ridden foreign imports. Following an appeal from Canada to the WTO, the quarantine law is set to be scrapped as an unfair "non-tariff barrier." A similar decision risks introducing the devastating Newcastle Disease to Australia's clean poultry industry. In the cases of pork, citrus, and salmon, the threatening imports are coming from Fischer's Cairns Group buddies, Canada and Brazil.

Indicative of the growing discontent caused by Fischer's free trade policies, the long-serving Member of Parliament is being challenged in his local election district of Farrer in southern New South Wales in the next federal election, by a fellow farmer, Alan Boyd. Boyd is a candidate for the Citizens Electoral Council, the Australian co-thinkers of Lyndon LaRouche. "I am running against Tim Fischer because of his free trade policies," Boyd told *EIR*. "There is not a 'level playing field,' and Fischer knows it. He is supposed to be our Trade Minister, but instead of looking after the Australian farmer, he is looking after the interests of free trade cartels."

Business Briefs

Africa

Mugabe: World Bank is the new oppressor

Robert Mugabe, head of the Organization of African Unity, and President of Zimbabwe, denounced the World Bank and affiliated institutions for what is happening in Indonesia, during a visit to Libya. He singled out "institutions such as the World Bank" as the new oppressors, the South African Press Agency reported on May 13.

"African countries are going through a hard political test. After getting rid of colonialism, they suffer from the new imperialism of those who seek to humiliate us," Mugabe said. "These institutions don't worry about the price increases that their requests cause and problems that they pose for the poor. But the governments concerned don't have any choice, because they need the credits granted by these institutions. The result is what happened in Indonesia and other countries, as well as in mine. The people take to the streets because they can't stand the inflation." He added, "People who supported the government yesterday now turn against it." Zimbabwe has an official unemployment rate of 50%.

Finance

Poland on the verge of 'Asian'-style crisis

During meetings with representatives of the Schiller Institute in April-May in Poland, many financial experts and economists expressed concern over the flow of speculative capital into Poland, which has escalated during recent months.

The influx of speculative capital is reflected in the changing exchange rate between the dollar and the zloty, Poland's currency: Due to a high demand for the zloty, resulting from interest rates of more than 20%, the price of the dollar has been steadily dropping. Witold Rutkowski, an expert working with the Sejm (Parliament), confirmed that high interest rates in Poland encourage speculators to "invest" in the zloty and make significant profit on interest rates, which puts a heavy burden on the Polish budget. The National Bank of Poland faces a difficult dilemma: If it lowers interest rates, the speculators will withdraw their money almost immediately and trigger a crash. But, keeping interest rates high will dry out Polish coffers and result in a crash or social unrest, if the government tries to cover financial demands by cutting spending even further.

The situation is so serious that even the International Monetary Fund delegation, which was in Poland on May 8-9, warned the government against following the Czech example and advised Warsaw to lower interest rates. However, the IMF also demanded that the government freeze wage hikes in state enterprises, blaming wages for inflation and high interest rates. No one is able to estimate the amount of speculative capital in the Polish market, but not much is necessary to trigger a catastrophe, given that Polish foreign reserves are only a little more than $20 billion.

Central Asia

ECO summit seeks increased cooperation

The fifth summit of the Economic Cooperation Organization (ECO) took place in Almaty, Kazakstan, on May 11, Iranian news agencies reported. The final declaration of the summit contained a commitment to continue to improve living standards, and stressed the importance of the organization's role on the threshold of the 21st century. It urged member states to establish ECO institutions, including an ECO airlines, a cultural and educational research center, and shipping lines, which are to be expanded. The declaration called for increased industrial and agricultural cooperation, and welcomed an accord on common efforts against drug trafficking and addiction.

The one-day conference of heads of state was opened by Kazak President Nursultan Nazarbayev, the current rotating chairman.

Among the bilateral meetings held during the summit, were those between Iranian President Khatami, and his counterparts from Kyrgyzstan, Turkey, Kazakstan, Turkmenistan, Afghanistan, and the Prime Minister of Pakistan. Azeri President Heidar Aliyev met with Turkish President Suleyman Demirel; it is assumed that the controversy around developing the oil and other resources in the Caspian Sea was discussed.

Khatami told summit participants that the common history and culture of the Indo-European peoples of the region, going back 3,000-3,500 years, should be considered when political and economic decisions are made. He added that Islam had exercised a powerful and positive influence on the culture of Central Asia, and highlighted the peaceful coexistence among Christians, Buddhists, Zoroastrians, and Muslims, whether Ismailis, Sunnis, or Shiites.

In a bilateral meeting with Pakistani Prime Minister Nawaz Sharif, Khatami emphasized the need for the two governments to cooperate to prevent sectarian violence between Sunnis and Shiites in Pakistan. He attributed the frequent violent clashes to "vicious plots of enemies to instigate discord" between Islamabad and Tehran. He suggested that "religious scholars and intellectuals should take the lead" in sorting out differences.

Italy

Lack of investment worsens catastrophe

It is estimated that about 300 people died when, on May 6, following heavy rains, a mountainous mudslide devastated the town of Sarno and many other villages near Salerno, south of Naples, in the Campania region of Italy. Sarno has been virtually wiped out, with hundred of houses, buildings, schools, and the hospital totally destroyed.

What is discussed in the media as a "natural catastrophe," is, in reality, the result of years of budget cuts, exacerbated, more recently, by attempts to meet the budget deficit criterion mandated by the Maastricht Treaty for the European Monetary Union. Investments in and the maintenance of infrastructure have for years been close to zero. And, what little money has been allocated, has not been used. In 1989, for example, the budget plan earmarked about $1.2 billion for maintenance over three years. But, it took seven years, until 1996, to make use of the funds.

According to studies by government ministries, $35-40 billion is needed to get national infrastructure back in shape. It has also been calculated that in the past 50 years, Italy has suffered more than $100 billion in losses as the result of "natural catastrophes."

An Italian expert in infrastructure, who for many years worked with the Cassa del Mezzogiorno, the only savings institution which had been directly involved in protecting southern Italy from such ravages, denounced the years of misdeeds by politicians. He indicated that because of Maastricht, the government has repeatedly postponed investment in infrastructure, including delivering funds allocated to regional and local institutions. A $30 million allocation approved for the Campania region, for example, never got there. In 1972, he pointed out, most of the responsibility for such work was transferred from the national government to the regions. A law which should have regulated national-regional coordination has not functioned. And, in 1983, the Cassa del Mezzogiorno was dissolved.

Currently, the political parties are bickering over who is responsible for the misdeeds, and the government ministries are tied up in bureaucratic infighting. But, what is needed, is an emergency national program of infrastructure investment, as proposed by Lyndon LaRouche and his co-thinkers, the Italian Solidarity Movement.

Mining

Anglo American teams up with Barrick Gold

Anglo-Gold, and its parent company Anglo American Corp., confirmed on May 13 that they have entered into a joint venture to develop the African gold prospects of Barrick Gold Corp., the South African daily *Business Day* reported. Former U.S. President Sir George Bush serves on the honorary international advisory board of Barrick, which is based in Toronto.

The properties are located in Mali, Senegal, and the Democratic Republic of Congo, where Laurent Kabila's genocidal takeover was underwritten by British-run mining firms. Under the terms of the deal, Anglo-Gold earns 50% of Barrick's Africa mineral properties, by spending up to $15.6 million in exploration. Based on a similar agreement, Anglo American will acquire a 50% interest in Barrick's mining property in Niger. The agreement establishes Anglo-Gold as the manager of the joint-venture properties in Congo, Mali, and Senegal. Anglo American will be the manager of the property in Niger.

Nuclear Energy

Harrison: Boost civilian exports to India

Selig Harrison, a South Asian expert at the Woodrow Wilson Center in Washington, D.C., has put forward a sane alternative to the condemnations of India for its nuclear tests dominating the U.S. and European press. The United States should build nuclear reactors in India, he wrote in the May 17 *Washington Post*.

"Indian leaders have made clear that they are ready to end testing and cut off stockpiling of plutonium for nuclear weapons, if the Clinton administration will end sanctions and give India, as it has given China, access to U.S. civilian nuclear technology to help satisfy the burgeoning energy demands of an exploding population, now nearing 1 billion," Harrison said. "The U.S. benefits politically and economically from a compromise with India that would open up the transfer of civilian nuclear technology to India. . . . Apart from improving relations with a rising power, the U.S. would acquire significant influence in one of the most sensitive sectors of the Indian economy. . . . It is also in America's interest to facilitate a diversification of energy sources in India and China alike, curbing a reliance on petroleum imports that will increasingly deplete world supplies and drive prices up. Moreover, the U.S. nuclear industry needs foreign contracts to keep its technical workforce intact and survive in the face of competition."

Briefly

CHINA'S senior leaders attended a lecture on financial security in Beijing on May 12, the seventh such lecture. Prof. Cao Jianming spoke on economic and state security, prevention of financial crises in various countries, and "hidden" domestic financial dangers. President Jiang Zemin, Prime Minister Zhu Rongji, National People's Congress head Li Peng, and China's Vice Premiers attended.

UNIVERSITY students should study the latest crisis in Asia, so that they will "be prepared to carry out the necessary economic reforms to ward off future threats" from speculators, Malaysian Finance Minister Anwar Ibrahim told the *Straits Times* on May 16. The discrediting of conventional theories, he said, have made many courses obsolete.

THE MALAYSIAN oil firm Petronas will invest $600 million to drill for oil in Sudan, and is expected to begin extracting up to 250,000 barrels for export by June 1999.

SIMON & SCHUSTER, the U.S. publisher owned by Viacom, was the target of two takeover bids, won on May 18 by Pearson, a British firm which owns the *Financial Times,* which offered $4 billion. Rupert Murdoch's News Corp. had also made a $4 billion bid, in partnership with Michael Milken. Pearson's takeover will make it the largest educational publisher in the United States.

SOUTH KOREA was hit by new major bankruptcy on May 12. The Keo Pyung Group, the 28th-largest conglomerate, said that it will close down or sell several of its units, including its construction and trading arms, after defaulting on debt payments of 1.3 billion won.

AIDS INFECTIONS in eastern Europe have increased sixfold compared to 1994, the German daily *Die Welt* reported on April 23. In Ukraine, for example, in 1994, only 44 people tested HIV-positive; in 1997, some 15,000 tested positive.

Gambling psychosis propels stock market toward implosion

by Richard Freeman

Those whom the gods would destroy, they first make mad. Over the last several years, Americans have engaged in an orgy of stock market investment, believing that each and every one will become a millionaire. Through mutual funds, pension and retirement plans, and direct investment through brokerage houses, Americans have poured more than one-quarter of a trillion dollars per year into the stock market, for each of the past few years. Like the ancient Romans who worshipped the goddess Fortuna, they have watched the stock market go up and up and up, brainwashing themselves that the market could never go down.

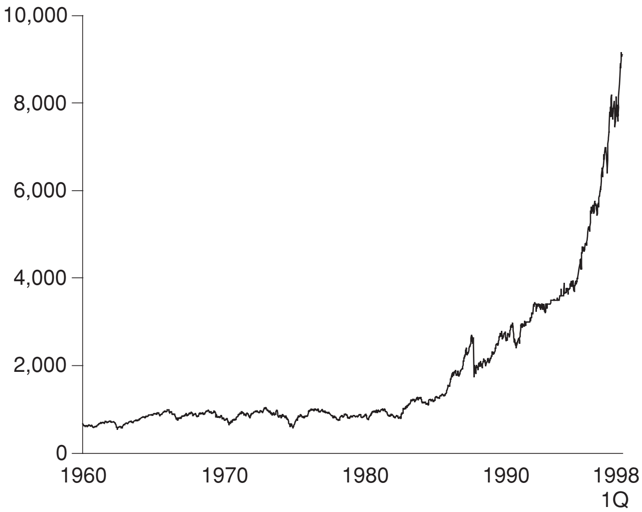
At the same time, they embrace the means of their own demise, championing the post-industrial society policies, the speculative stock and derivatives markets that are sucking dry the real physical economy, the economy upon which human existence and these markets depend for their survival. The U.S. stock market could not be supported at even one-third of its current level: The means of its growth includes, as one of the forms of leverage, a large dose of leveraged buy-outs (LBOs). The LBOs strip the assets from companies and slash wages to cover a part of the debt (leverage) financing.

Many people delude themselves that the U.S. economy is in the midst of a "great expansion," and that this explains why the stock market is rising. In fact, the economy is not expanding; it has been contracting at the rate of about 2% per annum since 1971, as a result of the British oligarchy's imposition of the post-industrial society in the United States during the mid-1960s.

The stock market is not growing as a result of real economic growth, but is creating fictitious value, via the rigged appreciation of stocks, which appreciation is then capitalized and used as the basis for spending or purchases in other sectors of the economy.

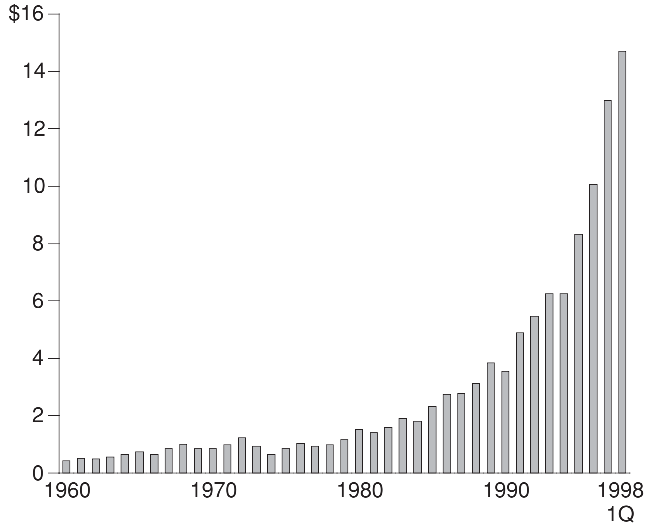
By every traditional standard of stock market measurement applied for the last 30 years, the stock market is completely over-priced. It has shot way past its peak for any period in the postwar era, including the period just before the 1987 stock

FIGURE 1
Dow Jones Industrial Average weekly closings, 1960-98



Source: Dow Jones & Company.

FIGURE 2
Capitalization value of all stocks traded on U.S. stock market, 1960-98
(trillions $)



Sources: Board of Governors of the Federal Reserve System, "Flow of Funds Accounts;" EIR.

market crash. Compared to industrial production, the market is at least 385% overvalued. Indeed, even with limited information, it can be shown that the stock market exceeds its level of 1929, in this respect.

What is holding the market up is the greatest infusion of multiply-connected, mutually self-supporting leverage—debt at high gearing ratios—in American history. Each time the City of London-Wall Street crowd leverages the market further upward, suckers pour in tens of billions of dollars more, propelling stocks ever higher. The danger is that any adverse incident, small or large, either endemic to the stock market, or the raising of interest rates, or an economic catastrophe abroad, can set off the reverse leveraging of the market. This can result in defaults on margin loans, dumping of stocks to meet margin calls, the failure of stock derivatives contracts, and so forth.

The ensuing damage to the American economy, and about 35 million stock-holding households, will be without parallel, and would quickly become global. The U.S. stock market's collapse would either immediately be the trigger for, or have already been triggered by, the de-leveraging of the $130 trillion worldwide derivatives market. The combined effects of these two reverse leveragings would set off the biggest financial disintegration in 650 years. The collapse would be global and systemic, not cyclical as in 1929.

A speculative bubble

To help understand the huge inflation of the market, **Figure 1** shows the weekly closings of the Dow Jones Industrial Average, from 1960 through the end of the first quarter of 1998. **Figure 2** shows the market value or capitalization of the U.S. stock market, since 1960 (capitalization is the market value or share price of a U.S. company's stock, times the number of those shares outstanding, carried out for all the shares outstanding of all U.S. companies). Of late, the trajectory of both curves has been hyperbolic. The Dow Jones Industrial Average has risen from 884 in 1982, to roughly 9,200, a 941% increase, with much of that registered in the last seven years. The Dow Jones represents 30 highly capitalized U.S. stocks; the market capitalization represents more than 5,000 U.S. stocks. That capitalization has risen from $1.6 trillion in 1982, to $14.7 trillion, an increase of 825%.

At a March 18 Washington, D.C. seminar, Lyndon LaRouche characterized the stock market: "In the United States, we're pumping up a balloon, in terms of the financial markets, through what? Through hyperinflationary methods. The printing of money, to steer it into financial markets, where it is heavily financially leveraged, and thus results in an ascending balloon, in terms of the stock market prices, which creates the spectacle of a man clinging to a balloon without a carriage, and without an oxygen flask, reaching the 60,000-feet level and going higher. He's going to suffocate and die, if the balloon doesn't explode. And that's what we're doing."

The U.S. monetary aggregate, represented by M3, the broadest measure of money supply, has grown at a rapid 9.3%

clip over the past 52 weeks, to keep this mass of financial stock titles liquefied—as well as liquefy other inflated speculative assets in the United States.

Mass psychosis

But there is one vital additional element: The stock market frenzy has assumed the dimensions of a mass gambling psychosis. Americans are buying considerable stock positions on their credit cards (carrying double-digit interest rates), via home equity loans, by borrowing against their 401K retirement plans, and even with food or rent money. The May 11 issue of *Time* magazine reports that, this year, Americans may make 30% of their retail purchases of stock through the Internet.

While wealthy individuals are earning large sums, and some executives are collecting tens of millions of dollars in stock option bonuses, every stratum of the American population, especially the middle class and a portion of the lower class, has become deeply involved in the stock market. Thus, there will be an immense personal, existential crisis for tens of millions of American families, when the stock market collapses, as it must.

The intertwining of the speculative stock market bubble, and the enormous exposure Americans now have to that market, represents one of the greatest strategic vulnerabilities America faces.

The British oligarchy realizes that this strategic vulnerability exists, and is rubbing its hands with glee. The *Economist* magazine, mouthpiece for the City of London, made its April 18-24 issue's cover story, "America's Bubble Economy," and gloated: "The more that asset prices continue to be pumped up [in the United States] by easy money, the more inflated the bubble will become and the more painful the economic aftereffects when it bursts." The British oligarchy has the means to pop the bubble; at the same time, it has been using its assets, such as independent counsel Kenneth Starr and his moneybags Richard Mellon Scaife, to escalate the attack on President Clinton, threatening to remove him from office. A step-up of the attack on the Presidency, combined with a market blowout, could cripple the United States.

But Britain could not exploit an American stock market bubble, unless it existed in the first place. For this, America has itself to blame. Rather than seeing the stock market as a development that cannot fail, Americans must free themselves from their insanity, and see it as the instrument of their doom.

Global frenzy

The stock market frenzy is not restricted to the United States; it is a disease that has gripped the Western "industrial world." For the period between Jan. 1, 1997 and the end of April 1998, an interval of only 16 months, the following are the rates of increase of the principal European stock exchanges: Germany, 78%; France, 63%; the Netherlands, 80%; Belgium, 63%; Sweden, 52%; Britain, 42%; and Switzerland, 83%. In Italy, over just the past 12 months, the stock market has doubled.

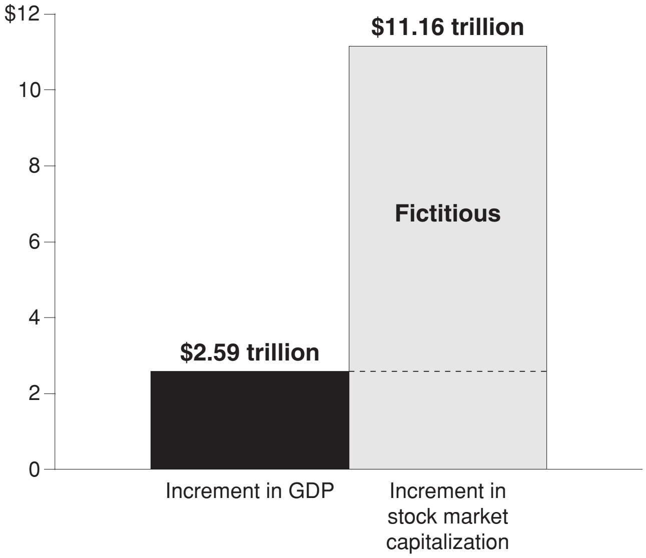
The world financial crisis has spread to Japan, South Korea, Malaysia, Thailand, Indonesia, Russia, Brazil, Argentina, and other points. *EIR* has said that each crisis could turn out to be the flashpoint that could detonate a world financial collapse. But think, then, of the danger represented potentially by the collective stock, derivatives, and debt markets of the Western nations, especially the United States. The U.S. stock market has a greater market value/capitalization than the combined market value/capitalization of all of the Asian (excluding Japan), Ibero-American, Middle Eastern, and African stock markets.

In the report that follows, we will look at the stock market, without blinders on, showing why it must collapse. We concentrate on four characteristics: 1) the dimensions of the bubble; 2) the history of how it was artificially built up; 3) the multiply-connected, mutually-supporting leverage that props up the stock market; and 4) the American population's investment and overexposure in the market.

FIGURE 3

1990 to present: increment in stock market capitalization is only 23% covered by increment in GDP

(trillions $)



Sources: Department of Commerce, Bureau of Economic Analysis; Federal Reserve Board of Governors, "Flow of Funds Accounts;" EIR.

The biggest bubble in history

The highly leveraged U.S. stock market has shattered all previous records, by conventional standards of measurement. But is there a better means by which to measure the absurdly high levels that the stock market has achieved?

Looking back at Figures 1 and 2, notice that for both curves, there are three distinct periods. During the first, from 1960 through 1982, the curves stay within a relatively stable band; nothing excessive happens. During the second period, from 1982 through 1990, the trajectory of the two curves rises quickly, representing the first phase of the stock boom. During the third period, from 1990 to the present, the curves follow a hyperbolic trajectory. The stock market has entered a frenzied state.

For the whole of the 16-year stock market boom since 1982, the Dow Jones Industrial Average has risen by 10.41 times (941%). For the same period, the market capitalization of more than 5,000 stocks has increased by 9.25 times (825%).

To appreciate the full impact of this, we concentrate on the last and most explosive of the three periods. From 1990 to the present, the market capitalization rose from $3.54 trillion to approximately $14.7 trillion, or fourfold—an increment, during this period, of $11.16 trillion. During the same period, the U.S. Gross Domestic Product rose by only $2.59 trillion. Since 1990, the increment of market capitalization of the stock market has risen by an amount that is four and one-half times the increment by which the GDP has risen. That is an absurd development, that the run-up in value of stock should so far exceed the economy's growth.

This raises the question: How much of the increase of capitalization of $11.16 trillion represents economic growth, and is real, and how much represents a fictitious hypothecation of paper?

A way is presented to get at the answer. We know that $2.59 trillion of the $11.16 trillon increment in the stock market valuation since 1982, is covered by a growth of goods and services (as bad as GDP is as a measure of real goods and services, we will accept it for the moment, for the purpose of this experiment). This then means that $8.7 trillion is uncovered by any growth in goods and services. This $8.7 trillion, constituting 77% of the $11.16 trillion, would mean that 77% of the increase of the stock market's so-called "valuation" since 1990, is hot air. Thus, 77% of the stock market's increase in value, or $3 out of every $4, is fictitious (see **Figure 3**).

Let us now compare the increment in stock market valuation to something more substantial: industrial output, as measured by the Industrial Production Index, which is published by the Federal Reserve Board of Governors. (The Fed's Industrial Production Index [IPI] is also bad as a measure of goods production, but we will also accept it for the moment. It eliminates services, concentrating on goods.) Since the capitalization is denominated in dollars, and the IPI is an index, the only way to compare the growth of each, is to set the values of each for 1990, equal to 100, and then compare the growth of the indices. From 1990 to the present, the index of the capitalization of the stock market rose by 215%. The index of industrial production rose by 30%. This means that only 30% of the 215% increase of the market capitalization represents an increase of industrial output. Conversely, 185% of the 215% increase of the market capitalization was *not* covered by growth in industrial output. The 185% comprises 86% of 215%. This would signify that 86% of the stock market's increase of valuation since 1990, has been fictitious.

We can raise this to a third level of refinement. As economist Lyndon LaRouche has stated, and *EIR* has documented in other locations, since 1990, the real physical economy, inclusive of infrastructure, as measured by the energy of the system, has declined at a rate of about 2% per annum. Using this more accurate standard, the entirety of the stock market's increase of valuation since 1990, is purely fictitious.

Thus, we can calculate that between 77% and 100% of the increase of the stock market's valuation since 1990, is fictitious. Thus, of the $11.16 trillion increment in market valuation since 1990, between $8.7 trillion and $11.16 trillion has been hot air.

Looked at from the standpoint of the real economy, the stock market is a money-making machine that hypothecates paper on top of paper, with only a tiny percentage of it backed by something of real physical value.

This indicates the current danger: Just as between $8.7 trillion and $11.16 trillion in paper value has been cranked out since 1990, that same amount can disappear. All that needs to happen is that the multiple levels of leverage that are propping up the market, are knocked out through reverse leveraging. Then, that paper value vaporizes.

We can make a further useful experiment, this time involving the Dow Jones Industrial Average. It is widely acknowledged that Japan's Nikkei 225 stock average index is overvalued. The Nikkei is now trading in the range of 15,000, and if it falls to the level of 13,000 to 14,000, this may cause several bank and corporate bankruptcies, because these companies have large stock holdings, and in the case of banks, count it toward their core bank capital. But, we at *EIR* constructed an index, in which we set both the 1982 level of the Nikkei, when it was 7,399, and of the Dow Jones, when it was 884, equal to 100. We measured all subsequent years as a measure of the 1982 standard. **Figure 4** shows that the Nikkei peaked in 1989 and today is roughly double its 1982 level. The Dow Jones is 10 times its 1982 level. If today, the Nikkei 225 is considered dangerously inflated—and it is—think of how dangerously inflated the Dow Jones is.

What does Wall Street know?

Shouldn't Wall Street be concerned about this? *EIR* has not found any graph, prepared by any economist or analyst on Wall Street, that compares the capitalization or market value of the U.S. stock market to the growth of industrial production. The likely explanation is that were Wall Street financiers capable of thinking about something real, like industrial production, they would not want to know what the graph shows.

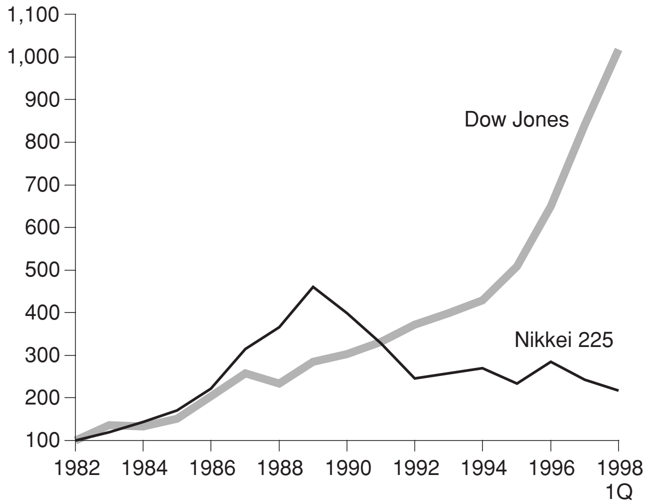
But Wall Street, and the broader community of citizens, does have some standard, traditional measures, to track what is going on. The problem with the measures is that they compare the market capitalization of industrial stocks, or the market price of individual stocks, against some entity which serves as the denominator, such as the cost of replacement of plant and equipment, or earnings per share, which is infected with an inflationary bias and reflects asset inflation.

This builds a limitation into the measures, which are stated as ratios. But because the ratio is consistent from year to year, it is still useful. The same standard is applied each year, and trends do clearly emerge.

Here are three of the conventional measures:

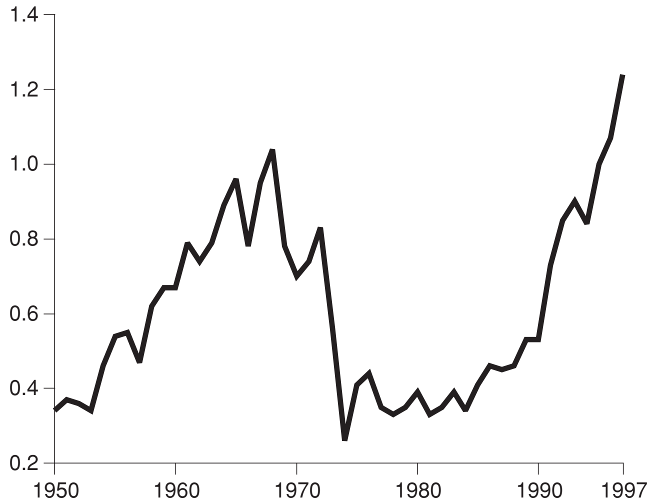
1. *The Tobin "Q-Ratio,"* devised by Nobel Prize Economics laureate Prof. James Tobin of Yale University. It compares, for non-farm, non-financial corporations, the value of their stock with the value of their plant, equipment, and inventories (the equipment and inventories are valued at their replacement cost; the plant structures at market

FIGURE 4
Dow Jones Industrial Average versus Nikkei 225
(index 1982 = 100)



Sources: Dow Jones & Company; Tokyo Stock Exchange.

FIGURE 5
Q ratio



Source: Prof. James Tobin, Yale University.

value). The ratio shows how the stock of a company is valued relative to the plant and equipment that the stock is supposed to represent.

Figure 5 presents the average of the ratio from 1950 through 1997. It can be seen that, prior to the recent period, there is one period, 1960-72, when the Q-ratio rose above the level of 0.6. During most of the 1960s, there was still moderate growth in the economy. Although part of the 1960s was known as the Go-Go Years, for its mergers and acquisitions activity, there was still a fairly solid economy underlying the stock market. But notice what has happened since 1990: The ratio has shot up past 0.6, and at the end of 1997 stood at 1.24. This is the highest level it has been in 47 years.

The limitation of the Q-Ratio, is that it vastly understates the high level of the stock market by having an inflated denominator. This includes the market value of plant structure, which is pumped up because of the inflation of real estate values. Likewise, the current replacement cost of equipment is also considerably inflated. These two items are the biggest part of the denominator.

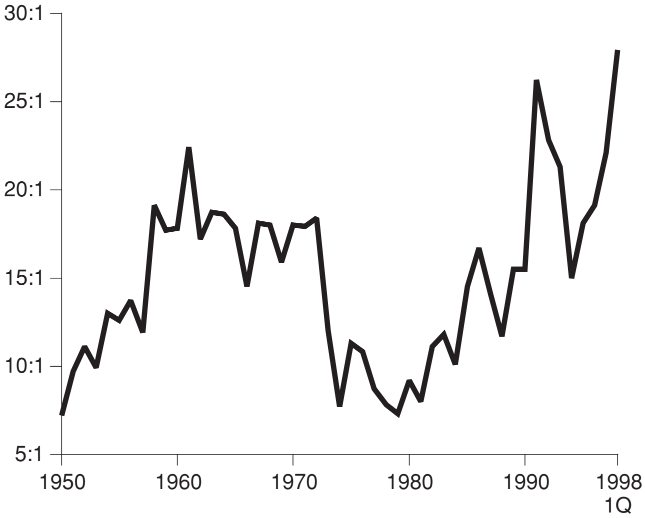
2. *The price-earnings ratio*. This is the best known of all measures. It compares the price of a share of company stock to the company's earnings per share. Let us take a hypothetical company A. If company A's stock price is $100 per share, and its earnings (the dividends it will pay out plus the profits it will retain for internal use) are $10 per share, then company A's price-earnings ratio is 10:1.

During the 1960s, stocks had a higher price-earnings ratio, partly because of speculation; but since there was a more durable economy during the early part of the 1960s, the process did not go out of control. During the 1970s and 1980s, the price-earnings ratio averaged 12:1, which is about normal. In most cases, if the ratio gets to 18:1 or much above, there is no way that the earnings stream of the company can support such a high price.

Figure 6 presents the average of the price-earnings ratio for the 500 stocks that are included in the Standard & Poors 500 stock average (the information is supplied by Standard & Poors). By April 1998, the last point marked on the graph, the price-earnings ratio is 27:1. This is more than double the normal level, and the highest in 50 years.

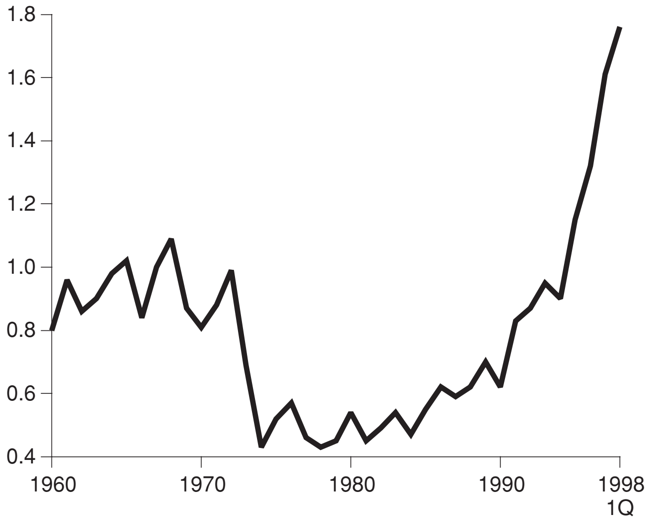
The price-earnings ratio is flawed. During the 1950s and 1960s, when the economy was relatively functional, most of the reported earnings were real: They were derived from productive output in manufacturing, mining, construction, or agriculture. But today, much of what is counted as earnings is "financially engineered." A company may boost its earnings by any number of tricks: firing workers, selling off divisions, playing the derivatives markets, which many Fortune 500 companies do. Entire companies, which are considered industrial concerns, have profits which are from non-industrial, largely speculative income streams. For example, General Electric is America's fifth largest "industrial" corporation in assets, and second largest in profits. But GE earns half of its profit earnings from its NBC television subsidiary and from its giant investment company, GE Capital Corp. Thus, profits today are not what profits were 30 to 40 years ago, being much more infected with financial and outright specu-

FIGURE 6
Price-to-earnings ratio



Source: Standard and Poor's Corp.

FIGURE 7
Ratio of stock market capitalization to GDP



Sources: Federal Reserve Board of Governors, "Flow of Funds Accounts;" Department of Commerce, Bureau of Economic Analysis.

lative income streams. Were those speculative earnings first eliminated from reported earnings, then the price-earnings ratio would probably be flying around 35:1 or greater.

3. *The ratio of the market value or capitalization of the U.S. stock market to the value of GDP*. We have compared, above, the increment in market capitalization, for the interval from 1990 to the present, with the increment in GDP, for the same interval. We found that since 1990, the market capitalization of the stock market has risen by an amount that is four and one-half times the amount by which the GDP rose during the comparable period. Here, we compare market capitalization to GDP on an annual basis.

Figure 7 presents the results for the period 1960 through the first quarter of 1998. There is a huge jump from the 1989-90 period, so that by the first quarter of 1998, the ratio of market capitalization to GDP is 1.76, an all-time record. Excluding values for the 1990s, previous high-points don't approach the current level. Thus, the value of the stock market is nearly twice the value of GDP.

The limitation of this ratio as a measure, is that the denominator of the equation, the value of GDP, is very inflated; the revenues of the brokerage houses are included in GDP itself, so, as the stock market swells, it swells GDP. More broadly, the problem with GDP is that two-thirds of it is services, and one-fifth of it is the revenues of the speculative "Fire, Insurance and Real Estate" sector.

Still, any broker or economist can calculate the market-capitalization-to-GDP ratio, the Q-ratio, and the price-earnings ratio. Their meaning leaves no room for misinterpretation: This is the most speculative market in 50 years. For each measure, the level today is at least twice what it was in 1987, the year of the stock market crash.

The British rig the market

Between 1975 and 1982, the British oligarchy, and its flunkies in factions of the U.S. government and financial community, initiated four crucial policy-changes which fundamentally altered the U.S. stock market. The moves were built upon the "post-industrial society" policy that the oligarchy had initiated in the United States, following the November 1963 murder of President John F. Kennedy (see article by Jonathan Tennenbaum, in this issue, p. 34).

The stock market went from being a market that was used by companies to raise equity for expanding and improving industrial and agricultural production, and where investors bought the stock to hold over the long term, to a market where the importance was placed on how much profit could be made in capital gains in fictitious appreciation of stocks, in large volumes of trading. In 1965, the New York Stock Exchange traded, on average, 6.2 million shares per day; today, it trades more than 450 million shares per day. Instead of holding a stock for 10 or 20 years, many investors will hold a stock for a week, an hour, or a nanosecond. Stock dividends are not irrelevant, but they now take a back seat; if a stock's price can be manipulated upward, say, from $9 to $10 per share, and one can buy 1 million shares at the lower price, using leverage, and sell it 30 seconds later at the higher price, then that is all that matters.

The market today is one large gambling den. Leverage rules—not the physical production of the underlying company.

It is important to remember, that the stock market was not always as we see it today. During periods when American policymaking was governed, in the main, by the American System of political economy, the stock market was also relatively sane. The American System, unlike the British System of free trade, starts from the premise that the republican nation-state can intervene in the economy as a positive force for growth and development. It issues cheap and abundant credit for manufacturing, agriculture, construction, mining, transportation, and infrastructure. It also provides Classical education to the citizen, to develop the cognitive power of his or her mind.

It is the divine spark of reason in each individual, his or her ability to make revolutionary, new validated discoveries of scientific principle, that is the source of all economic wealth. These discoveries can provide an increase in the capital-intensive, power-intensive productive mode of the economy. Combined with the improved cognitive powers of labor, man's power over nature is increased. This is reflected in an increase in the rate of potential relative population density.

Over the centuries, the British oligarchy has done everything possible to destroy the American System. In the 1960s, the oligarchy imposed the post-industrial society policy to that end. The policy favored speculation, and crushed production.

In 1971, President Richard Nixon, on the advice of Treasury Undersecretary for International Monetary Affairs Paul Volcker, took the disastrous step of taking the United States off the gold-reserve standard. This severed a crucial link between production and financial flows. Such a severing is manifest in the fact that, whereas in the 1960s, U.S. merchandise goods trade (exports and imports combined), accounted for 75% of U.S. foreign exchange trading, it is less than 0.5% today.

In 1975-82, as noted above, four important changes opened the door to wild gambling binges, and the stock market's being governed by the power of leverage.

1. On June 4, 1975, Senate Bill 249 was passed, officially deregulating America's brokerage houses and securities firms. Fixed rates and fixed-rate commissions were eliminated. While this was hailed as a "liberating step," it caused a violent shakeout of the brokerage industry. Many old-line firms either failed outright, or had to be merged with other companies in order to survive. In this chaotic environment, firms such as Drexel Burnham Lambert, which had access to dirty-money flows, including drug money, shot to the fore, and began to dominate with their "junk bond" financing.

2. During the week of Oct. 6-12, 1979, Federal Reserve Chairman Paul Volcker sent interest rates into the stratosphere. By February 1980, the prime lending rate was 21.5%. During the 1970s, Volcker had been one the project directors of the British-run New York Council on Foreign Relations' "Project 1980s," which advocated "controlled disintegration" of the economy, through the use of high interest rates, credit

How asset-stripping works

In 1978-79, one of the first really large leveraged buy-outs (LBOs) involved Houdaille Industries, primarily a machinery producer, which had absorbed a number of machine-tool companies, including the Burgmaster Corp. In 1965, Burgmaster had become the largest machine-tool maker west of the Mississippi, after developing a turret drill press in the late 1940s. Kohlberg Kravis Roberts, the dirty-money asset-stripper tied to the George Bush apparatus, undertook the Houdaille LBO for $355 million, which was ten times the size of most of the LBOs up to that time.

"Wall Street recognized immediately that the rules were no longer the same. . . . There was virtually no limit on how large a buy-out could be," Max Holland writes in his 1989 book, *When the Machine Stopped*. The financiers made a killing, but Houdaille was devastated. Recounting an interview with Allan Folger, then president of Burgmaster, Holland writes, " 'After the buy-out, Houdaille per se changed,' Folger recalled. 'It seemed to lose its equilibrium.' Financial expertise became the single most-valued resource, and understandably so. 'Accounting hires grew faster than manufacturing hires,' because managing for cash flow 'to service the debt became the whole end,' said Folger. Corporate headquarters now demanded so many extensive financial reports that even Folger, with his capacity for numbers, came to believe that it interfered with attempts to improve Burgmaster's product and defend its market."

By 1983, Burgmaster's backlog of orders was quite modest, only two to three months, compared to the 18 months that were common before Kohlberg Kravis Roberts arranged the LBO, when the company's machine tools were in high demand. As money was being siphoned from production to pay pyramided debt service, Burgmaster's machines were becoming less reliable, but still they were being shoved out the front door. On Oct. 1, 1985, a bankrupted and destroyed Burgmaster machine-tool company was shut down permanently.

Dow Jones rigged index, became less industrial

In March 1997, Dow Jones & Company, which owns and publishes the Dow Jones Industrial Average (and also owns the *Wall Street Journal*), made a change in its index, by dropping four stocks and adding four others. The change helped rig the DJIA upwards, while making the index more speculative.

The Dow Jones dropped Bethlehem Steel, Texaco, Westinghouse Electric, and Woolworth—all of which had been part of the Dow Jones industrial index since 1928—and replaced them with Travelers Group (insurance-financial services), Hewlett-Packard (computers), Johnson & Johnson (heath care), and Wal-Mart.

The shift had two purposes. First, three of the four companies had registered huge gains in their stock price since 1991, and it was hoped that were that pattern to continue—which it did—it would drive the DJIA even higher. Three of the four companies dropped had registered stock-price losses since 1991, and thus, dropping them was also calculated to boost the Dow Jones higher (by eliminating the "losers" that pulled the market down).

Company added	Change in stock price since 1991
Travelers Group	+628%
Hewlett-Packard	+372%
Johnson & Johnson	+154%
Wal-Mart	+40%
Company dropped	
Texaco	+54%
Woolworth	–27%
Westinghouse	–32%
Bethlehem Steel	–40%

The second purpose of the change was to make the Dow more post-industrial. With the removal of Bethlehem Steel, there are no longer any steel companies listed among the Dow Industrials (U.S. Steel was replaced by Walt Disney in 1991). There are now three bank-insurance companies: the Travelers (which just merged with Citicorp), J.P. Morgan (added in 1991), and American Express (added in 1982).

Of course, many of the industrial companies listed on the Dow Jones Industrial Average report profits earned from post-industrial income streams, such as from real estate and currency speculation.

cut-offs, energy price shocks, etc. In November 1978, speaking in Leeds, England, Volcker stated, "Controlled disintegration is a legitimate objective for the 1980s."

Volcker's policy decimated real physical economy, sending machine-tool, steel, and auto production downward by 40-60% over the next three years. But, his policy was, eventually, very beneficial to the growth of the stock market. A businessman could not afford to borrow at 15-18% interest rates, since he could not earn enough in manufacturing or agriculture to pay the loan back. But, in the goosed-up stock market, he could earn a quick-buck return of 20-25%. Steadily, starting in 1982, savings and other investments flowed into the stock market.

3. The Kemp-Roth Tax Act of 1981 (formally called the Economic Recovery Act), which went into effect in 1982, was pushed by the British-run Mont Pelerin Society's "supply-side economics" advocates, such as Art Laffer of the University of Chicago; Robert Mundell of Columbia University; Robert L. Bartley, the editor of the *Wall Street Journal;* and Rep. Jack Kemp (R-N.Y.). This crowd exerted tremendous influence over President Ronald Reagan.

The Steiger Act, which went into effect in 1979, had cut the top tax rate on capital gains from 49% to 28%. The Kemp-Roth Act cut the capital gains tax top rate again, this time down to 20%. Thus, within the span of four years, the top tax rate on capital gains had been slashed from 49% to 20%, a 60% reduction in the amount of tax to be paid. This encouraged short-term trading, as one paid 60% less tax for realizing capital gains in the short-term fictitious appreciation of stocks. The name of the game became short-term capital gains, as opposed to long-term investments.

(As the giveaways of the Kemp-Roth Act to wealthy investors caused the U.S. budget deficit to soar, many of its main features were repealed or modified by the 1986 Tax Reform Act, which took effect in 1987. In 1987, the top capital gains tax rate was restored to 28%.)

4. On Oct. 12, 1982, the Depository Institutions Act, sponsored by Sen. Jake Garn (R-Utah) and Rep. Fernand St Germain (D-R.I.), was signed into law, deregulating the entire banking system, both commercial banks and savings and loan institutions. Vice President George Bush had been the head of a White House financial regulatory reform task force which studied, recommended, and oversaw the deregulation.

The act cut out the special emphasis banks and S&Ls had placed on lending to industry, agriculture, and housing. It eliminated the special privileges of the S&Ls, forcing them into the speculative real estate business instead; repealed the usury limit on the interest that a bank could charge a customer, which limit had usually been set at 10%; and so forth. In Volcker's era of high interest rates, banks were now prodded to make large loans to leveraged buy-out operators, feeding the merger and acquisition fever.

Thus, there was a concert of mutually supporting activities.

The outcome

There were two principal outcomes from these four changes. The first, as noted above, was to make the stock market a mere facilitator of gambling bets. A stock's price could be anything the market could make it to be.

The second outcome, is that many operatives came to the fore who were connected to the dirty-money flows of organized crime and the drug trade. One such operative was Michael Milken, of Drexel Burnham Lambert, one of the driving forces putting together mega-deals, including several hostile takeovers, and running a yearly "Predators Ball" at which many gangsters of the takeover movement gathered. During the 1990s, Milken was convicted of various manipulations, and served several years in prison. In the 1970s, Drexel came under the control of the following unsavory figures: Meyer Lansky, who for many years was the chief financial officer of the National Crime Syndicate, as well as being linked to the Anti-Defamation League; Edmond de Rothschild of Banque Privée, of Geneva; the Lambert financier family of Belgium; and the House of Morgan. Additionally, money was put into Drexel by the United Fruit Company, America's largest importer of illegal narcotics. Drexel worked with dirty-money-linked firms such as Bear Stearns of Maurice "Ace" Greenberg, as well as "white shoe" firms, such as Morgan Stanley and Crédit Suisse First Boston, to build up a huge mergers and acquisitions movement, fed by leveraged buy-outs and junk bond money. Now, any corporation in America, now matter how large, could be taken over by another corporation. If a corporation resisted, then there could be a hostile takeover. Ninety to 95% of the money for the takeover could be borrowed.

Leveraged takeovers, junk bonds, derivatives bets on stocks, risk arbitrage—these came to be the dominant activities of the stock market. An example of a leveraged buy-out, and the attendant asset-stripping of a firm in the LBO, is provided in the box on p. 23.

An additional element was introduced: A company could be stripped down, just so that its stock price could be made to rise, and its chief executive officer would earn a large stock option (see box on this page).

The national financial media now said that businessmen should be like Michael Milken. In the 1980s, the London-run *Institutional Investor* magazine ran a headline that said it all: "Milken the Magnificent." In a June 13, 1986 article, the *Wall Street Journal* wrote glowingly of Milken, "Tales of Mr. Milken's frenetic, workaholic style, immense earnings and relentless stance against interlopers have made him a Wall Street legend at age 39. Even some Drexel critics have compared him to J.P. Morgan as an innovator."

This transformation, documented for the period from 1975 through 1982, and then from 1982 through 1990, was radically thorough. The transformation of the stock market, which had nothing to do with the "invisible hand," laid the basis for leverage to completely dominate the stock market in the 1990s.

The leveraging and dangerous de-leveraging of the market

There are three forms of leverage, which are largely responsible for pushing up the U.S. stock market to its current dizzying heights: 1) individuals and professional investors borrowing from brokers on margin, i.e., margin loans; 2) leveraged buy-out fund borrowing of leverage; and 3) the leverage of stock and stock index derivatives. As we reported above, between 77% and 100% of the increment in stock market valuation of $11.16 trillion, since 1990, is fictitious. It is leverage that inflated the market by that much fictitious

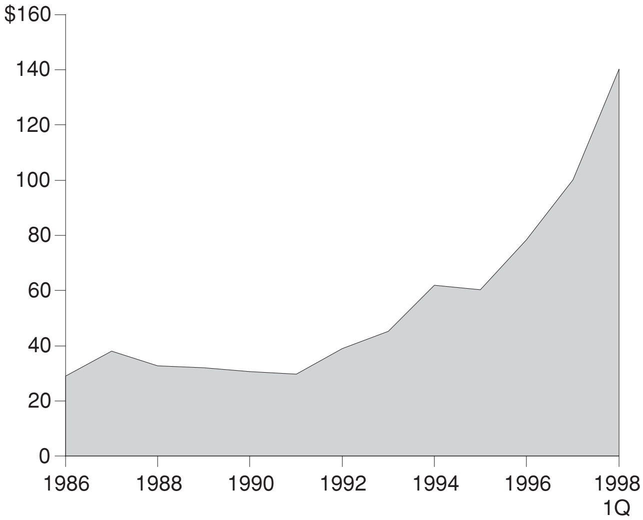
CEOs make a killing from stock options

Corporations are paying their top executives in large stock option packages. If the executive can get the company stock price up to a certain level, and then hold it at least at that level, the options suddenly become valuable. Under a compensation plan involving options, an executive may be promised that he can buy shares of the company stock at, say, $10 per share, once the share price reaches and stabilizes at $30 per share. If the executive exercises the option, and buys shares at $10 per share, he makes $20 per share for each share he buys.

Such options often work directly against the interests of that company and its workforce.

In January 1996, Robert Allen, then chief executive officer of AT&T, announced 40,000 layoffs, the latest installment in 123,000 worker firings that his company has been in the process of carrying out since 1990. This represents 30% of AT&T's 1990 workforce. AT&T is still paying off $7.5 billion in LBO debt connected with its 1991 takeover of NCR Corp. After AT&T announced the firings, the value of AT&T stock soared. In 1996, Allen earned an annual salary of $3,362,000. He then made more than $5 million from the resulting increased value of his stock and options.

FIGURE 8
Margin debt
(billions $)



Source: New York Stock Exchange.

TABLE 1
Margin accounts expand

	Margin accounts (millions of accounts)
March 1991	7.3
March 1992	7.4
March 1993	9.7
March 1994	13.2
March 1995	12.7
March 1996	15.8
March 1997	22.9
March 1998	27.4

Source: New York Stock Exchange.

valuation, and it is leverage that is preventing the market from falling.

Remove that leverage, and that fictitious valuation will evaporate: $11 trillion could disappear, almost overnight.

There is one additional degree of danger: This leverage is multiply-connected, that is, the three kinds of leverage support and feed one another. That means that the failure of any one kind of leverage will amplify and speed up the effect across the stock market.

Leverage refers to borrowing. A leveraged buy-out is a buy-out or takeover of another company, in which the purchase is financed by a large amount of borrowed money. But leverage has come to take on a broader meaning: the use of a small amount of funds to gain control over an instrument whose worth is many times the amount of funds one is putting up. This is sometimes referred to as a gearing leverage.

We look at each kind of leverage, and then their combined effect in a crash scenario.

1. Official and 'hidden' margin debt

In order to buy, say, $100,000 worth of stock, an individual may either buy the stock with his own cash or secure a margin loan from a broker. The initial margin requirement on qualified stocks (which margin requirement is set by the Federal Reserve Board) is 50%. That means that the individual can borrow up to 50% of the value of the stock he wishes to purchase through a loan extended to him by a broker. In this case, the individual can borrow a margin loan of $50,000 to buy the stock in question, and will have to pay the other $50,000 out of his own cash. In return for the margin loan, the broker may require the investor to pledge, as collateral, an amount of stock equal in value to the margin loan.

The individual investor borrowing the margin loan, may be either an ordinary investor or a professional investor.

Thus, through the margin loan, the individual investor is buying stock on margin, i.e., by borrowing.

Individual investors have gone hog wild in their accumulation of margin debt to buy stocks. **Figure 8** shows the volume of margin debt outstanding, at the end of the first quarter, for each year, 1986 through 1998. For 1986 through 1991, margin debt remained more or less the same. At the end of the first quarter of 1991, the level of margin debt stood at $29.7 trillion. Its increase since then has been stupendous, reaching $60.3 billion at the end of first quarter of 1995, and $140.3 billion at the end of first quarter of this year. In the seven years since 1991, the volume of margin debt lending increased four and three-quarters times.

Since the margin requirement on stock purchases is 50%, that means that if one is buying $100,000 worth of IBM stock, one pays for $50,000 worth of the purchase with a margin loan borrowed from a broker, and the other $50,000 out of one's own cash. However, many investor/brokers recommend buying only 25% of a stock's purchase price with a margin loan. Were the $140 billion in margin loans outstanding to represent 25% of the amount paid for the purchase of stock, then this $140 billion in margin loans would have contributed to $560 billion worth of stock purchases.

However, margin loans make possible many stock purchases which would not otherwise be countenanced. This therefore boosts the stock market up by a greater amount, than the immediate sums at issue would seem to indicate.

Table 1 shows that by the end of the first quarter of this year, there were 27.4 million margin debt accounts. This translates into one in six American adults possessing a margin debt account, making America a gambling society (although, because an individual may possess more than one margin account, the actual ratios may be a little smaller). This represents a far higher percent of the population having margin accounts today, than in 1929 or 1987.

Unable to get their hands on enough margin credit to buy stocks on margin, Americans delirious with stock market fever are buying stocks with credit cards, by borrowing against home equity lines, and borrowing against 401K accounts.

Raymond DeVoe, Jr., an economist for Legg Mason Wood Walker stockbrokers, who has worked on Wall Street since 1949, estimated, in the July 1997 issue of his newsletter, the *DeVoe Report,* that "the actual level of customers' margin debt could be at least 2 to 3 times [the officially] reported level." DeVoe calls this the "hidden margin."

DeVoe describes how his study of hidden margins began. He happened to be in a supermarket, and, "since I was probably the only person in the store wearing a suit, shirt and necktie," a woman working at the store approached and asked him if he was a stockbroker. He told her no, but she pushed forward. " 'What do you think of Vendenteen Technologies?' she asked undaunted. I said I had never heard of it. She persisted, 'I've got 10,000 shares—bought it at $0.50 [per share] and it's 75 cents a share now. It's going to $10. I'm thinking of buying more.' " DeVoe asked her how she could afford that much money in one stock. "Her reply, 'Visa and MasterCard don't ask what you do with the money.' "

DeVoe stopped two other people in the same supermarket, and asked them if they played the market. They replied that they did: They put a good amount of each pay check into the stock market. "When the money for food runs out at end of the month—we charge it," one person explained. DeVoe asked, "How often does this running out of food budget money occur?" "Every month," they answered in unison. Thus, people incur double-digit interest charges on their credit cards, in the attempt to make more in the market.

Provoked by these incidents, DeVoe conducted a study, and found 17 other cases of this phenomenon over the next few months. He also found individuals taking out home equity loans to buy stocks. To see how easy it was to get the money for this purpose, he applied to a bank for a home equity loan. When he came to the application line which asked him the purpose of the loan, he told the bank's loan officer only that he wanted the funds available in case of emergencies. The banker told him, "Put in 'for emergencies.' " The loan was approved.

According to DeVoe, the American Bankers Association reported for the end of 1995, that there was $276 billion outstanding in open-ended equity loans and another $138 billion in closed-end equity loans in America, more than $400 billion, some of which could be used for stock purchases.

Available evidence indicates that tens of thousands, and perhaps hundreds of thousands of Americans are using some or all of the proceeds of home equity loans to play the stock market.

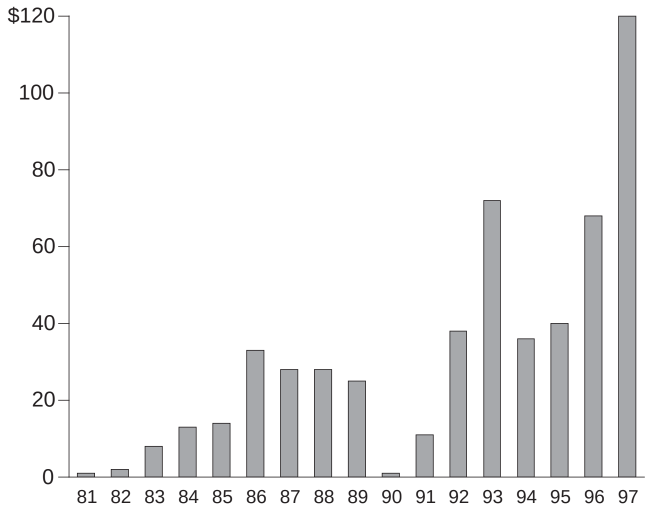
DeVoe reported that another option is borrowing against one's 401K retirement plans. If one borrows against the stock holdings in the plan, perhaps to pay down the borrowings on a credit card which one has used to buy stock, then this is the equivalent of borrowing on margin from a broker, but no broker loan is involved: One is borrowing against one's own individual retirement plan.

In addition, according to DeVoe, there are a good number of workers employed in high-tech companies, who are paid rather low salaries, but are offered stock options in the stock of the company they are working for. When it comes time to exercise the stock option, they may have to borrow the money. For example, let us say one has a stock option plan that after seven years allows one to buy 10,000 shares of stock at $20 per share. The stock may be trading at $30 per share, so the option is a bargain. But to exercise the option, one has to come up with $200,000. This would be borrowed from a bank.

Putting together all the anecdotal and other evidence together, DeVoe stated, "I feel that the actual level of customers' margin debt could be at least 2-3 times [the] reported level." At the end of March 1998, the level of margin debt was officially $140 billion. Two to three times that would be between $280 and $420 billion. That amount of margin could contribute to stock purchases, using margin, of as much as $1.68 trillion (were margin to represent 25% of the total stock purchase price).

DeVoe's report shows to what extent Americans are willing to borrow, to buy into the market. The danger is that suffering even a 20% loss, would be enough to wipe out credit card or home equity loans, and ruin a 401K retirement fund.

FIGURE 9
Junk bonds issued in the United States
(billions $)



Source: Securities Data Company.

2. Leveraged buy-outs and junk bonds

The British strategic policy during 1975-82, was to break down the traditional function of the stock market, and turn it into a gambling pit. This involved the heavy use of leveraged buys-out. The LBO frenzy got started in 1973-79, and though its activity was quite intense then, still by today's standards, it would seem like small potatoes. From 1982 through 1989-90, it assumed greater intensity. But, from 1993 to the present, the market has teemed with leveraged buy-outs.

The LBOs have led a surge of mergers and acquisitions that is unequalled in U.S. history, and dwarfs all other economic activity in the U.S. economy. Not all mergers and acquisitions (M&As) use leverage; that is, only a percentage of all M&As are leveraged buy-outs. But LBOs drive forward and consolidate the M&A process.

The leveraged buy-out is transacted with a considerable sum of leverage. For example, let us assume that a firm that specializes in LBOs wants to purchase a company for $5 billion. It could borrow $4 billion, and put up only $1 billion of its own funds. This leverage is 5:1, the LBO firm is buying something for $5 billion, but spends only $1 billion of its own funds. The 5:1 leverage is meant to work to its advantage. Let's say it makes $200 million from the deal. If the LBO company had put up $5 billion of its own money to consummate the deal, then its rate of profit would be $200 million divided $5 billion, or 4%. But with 5:1 leverage, the LBO firm's rate of profit would be $200 million divided by $1 billion—which represents the amount of its own cash that it put up—or 20% (out of this, the LBO firm must pay the interest on the $4 billion it borrowed). In the speculative world, the higher the leverage, the greater the profit.

Today, many of the LBO firms execute their takeovers with the same asset-stripping as Michael Milken did during his hey-day of the 1980s, including firing workers, shutting down divisions, etc.

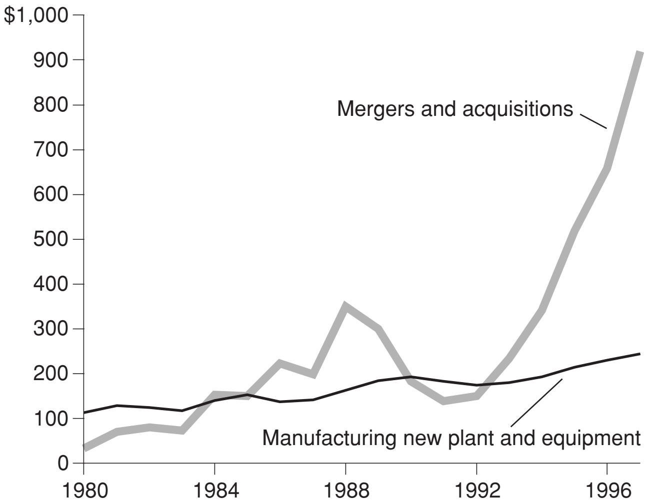
One of the chief means of financing LBOs is still junk bonds, the high-risk, high-yield bonds. Many people assumed that junk bonds died, when Drexel Burnham went bankrupt in 1991, and Milken went to jail. False: The practice is stronger than ever. **Figure 9** reveals that more junk bonds are being floated than were ever floated during Milken's day. In 1997, more than $120 billion in junk bonds were issued. In March and April of this year, $18.83 billion and $18.96 billion worth of junk bonds, respectively, were issued, the highest two monthly issuances in history.

LBO leverage has spurred the merger and acquisition movement. **Figure 10** shows the dollar volume of merger and acquisition takeovers, since 1980. Notice that there is a first run-up in mergers and acquisitions between 1982 and 1988.

FIGURE 10

U.S. mergers and acquisitions versus manufacturing expenditures for new plant and equipment

(billions $)



Sources: Securities Data Company; Bureau of Economic Analysis of Department of Commerce; EIR.

The impending collapse of Drexel caused the market to plunge. But since 1991, they have been virtually unstoppable. In 1997, there were $919 billion worth of corporate takeovers and mergers, and for the first four months of this year, 1998 is on target to surpass $1.2 trillion.

Every new takeover catapults stock prices higher. Each takeover not only raises the stock price of the company targetted for takeover, but also the stock prices of all the corporations in the industry group (electronics, pharmaceuticals, etc.) of the company slated for takeover. Companies are regularly paying an exorbitant three to five times book value, to take over another company. Each successive takeover binge is bigger, at a higher price.

As the stock market rises, and the world financial disintegration approaches, U.S. corporations are engaged in a dance of death. They are flinging money at each other, with Citicorp and Travelers Group in a $72 billion merger; BankAmerica and NationsBank in a $60 billion merger; and SBC Communications and Ameritech in a $62 billion merger.

Further, several once-conservative institutions, managing significant sums, are pouring their money into the LBO fever. Many key leveraged buy-out firms, even though they now dub themselves "alternative investment funds," are the same LBO sharks that operated during the 1980s. The godfathers of the buy-out business mania include: Henry Kravis of Kohlberg Kravis Roberts & Co., who is a key figure in the dirty political machine of George Bush (Kravis, a personal friend of Bush, served as co-chairman of the finance committee of the Bush for President campaign in 1992); Stephen Scwharzman of the Blackstone Group (Blackstone's chairman is former Council on Foreign Relations chairman Peter Peterson); and Leon Black of the Apollo Investment Fund (in the 1980s, Black was a star at Drexel Burnham; his father had chaired the drug-laundering United Fruit Co.).

The Oregon State Treasury Department has invested an astounding amount of more than $2.5 billion in Kravis Kohlberg Roberts LBO funds. Manhattan's Sloan-Kettering Memorial Cancer Center, one of the world's preeminent cancer treatment and research hospitals which has a $1.5 billion endowment, last year committed $200 million—one-seventh of

What are corporate stock 'buy-backs'?

In a corporate stock buy-back, the company uses part of its profits, not for expansion of its production, but to purchase its own shares on the open market. This has been used to "bull" the stock market. By shrinking the number of shares of a company that are trading, its earnings are distributed against fewer shares (and shareholders); this increases the earnings per share, and, the company hopes, that will be rewarded with the share price rising even higher.

Such buy-backs are being carried out by International Business Machines (IBM), for example. For the first quarter of 1998, IBM announced a drop in earnings; but it also announced that it was buying back $3.5 billion of its own shares. The result: Despite lowered earnings, the company's stock price rose. Since Jan. 31, 1995, IBM has repurchased $20 billion of its shares—about one-fifth of its total shares outstanding. During this period, IBM's stock price leapt from about $47 per share during 1995, to $117 per share on May 1 of this year, an increase of two and one-half times. While IBM reported profits during this period, approximately half or more of the stock price increase came from its buy-back program.

IBM is one of the 30 stocks of the Dow Jones Industrial Average; its increase in share price helped push up that average. Coca-Cola, another of the 30 stocks of the Dow Jones, repurchased 1 billion of its shares between 1984 and 1996. Since 1995, twenty-four of the Dow's 30 companies—that is, 80% of them—have announced buy-back plans. Indeed, the main preoccupation of most companies these days is not production, but a rising stock price.

its endowment—to 18 different "alternative investment" funds.

Meanwhile, return to Figure 10. The dollar volume of mergers and acquisitions dwarfs the manufacturing sector's expenditures for new plant and equipment. Paper return has become more important than physical output.

3. Stock-based options and futures

Stock-based derivatives, options, and futures, with a leverage that ranges up to 660:1, are the most potentially explosive.

These derivatives, which were practically nonexistent in the 1970s, have ballooned during the 1990s. As much as anything, they characterizes the stock market of today.

In 1996-97, some 19.6 million futures contracts, taken out on the most popular stock index, the Standard & Poors 500 index, were traded through the Chicago Mercantile Exchange. In the same period, 4.5 million options contracts, taken out on the S&P 500 index, were traded through the CME. These contracts controlled an underlying notional amount of more than $1 trillion, and shaped the performance of the New York Stock Exchange.

To figure out the importance of these stock-based derivatives, and how they work, it is useful to say a word about the functioning of derivatives.

There are four levels of economic-financial activity represented by these futures and options contracts.

On the first level is the real physical economy. Man, through the creative power of discovery, creates breakthroughs in science and technology, which are applied to the alteration of nature, through manufacturing, agriculture, etc.

On the second level are financial instruments, such as stocks, bonds, and mortgages, which in a well-functioning economy have a role to play—stocks raise funds for capital expansion, mortgages can be used to buy a house, etc. But over the last 25 years, these have become speculative instruments.

On the third level, are derivatives. These are financial instruments which are bets on instruments of level two. One such derivative is the S&P 500 index. When one buys this index, one buys the trading value of the S&P 500, a basket of 500 stocks. It has a trading price, which is the sum of the value of the S&P 500 stocks, adjusted by some factor. When one buys the S&P 500 index, one is not buying any one of the 500 stocks (although technically, a portion of each of the 500 stocks is held in a unit trust account for the purchaser); one is really buying the value of the index. One is betting that the index as a whole will go up (or down), like some baseball player's batting average.

On the fourth level, is what we were seeking to examine, an *option to buy the S&P 500 index,* which gives one the right, but not the obligation, to buy the S&P 500 index—this is a derivative upon a derivative.

On May 18, the S&P 500 index was trading at 1,106. In the case of the purchase of an option, one pays a premium of usually 2-3% of the value of the underlying instrument. To make this concrete, let us say that one buys an option on 1,000 units of the S&P 500 index. This has an underlying notional value of $1,106,000 ($1,106 times 1,000). Let us assume that the cost of buying the option—which is called the option's premium cost—is 3% of the value of the underlying instrument. In this case, that would be 3% of $1,106,000, or $33,180. By buying the option, one does not yet own the 1,000 units of the S&P 500 index, but, to use the technical term, one *controls the underlying instrument*. So, putting up $33,180 controls an underlying instrument of $1,106,000. That is a 33:1 leverage ratio.

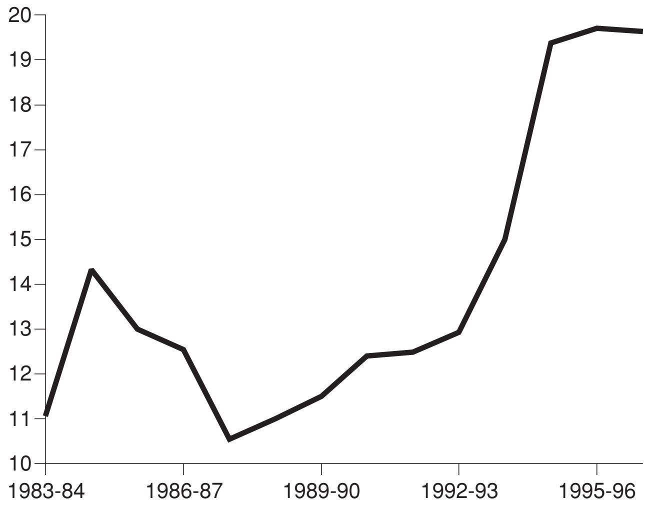
However, if you are George Soros's Quantum Fund, you don't even put up the $33,180, which is the cost of the option premium. Soros could borrow 95% of the cost of the premium from a bank, and so would only put up $1,659 of his own money. That $1,659 would buy up an option with a premium cost of $33,180, that's a 20:1 leverage between what he puts up, and what the cost of the premium is. The $33,180 premium controls an underlying instrument of $1,106,000, which represents a 33:1 leverage. Combining the two, Soros is only putting up $1,659 of his own money to control an underlying instrument of $1,106,000; that's a leverage of 660:1.

One can buy a lot of options and futures contracts on the S&P 500 index. If one buys a sufficiently large volume of them, this creates pressure to make the underlying cash market—the actual stocks traded on the New York Stock Ex-

FIGURE 11

Volume of trading of S&P 500 future contracts, at Chicago Mercantile Exchange

(millions of contracts)

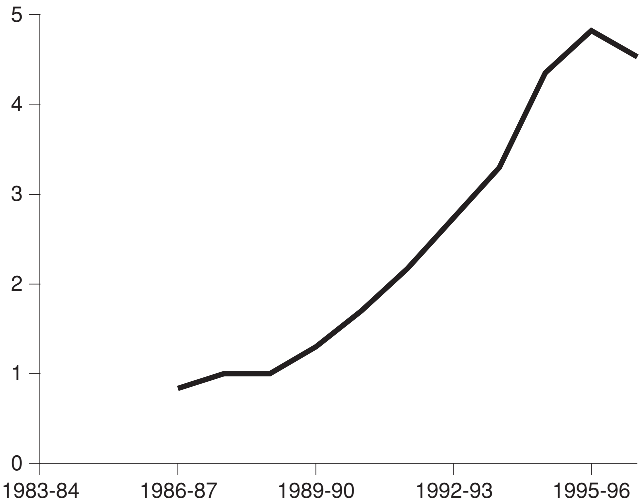


Source: Commodity Futures Trading Commission, annual reports.

FIGURE 12

Volume of trading of S&P 500 option contracts, at Chicago Mercantile Exchange

(millions of contracts)



Source: Commodity Futures Trading Commission, annual reports.

change—rise in price, to meet the close-out price of the options and futures. This is called "updrafting" the market. Conversely, one can force the prices on the markets downward, which is called "downdrafting."

Finally, consider a stock market that has been updrafted. It is like a building structure that is being held up by a thin, reedy scaffolding, i.e., the derivatives contracts, which are at a 660:1 leverage. Let us say, that there is a derivatives market failure somewhere in the world. Since derivatives extend across national boundaries, and across markets, this can hit the stock market. What has risen by a 660:1 leverage scaffolding, can now come down by a 660:1 leverage. This is called reverse leverage. This process will be very swift—a matter of hours or days—and the trajectory will be straight down.

How exposed is America to this possibility? **Figures 11**and **12** show the tremendous volume of trading, respectively, of futures and options contracts taken out on the S&P 500 index, on the Chicago Mercantile Exchange. In 1997, there were 19.4 million futures contracts and 5.4 million options contracts traded on the S&P 500 index. Both indices have grown in volume over the past decade. Although the S&P 500 index is the most popular stock index in America, there are also future and option contracts on the Dow Jones stock index, etc. Plus, there are options and futures on individual stocks, such as IBM, GE, and so forth. Though a single comprehensive figure does not exist, *EIR* estimates that in 1997, about 50 million future and option contracts on stocks and stock indices were traded in America. They would have had a minimum combined value of several trillion dollars.

This type of leverage is like dynamite, just waiting to be ignited.

But, return to the reality we stated at the beginning of this section of our report: This leverage is multiply-connected, multi-pyramided; that is, the three kinds of leverage support and feed one another. That means that the failure of any one kind of leverage will amplify and speed up the effect across the stock market.

When reverse leverage strikes, broker margin loans will be called in, or investors will have to dump stocks to meet margin calls; junk bonds will melt down, as companies that issued them will not be able to pay interest costs; and the derivatives bubble of futures and options will collapse. Deleveraging in one sphere will trigger de-leveraging in another sphere, because all the leverage of the different spheres is interconnected.

The props will come crashing out from under a market that has risen 825% since 1982.

Unprecedented American exposure

The lure of the market is making Americans crazy, distorting their grasp of economic and strategic reality. Encouraged by stories in magazines and newspapers, tips from hot-shot newsletters and "insider" investment advisers, and talk-show gossip, Americans are betting their shirts on the market. When warned to get out, they reply, "I can't get out now, I might miss the opportunity to make a profit tomorrow."

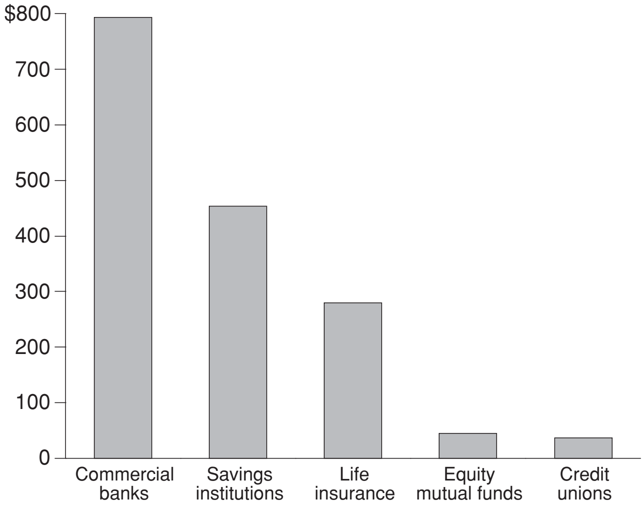
One is reminded of a dance in which the partners whirl around faster and faster, in a frenzied trance. Under the bright lights, they are unable to distinguish reality: Faces are blurred, voices cannot be heard. Still they go faster, hurling themselves toward oblivion.

According to the best estimates of historians, in 1929, between 8 and 15% of American households owned stock. In 1985, about 25% did; and today, approximately 35 million households do, representing 35% of all American households.

The prime vehicle for attracting American participation in the market is the equity mutual fund. This is bringing about a phenomenal shift in where Americans keep their assets. The equity mutual fund is the equity-holding portion of the mutual fund sector. Mutual funds can own a variety of assets, such as cash, U.S. Treasuries, or corporate bonds, and their total holdings have become quite sizable (in fact, today U.S. mutual funds have more assets than U.S. commercial banks). We concentrate strictly on the equity holdings of mutual funds.

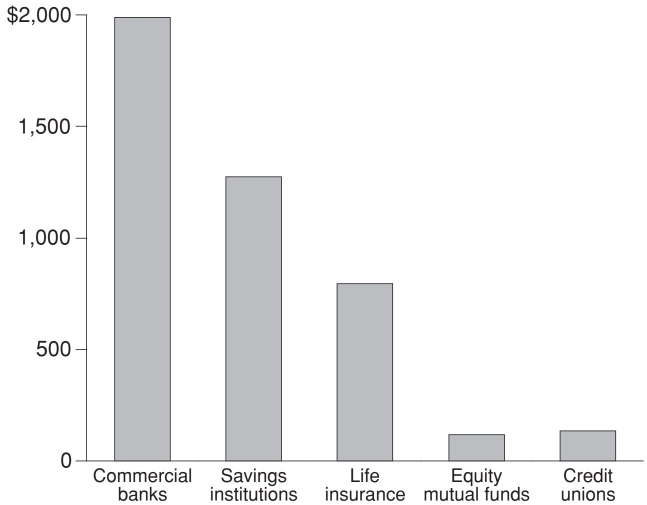
Figures 13, 14, and **15** show the holdings of assets by the principal financial institutions: commercial banks, insurance companies, savings and loan associations, credit unions, and

FIGURE 13
Total deposits and assets of the largest U.S. financial institutions, in 1975
(billions $)



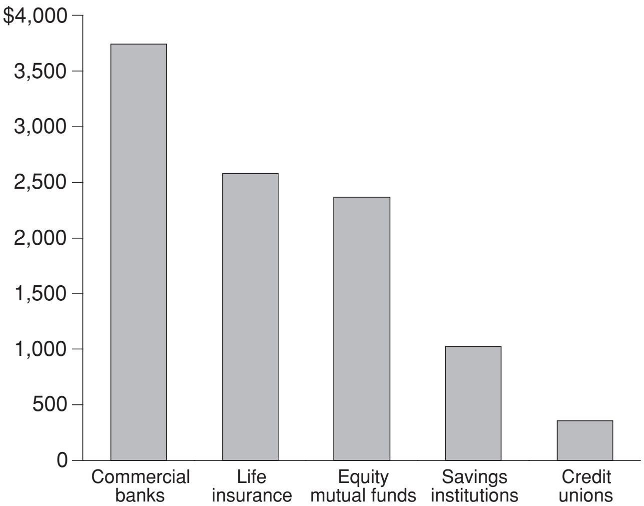
Sources: Federal Reserve Board of Governors, "Flow of Funds Accounts;" Investment Company Institute.

FIGURE 14
Total deposits and assets of the largest U.S. financial institutions, in 1985
(billions $)



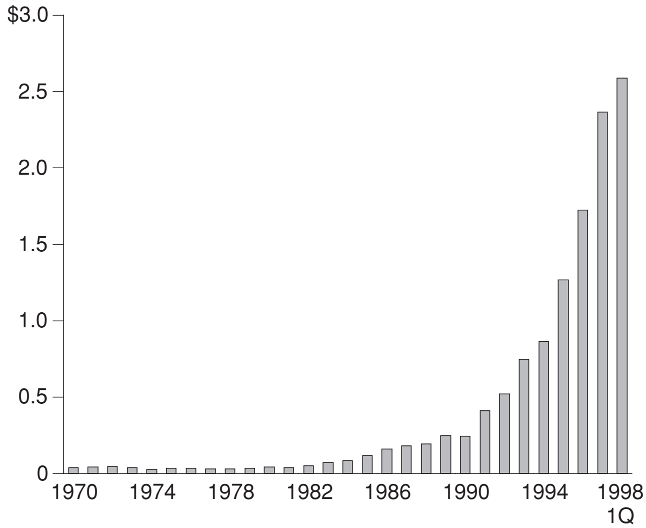
Sources: Federal Reserve Board of Governors, "Flow of Funds Accounts;" Investment Company Institute.

FIGURE 15
Total deposits and assets of the largest U.S. financial institutions, in 1997 fourth quarter
(billions $)



Sources: Federal Reserve Board of Governors, "Flow of Funds Accounts;" Investment Company Institute.

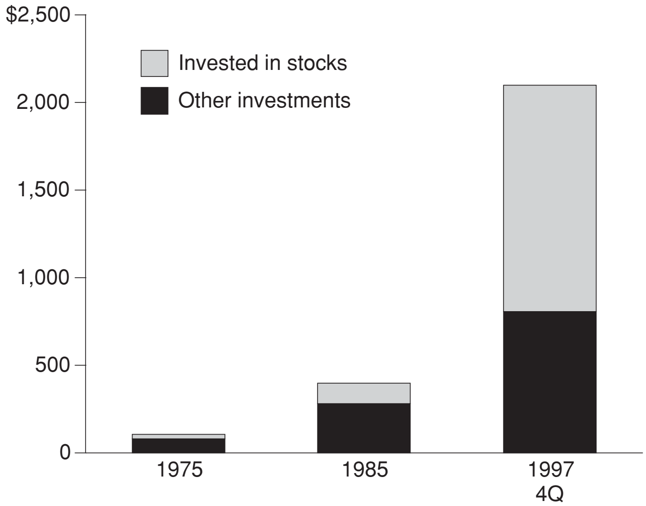
FIGURE 16
Equity mutual fund assets rise, 1970-98
(trillions $)



Source: Investment Company Institute.

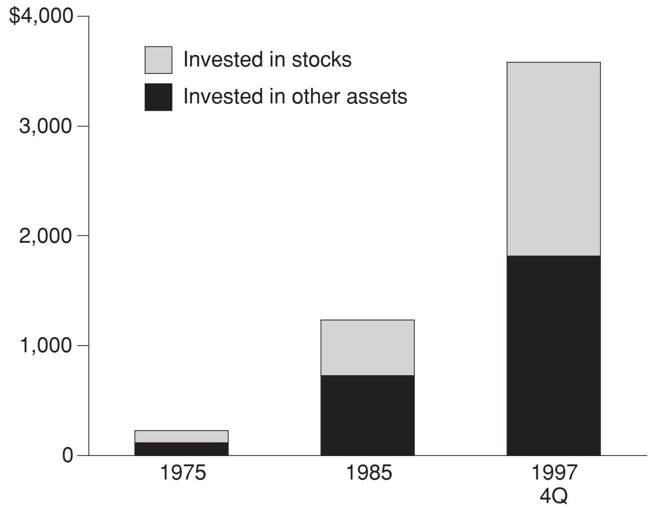
equity mutual funds. We compare the assets for the years 1975, 1985, and the fourth quarter of 1997. In 1975, mutual equity fund assets were merely a blip, at $37.5 billion. In 1985, mutual equity fund assets were relatively small at $116.9 billion. Today, mutual equity fund assets have surged to $2.4 trillion, 20 times greater than their 1985 level. They

FIGURE 17
State and local retirement fund assets, showing portion invested in stocks
(billions $)



Source: Federal Reserve Board of Governors, "Flow of Funds Accounts."

FIGURE 18
Private pension fund assets, showing portion invested in stocks
(billions $)



Source: Federal Reserve Board of Governors, "Flow of Funds Accounts."

are two-thirds the size of the U.S. commercial banking system, and trail its asset level by $1.2 trillion. **Figure 16** shows the historical growth of equity mutual funds.

Some of the increased holdings of the equity mutual funds represent the result of appreciation of the stocks that these funds already held. But in 1997, Americans entered as new funds $227 billion into equity mutual funds, and they are on a faster pace for this year.

But this is not the full extent of the household's exposure to the stock market. **Figure 17** shows the state and local government retirement fund accounts, and the amount invested in stocks. In 1975, state and local retirement funds had very little invested in stocks. But as of the end of the fourth quarter of 1997, state and local retirement funds had $1.30 trillion of their assets invested in stocks, out of total assets of $2.1 trillion. Stocks represented 62% of their total assets.

Figure 18 shows the private pension fund accounts. As of the end of the fourth quarter of 1997, private pension fund accounts had $1.77 trillion of their assets invested in stocks, out of total assets of $3.58 trillion. Stocks represented 49% of their total assets.

There is overlap, of course, as state and local government retirement funds and private pension funds employed equity mutual funds to invest some of their money.

Those who are looking forward to their retirement, thinking that their retirement fund will take care of them, had better think again.

Finally, many households also have direct stock ownership, purchased from a stockbroker.

But normal methods of stock investing were not sufficient to satisfy insatiable appetites. Margin loans from brokers for buying stocks on leverage, increased from $60 billion at the end of the first quarter of 1995, to $140 billion at the end of first quarter of this year. Americans borrowed money on credit cards, against home equity, against stock-holding individual retirement accounts, and even threw their food and rent money into the upswirling market. An unprecedented level of holdings, means an unprecedented level of exposure.

Whether the nonpostponable collapse of the stock market comes from a miscalculation, or is the deliberate pricking of the bubble by the British oligarchy, the effect will be greater misery than ever before experienced in America. The aftershocks, involving a convulsion of the world derivatives market, will be global.

Lyndon LaRouche's policies offer the way out: the establishment of a New Bretton Woods monetary system, with fixed exchange rates, combined with a global infrastructure development program within the framework of the Eurasian Land-Bridge project.

Worsening objective economic conditions are never, by themselves, sufficient to bring about an historic change. There must be a subjective change, throwing off the unworkable axioms that are leading the nation to doom. Now is the moment for Americans to make such a subjective change, with respect to their thinking about the stock market. Holding onto illusions, past their expiration date, can be deadly.

EIR Documentation

The global financial crisis unfolds, 1944-98

by Jonathan Tennenbaum

In last week's Feature, *"Financial Crisis: The End-Phase of a 30-Year Disease," Jonathan Tennenbaum analyzed the origins of the present crisis, which involve the entire financial and economic history of the post-World War II period: the failure to undertake large-scale infrastructure projects and capital goods transfer to developing nations following the death of President Franklin Roosevelt and the end of World War II; the assassination of President John Kennedy, and the ushering in of "post-industrial" policies with the Johnson administration, which ended investment in scientific and technological progress in the United States and other developed nations; and the official end of the Bretton Woods system on Aug. 15, 1971, when President Richard Nixon decoupled the dollar from gold, beginning a several-phase process of decoupling financial instruments from any rational connection to the physical economy. The following chronology outlines the most important points in that process, which has brought us to the point where failure to organize a "New Bretton Woods" system, will condemn the world to a new Dark Age.*

July 1-22, 1944: A conference of 44 countries at Bretton Woods, New Hampshire, sets up an institutional framework for monetary, financial, and trade relations for the postwar period. A system of relatively fixed currency parities is agreed upon, with the U.S. dollar, backed by a gold reserve, as the central currency for world trade. Agreements are made for creating the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (later called the "World Bank"), as instruments of the new world monetary system.

April 12, 1945: The untimely death of U.S. President Franklin Roosevelt cuts short his plans to dismantle the British, French, and Dutch colonial systems, and to launch an era of worldwide infrastructural and industrial development. The new President, Harry Truman, reverses the essential thrust of Roosevelt's policy for the postwar period, and cooperates with the British strategy to launch the "Cold War."

Dec. 27, 1945: The IMF goes into operation.

Oct. 23, 1947: The General Agreement on Tariffs and Trade (GATT) is founded.

1947-49: The first postwar recession, largely as a result President Truman's anti-development policies, hits the United States.

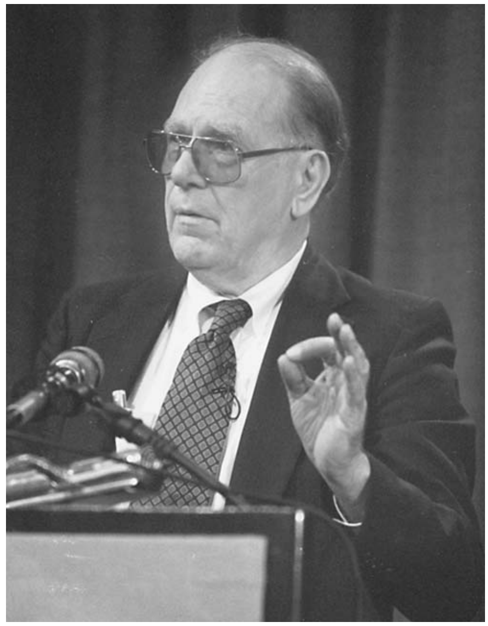
From the late 1940s into the late 1950s, and to a lesser extent into the early 1960s, relatively fixed parities are maintained between the main currencies of the Western industrial countries, including the U.S. dollar, British pound, French franc, Swedish crown, Italian lira, and (from 1948 on) also the German mark.

Early 1950s: A series of major bank mergers occurs among the New York banks, forming giant banking groups which dominate Wall Street in the postwar period. On account of their strong historical, institutional, and family ties to the City of London and the British financial oligarchy, these Wall Street financial interests represent the core of an "Anglo-American elite" within the United States, known also as the "Eastern Establishment." The Anglo-American financial interests, represented by the Wall Street banks, exercise a dominant influence on the policies of the U.S. Federal Reserve System.

1957-59: A new, deep postwar recession engulfs the United States.

1958: For the first time, the main Western European currencies become fully convertible into dollars, or gold.

1958-59: Lyndon LaRouche carries out a study of the U.S. and other industrial economies over the period 1946-58,



Delegates from 44 nations gathered outside the Mount Washington Hotel in New Hampshire in 1944 for the Bretton Woods International Monetary Conference. The demise of the Bretton Woods financial system, compounded by the disastrous effects of the "post-industrial society" ideology, have brought us to the brink of a collapse of the global monetary system. Lyndon H. LaRouche, Jr. (right) forecast these developments, and offers policy alternatives, starting with a call for a New Bretton Woods.

focussing particularly on the causes of the deep U.S. recession of 1957-58, which he identifies as "a turning-point in postwar history." LaRouche publicizes his conclusion, that unless prevailing economic policies were changed, a series of international monetary crises would occur during the second half of 1960s, leading to a breakdown of the Bretton Woods system of relatively fixed parities, and the long-term trend toward a new depression.

Jan. 20, 1961: John F. Kennedy becomes U.S. President. Kennedy's policies for stimulating technological innovation, particularly his aerospace development program and investment tax credit policy, sustain U.S. industrial growth into the mid-1960s. Parallel with this, strong industrial development continues in West Germany (the so-called German "economic miracle") and in France under President Charles de Gaulle.

Nov. 22, 1963: President Kennedy is assassinated in Dallas, Texas. Kennedy's pro-industrial policies are abandoned by his successor, Lyndon Johnson. New regulations are introduced concerning U.S. investment abroad, which provide the basis for a massive flow of dollars into Europe. Under the influence of U.S. Secretary of State George Ball and Bank of England Gov. Sir Siegmund Warburg, London becomes the main offshore center for a growing market of "Eurodollars" and "Eurobonds."

1967: The U.S. government under President Johnson take steps to cut back on the long-term U.S. space program, as part of a policy to further de-emphasize capital-intensive industrial development. At the same time, the increase in the U.S. budget deficit is accelerated by the high cost of financing the Vietnam War without new taxes. The total direct financial cost of U.S. participation in the Vietnam War is later estimated at $165 billion (1967 dollars).

In the course of 1967, the long-standing inflationary financial policies in the United States and Great Britain lead to a major crisis of the Bretton Woods system. The French central bank begins to exchange its reserves of dollars and pounds for gold. Jacques Rueff, the economic adviser to President de Gaulle, proposes a monetary reform which would include a 50% devaluation of the dollar and doubling the value of U.S. gold reserves. His policy is rejected.

November 1967: The British sterling crisis breaks out, leading to the first devaluation of the pound since 1949. The sterling crisis is followed by a severe crisis in the British automobile and other industries, leading to factory shutdowns and shrinkage of industrial employment. Great Britain becomes the first testing-ground for the "post-industrial society" policy. At the same time, West Germany and other Western European countries are hit by a major recession for the first time since the German "economic miracle" began.

March 1968: Due to panic sales of dollars for gold, the U.S. government orders closing down of London gold market for several days.

April-May 1968: France is hit by a major political crisis, brought on by student and worker strikes. Anglo-American banks dump their holdings in French francs, deliberately adding to the political destabilization which soon leads to the downfall of President de Gaulle.

April-June 1968: Assassinations of popular U.S. political leaders Martin Luther King, Jr. (April 4) and Sen. Robert Kennedy, brother of President Kennedy (June 5).

The loss of promising leaders, combined with the Vietnam War and the fear of nuclear weapons, greatly worsens the climate of "cultural pessimism" in the youth in Western countries. These conditions favor the spread of the so-called "rock-drug-sex counterculture" and the launching of the anti-industrial "radical environmentalist movements" among the younger generation, which are actively promoted by the Anglo-American establishment through its foundations and mass media. The 1968 student revolts become a kind of Western analogue to the "Great Cultural Revolution" in China, and create the political and cultural climate for a shift of capital away from productive activities, and into increasingly parasitical, speculative forms of investment.

By 1970, capital flight from the United States reaches $6.5 billion per year, growing to $20 billion in 1971. In Europe, there is panic dumping of dollars to buy gold. By August 1971, U.S. gold reserves fall to 25% of foreign obligations.

Aug. 15, 1971: President Richard Nixon suspends the convertibility of the U.S. dollar into gold, the first in a series of decisions which effectively put an end to the original Bretton Woods arrangements and open the way to "floating currencies."

December 1971: The "Smithsonian Agreement," among the United States, Japan, and West European countries, permits greater variation in the exchange rates among currencies. The U.S. dollar is devalued by 8%, and its rate is thereafter allowed to vary within +/–2.5%, compared to a maximum of 1% under the earlier Bretton Woods arrangements.

1971-73: Period of massive international currency and commodity speculation in the OECD countries.

Under the influence of U.S. Treasury Secretary George Shultz and others, "floating exchange rates" becomes official international policy, as affirmed by the 1972 Azores monetary conference and is further consolidated—despite warnings about the devastating consequences for the economies of developing nations and the world as a whole—at the Rambouillet Summit of 1975.

February 1973: The United States is forced to devalue the dollar by another 10% relative to gold. This does not stabilize the currency values, however. Between February and March 1973, the dollar falls by 40% against the German mark. In spring 1973, a dramatic collapse of the U.S. dollar causes currency markets to be closed for two weeks.

May 11-13, 1973: A secret meeting of the so-called Bilderberg Group at Saltsjöbaden in Sweden, including representatives of the London oil cartel and leading Anglo-American financial interests, makes plans for a 400% increase in oil prices and the recycling of oil revenues through the Anglo-American banking system.

October 1973: The "Yom Kippur War" in the Middle East, orchestrated with the help of the "pendulum diplomacy" of U.S. Secretary of State Henry Kissinger, leads to an oil blockade by the Organization of Petroleum Exporting Countries (OPEC) and, eventually, a fourfold increase in oil prices. Under "petrodollar recycling," secret arrangements are made to channel the increased flow of dollars from oil sales into the Anglo-American financial system. By 1974, some 70% of the oil income of the OPEC states (about $57 billion) is invested in foreign financial assets. About 60% of the money goes into U.S. and British banks and financial institutions. In 1975, a special OPEC meeting fixes the prevailing policy of accepting only dollars in payment for oil.

1974-76: The overall balance of payments deficit of (non-oil-producing) developing nations rises from $6 billion at the beginning of 1970, to more than $26 billion in 1974 and $42 billion in 1976. Oil money flows from the OPEC countries to Anglo-American banks, is, in turn, lent to developing countries to cover deficits due to their increased costs of imported oil. Actually, most of the money loaned to developing countries never arrives there, but is only transferred between accounts in London and New York banks.

By the end of 1975, developing countries' debt has rapidly grown to over $200 billion.

1975: G-7 economic summit in Rambouillet, France. Instead of carrying out urgent reforms of the world financial system, and eliminating the disastrous debt bubble, the participating governments agree to consolidate the system of "floating currencies" and encourage the further expansion of Third World debt.

1975: Deregulation of U.S. banking system eliminates privileged role of long-term investment credits, leading to a rapid expansion of the volume of bank credit flowing into sectors outside traditional industrial financing.

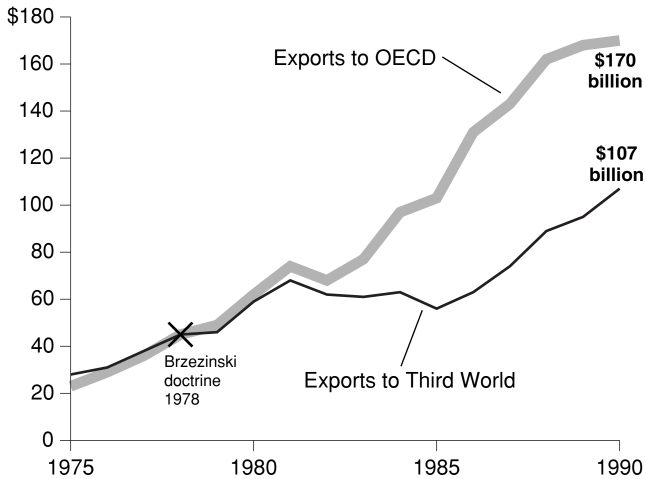
1975 is the last year the United States has a positive trade balance.

April 27, 1975: At a press conference in Bonn, Lyndon LaRouche puts forward his proposal for the reorganization of the world monetary system on a gold-reserve basis and the establishment of a new International Development Bank (IDB) to provide long-term, low-interest credit for large-scale transfer of technology and infrastructure projects in the developing countries.

Summer 1975: De facto insolvency of New York City, the largest city in the United States, which is subsequently placed under the financial dictatorship of a special state agency (the so-called Municipal Assistance Corp., or MAC). The financial collapse of New York City was made inevitable by the loss of tax revenues to the city, which in turn resulted from the collapse of industrial investment and growth of purely parasitical forms of employment. Instead of rebuilding the infrastructure and productive base of the city, a regime of austerity and looting is imposed by the so-called "Big MAC" plan to ensure debt payments.

Fall 1976: LaRouche's proposal for a debt moratorium for the developing countries, and establishment of a new inter-

FIGURE 1
Japan's exports, by geographical area
(billions $)



Source: Japan Ministry of Finance.

national development bank, gain in influence among the member nations of the Non-Aligned Movement. These proposals are discussed at the Sri Lanka summit of the non-aligned nations in August 1976, and introduced into the debate at the United Nations General Assembly by the Foreign Minister of Guyana, Frederick Wills, on Sept. 27, 1976.

November 1976: Jimmy Carter is elected President of the United States. Carter had been handpicked in advance by David Rockefeller of Chase Manhattan Bank, and promoted internationally through the Trilateral Commission (including high-level individuals from government, finance, and corporations in the United States, Western Europe, and Japan), founded by David Rockefeller in July 1973. At an April 1975 meeting of Trilateral Commission in Tokyo, David Rockefeller had introduced Carter to leading international bankers and multinational company heads as "the next President of the United States." In attendance were key British figures, including Lord Roll of Ipsden; Lord Harlech (David Ormsby-Gore), head of Barklays Bank; George Baring; and John Loudon of Royal Dutch Shell.

In the course of the following four years, the Carter administration implements a radical anti-industrial, anti-development policy both inside and outside the United States, dealing a heavy blow to the world economy as a whole. This includes: a disastrous increase in interest rates, ruining hundreds of thousands of U.S. farmers and industrial producers and drastically expanding the Third World "debt bubble"; deregulation of the U.S. financial system, as well as trucking and rail, greatly accelerating the trend toward non-productive, speculative modes of investment of financial capital; moves to destabilize Iran and other developing countries; strong measures to stop the peaceful use of nuclear energy throughout the world, and to implement a policy of "zero growth" along the lines proposed by Britain's Thomas Malthus in the 19th century and revived by the so-called Club of Rome beginning 1972.

July 31, 1977: Terrorist assassination of leading West German banker and industrialist Jürgen Ponto. Ponto, a close friend of German Chancellor Helmut Schmidt, was one of the chief promoters of the policy for developing the Third World using nuclear energy and other advanced technologies. Ponto was involved in European efforts to set up new monetary and credit institutions. Just weeks after Ponto's assassination, another prominent German industrial leader, the head of the West German Employers Union, Hanns-Martin Schleyer, is kidnapped by terrorists, and later killed.

1978: Michael Milken of the Wall Street investment company Drexel Burnham Lambert introduces "junk bonds" as instruments for speculative looting of U.S. industrial companies.

In the course of 1978, U.S. National Security Adviser Zbigniew Brzezinski repeatedly threatens Japan, demanding that Japan must stop large-scale technology transfers to developing nations. In the subsequent period, Japan's capital-goods exports to developing countries, which had been growing rapidly up to 1976-77, slow down and eventually even shrink in volume. At the same time, Japan shifts to the United States, Europe, and Australia as its main export markets (see **Figure 1**).

June 1978: Under the leadership of Chancellor Helmut Schmidt and French President Valéry Giscard d'Estaing, Germany and France decide to launch a European Monetary System (EMS), with tightly linked exchange rates, supported by a European Monetary Fund in which participating countries place 20% of their gold and foreign currency reserves. The EMS policy emerges as a clear alternative to the monetary insanity of the Carter administration and the City of London. The British strongly oppose the EMS, and try to stop or delay its implementation. After these attempts fail, Britain eventually joins the EMS bloc.

September 1978: The political party of French President Giscard proposes a $100 billion development program for Europe and Africa.

As a counter to the French-German economic development thrust, the Carter administration, together with the British, launch operations to destabilize the Middle East.

October 1978: Breakdown of negotiations between British Petroleum and the Shah of Iran on renewal of the British-Iran 25-year oil agreement.

November 1978: President Carter appoints George Ball (co-founder of the Bilderberg Group, which had plotted the first "oil shock" in 1973) to head an "Iran Commission" in the U.S. government, as part of plans to oust the Shah of Iran and to lay the ground for a new "oil shock." In January 1979, the Shah is forced to flee Iran, and the Ayatollah Khomeini comes to power.

January-February 1979: "Second oil crisis" triggered by cutback in Iranian oil production. In the course of only six years, with the help of two orchestrated crises, oil prices have been increased 13 times!

March 13, 1979: Beginning of phase one of EMS.

May 1979: Margaret Thatcher wins election as Prime Minister in Great Britain, and pledges to "drive inflation out of the economy." At that time, inflation rate in Britain is 18% per year. The Thatcher government, with official adviser Milton Friedman, pioneers ultra-monetarist policies, radical "free-market" and "free trade" liberalization, globalization, privatization, and so on, which will dominate worldwide policy in the 1980s and 1990s.

In June 1979, British Treasury Secretary Sir Geoffrey Howe raises the British interest rates from 12% to 17%, causing an unprecedented "shock" to the British economy. After 18 months of the Thatcher government, unemployment in Britain doubles, from 1.5 million to 3 million.

September 1979: Sharp collapse of the U.S. dollar, as the Saudi Arabian central bank begins to sell U.S. Treasury bonds. Gold price reaches $400 per ounce.

Oct. 6 1979: Paul Volcker is named chairman of the U.S. Federal Reserve System. Volcker immediately announces a policy of dramatically increasing interest rates "to drive inflation out of the system." At this time, according to estimates of Morgan Guaranty Trust, some 500 billion U.S. dollars are circulating "offshore," outside the United States. The Eurodollar market comprises a significant percentage of total U.S. dollars. As a result of Volcker's actions, interest rates on the Eurodollar market go, within a few weeks, from 10% to 16%, and later even to 20%.

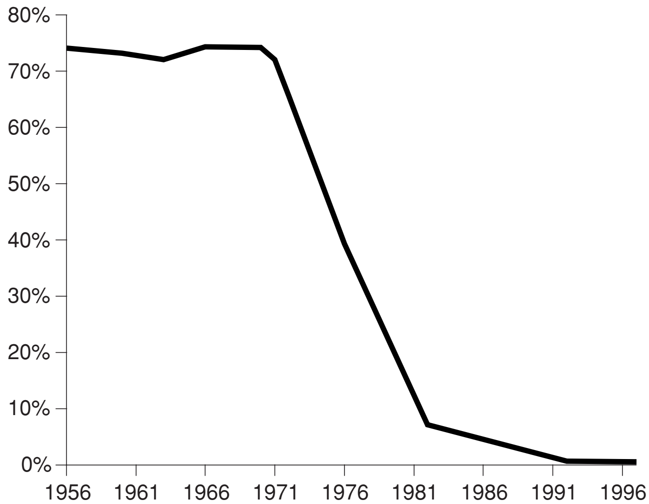
Oct. 16, 1979: Lyndon LaRouche releases the results of a computer-based analysis by his staff, forecasting a sharp collapse of U.S. industrial production, as a result of the Volcker measures. In an open letter to the U.S. Congress, on Oct. 29, LaRouche calls for the impeachment of Volcker. Unfortunately, no such action is taken. Subsequently, the LaRouche-Riemann econometric methods is uniquely accurate in forecasting and analyzing the disastrous effects of the Volcker high-interest policy.

March 1980: Carter signs "1980 Bank Deregulation and Monetary Control Act" into law. The interest rate ceiling for loans is lifted, effectively legalizing usury.

Largely as a result of "floating interest rates" on the Eurodollar market, and the policy of "rolling over" the debt by issuance of new loans, the debt of developing countries grows from less than $100 billion in 1970, to nearly $400 billion in 1979, and over $800 billion in 1982.

September 1980: Using the LaRouche-Riemann method of analysis of the economy's future capacity to produce, *EIR* forecasts a severe downturn in industrial production for 1981-82, because of the effect of Federal Reserve Chairman Volcker's policies. *EIR* is proven right, while all competing forecasts, including from Evans Econometrics, Data Resources Inc., Wharton Economic Forecast, and Chase Econometrics, prove to be wrong.

FIGURE 2
U.S. import-export trade as percentile of foreign exchange turnover



November 1980: Ronald Reagan wins the U.S. Presidential elections. The resounding defeat of Carter is largely an expression of protest in the U.S. population against the disastrous economic situation caused by the Carter administration policies. Unfortunately, the high-interest rate policy is maintained under the Reagan administration for two more years, until 1982, causing an unprecedented collapse of U.S. industrial production and a record wave of bankruptcies and takeovers of U.S. companies by foreign investors. In 1981, U.S. prime rate reaches over 21%, the highest interest rate since the Civil War (1861-65)! The policy of radical deregulation of the economy, borrowed from Great Britain's Thatcher, is pushed through, especially in the transport and financial sectors. In August 1981, Reagan puts through biggest tax cut in the postwar period, which greatly stimulates the flow of speculative and non-productive investments. At the same time, Reagan begins an attack on the trade unions. By 1982, the Teamsters union is forced to accept a wage freeze for three years, while other unions accept direct wage reductions.

In the course of 1981, world trade contracts by approximately 5%, for the first time since 1958.

Nov. 11, 1981: Poland cannot pay its debts, and applies to enter the IMF. This marks the beginning of a process of increasing IMF influence over the East European economies, eventually culminating in "shock therapy" in the former Soviet Union.

Late 1981-82: Outbreak of the Ibero-American debt crisis. As a result of the high-interest-rate policy, the debt of Ibero-America is more than $400 billion by 1982. Starting late 1981, Anglo-American banks begin an attack against the Mexican peso. In February 1982, Mexican President José López Portillo makes a dramatic speech to the Mexican nation, accusing foreign interests of organizing the attack against peso and the huge capital flight out of Mexico.

Feb. 19, 1982: The Mexican peso is devalued 30% against the U.S. dollar.

April 1982: Thatcher launches military action against Argentina in the Malvinas War. Britain's revival of "gunboat diplomacy" (with help from U.S. Secretary of Defense Caspar Weinberger) is clearly aimed not only at Argentina, but is part of a campaign to pressure Ibero-American countries into paying their debts at all costs.

May 26, 1982: President López Portillo meets Lyndon LaRouche to discuss measures to save the Mexican economy. In August 1982, LaRouche publishes *Operation Juárez,* a proposal for formation of an Ibero-American Common Market and "debtor's alliance," which could survive an economic embargo and dictate terms to the creditor banks. At the same time, LaRouche repeats his call for a return to a gold reserve world monetary system and nationalization of the U.S. Federal Reserve.

August 1982: De facto default of Mexico on payment of foreign debt.

Sept. 1, 1982: President López Portillo announces measures for currency control and nationalization of banks, including the central bank, Banco de México. In a three-hour speech to the nation, López Portillo attacks "parasitical bankers" who are destroying the nation.

Oct. 1, 1982: President López Portillo addresses the United Nations General Assembly, sharply criticizing the high interest rates and collapse of raw materials prices, and warning against a "new Dark Age." Brazilian President João Baptista de Oliveira Figueiredo voices support for López Portillo at the UN.

Unfortunately, the Ibero-American countries are split and are forced, one by one, to back down to the creditors and the IMF. The result: The Mexican peso is devalued repeatedly, from 12 to the dollar in 1982, to 862:1 in 1986, to 2,300:1 in 1989, and finally, to 3,300:1 in 1993, when the "new peso" is introduced.

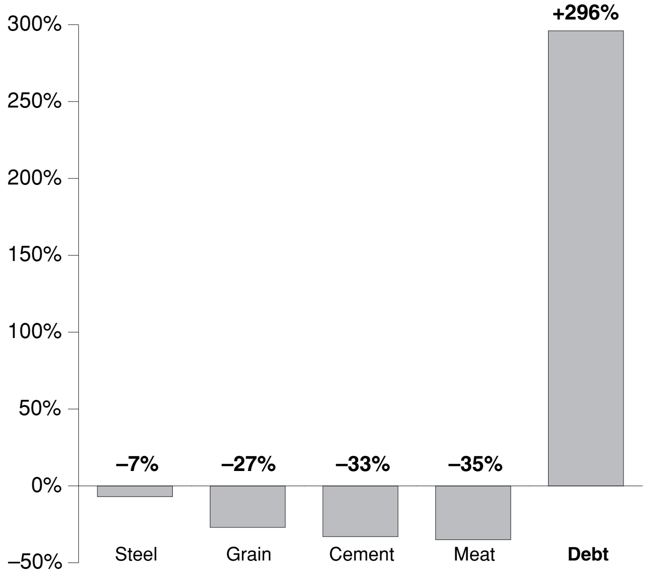
Between 1982 and 1987, total developing sector debt grows from $839 billion, to $1,300 billion (see, for example, the case of Argentina, **Figure 3**).

October 1982: U.S. Treasury Secretary Donald Regan lifts most restrictions on operations of U.S. savings and loan institutions, setting the stage for a period of "bubble growth" which leads to a major banking crisis in the second half of the 1980s. At the same time, the Reagan administration and the Federal Reserve pursue a policy of pumping enormous amounts of new liquidity into the U.S. financial system. This policy becomes known as the "Reagan recovery." By the end of 1982, the Fed has reduced interest rates seven times. Speculators can borrow money at low rates and invest it at much higher rates. New York Federal Reserve discount rates go from 12% in mid-1982, to 5.5% in August 1987.

FIGURE 3

Argentina: growth of foreign debt versus production, 1981-93

(percent change)



Sources: World Bank, ECLAC (United Nations), INDEC (Argentina).

1983: The United States becomes a net importer of capital for the first time since the Civil War. The U.S. budget deficit reaches $200 billion. Within the preceding six years, interest payments of the Federal government had more than doubled: in 1982, $52 billion; 1986, $142 billion, or 20% of the entire budget outlay.

1983: Panic run on Continental Illinois Bank signals onset of U.S. banking crisis. Government and private banks supply $11 billion in rescue funds.

During 1983, the productive sectors and living standards of Ibero-America are devastated as a result of the "conditionalities" imposed by the IMF. Mexico frees prices, and consumer prices increase 25% overnight; the Brazilian currency is devalued by 30%.

1984: For the first time, the United States has a negative balance in foreign investment. U.S. indebtedness on the capital market grows to $100 billion, twice that of the previous year.

August 1984: Renewed crisis of the Continental Illinois bank.

1985: The U.S. foreign investment balance reaches a negative $117 billion.

In the course of 1985, the banking system of the United States is hit by major failures. The S&L system in Ohio collapses, necessitating a three-day "bank holiday," and the U.S.

Farm Credit system defaults. The collapse of the U.S. S&Ls eventually wipes out an estimated total of $1,300 billion of assets.

1985: In a "reverse oil shock," OPEC prices fall from $26 per barrel in spring 1985, to below $10 at end of year, destroying smaller oil producers and causing a big shock to the economy of the Soviet Union, at this time the world's largest oil producer.

September 1985: At a meeting in New York's Plaza Hotel, the Group of Seven finance ministers agree to lower the value of the U.S. dollar against other currencies. The Plaza Accord triggers the biggest reversal on foreign exchange markets in the postwar period. Within a short time, the dollar falls by 30% against the yen and by 60% against the mark. Between 1985 and 1988, the value of the yen rose by 86% against the dollar, causing a major distortion of the Japanese economy. The Plaza Accord helped to accelerate Japan's plunge into the "bubble economy." Meanwhile, the U.S. trade deficit with Japan rose from a little more than $10 billion in 1980, to more than $55 billion in 1987.

October 1985: U.S. Treasury Secretary James Baker III convenes a meeting of representatives of the U.S. Federal Reserve and leading international banks in Washington, to discuss policy for "globalization." The World Bank and IMF are made into instruments of the globalization process, including promotion of liberal, new currency-convertibility rules, allowing foreign multinationals to quickly extract profits from national economies.

July 1986: Bankruptcy of the giant U.S. corporation LTV.

August 1986: Explosion of the Peru debt crisis, leading to sharp conflict between Peru's President Alan García and the IMF. The IMF declares Peru ineligible for loans.

Oct. 27, 1986: "Big Bang" deregulation of British stock market.

1987: The U.S. merchandise trade deficit reaches $187 billion, the biggest in U.S. history.

Feb. 20, 1987: Brazilian President José Sarney declares a debt moratorium, challenging the IMF. Unfortunately, under massive outside pressure, Brazil is soon forced to back down. On April 14, 1987, Brazilian Finance Minister Dilson Funaro, the architect of the debt moratorium, is forced to resign.

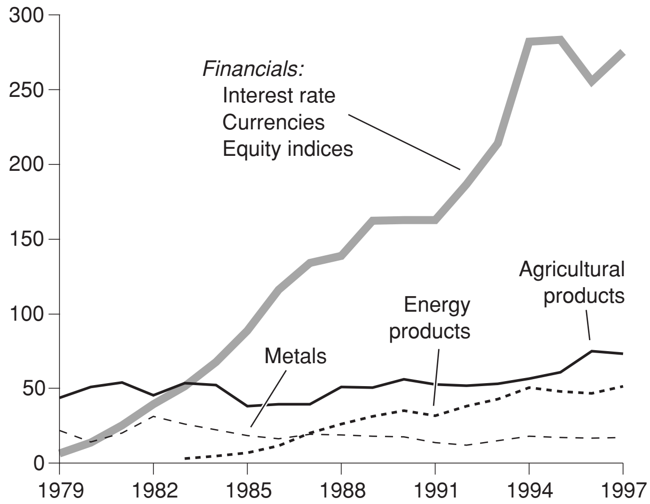
March 25, 1987: The dollar falls to an all-time low against the yen.

May 26, 1987: Lyndon LaRouche publishes a widely circulated press release entitled "Global Financial Crisis Predicted for October." His forecast is confirmed by subsequent events.

June 29, 1987: The big U.S. machinery company Allis-Chalmers goes bankrupt, part of a continuing process of disintegration of the U.S. industrial base.

July 14, 1987: Peru is hit by a massive capital flight, driving down the national currency. On July 28, President García announces exchange controls and nationalization of the banks, and declares that Peru will not spend more than 10% of its export income to pay the foreign debt. Eventually, however, Peru is forced to capitulate to the IMF.

FIGURE 4
Financials dominate futures markets
(millions of contracts traded)



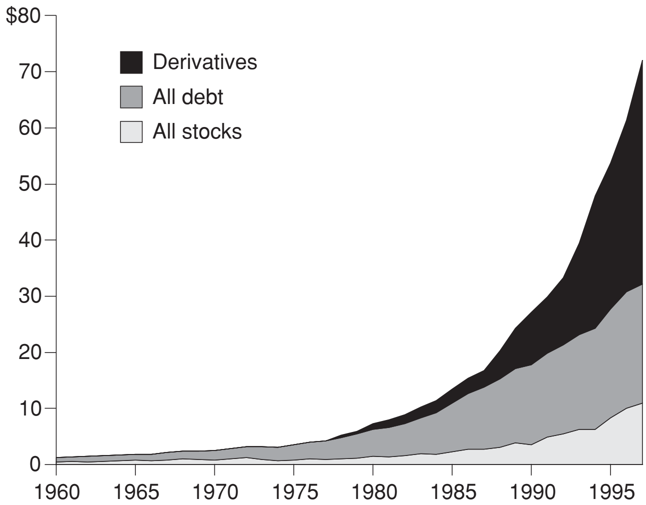
Oct. 19, 1987: On "Black Monday," the New York Dow Jones Industrial Average collapses by 508 points, the largest fall in history. Between Aug. 25 and Oct. 19, an estimated $1.5-2 trillion of financial assets are wiped out by the collapse of U.S. markets.

Subsequently, the Anglo-American financial establishment increases its pressure on Japan to pump money into the U.S. financial system. In the period following the October crash, the Japanese central bank continuously reduces its interest rates, encouraging money to flow into U.S. bonds and financial markets. This contributes significantly to holding the dollar stable through the 1988 U.S. election year. At the same time, the derivatives bubble begins to grow exponentially (**Figures 4** and **5**).

Oct. 12, 1988: At a press conference in Berlin, LaRouche forecasts the collapse of the Soviet Union and the imminent reunification of Germany. LaRouche calls for reunified Germany to play a central role in rebuilding the economies of the Eastern European nations. Later that year, LaRouche formulates the policy for building up high-speed rail "corridors" connecting East and West Europe, to make the industrially dense regions of Europe into the locomotive of a world economic recovery. This policy is circulated throughout the world in a series of documents and a book-length program entitled "The Productive Triangle: Paris-Berlin-Vienna" (1990).

March 17, 1988: Failure of the First Republic Bank of Texas, one of the largest banks in that state. The bank is

FIGURE 5
Hyperbolic growth of the U.S. financial aggregate
(trillions $)



temporarily saved by an injection of $1 billion from the U.S. Federal Deposit Insurance Corp. The rescue attempt fails, however. On July 1988, First Republic Bank becomes officially insolvent, leading to the largest bank liquidation in U.S. history.

Oct. 20, 1988: The largest corporate takeover in U.S. history marks a high point in the bubble of so-called "leveraged buy-outs" (LBOs) on Wall Street. The RJR-Nabisco LBO involves stock repurchases of $17 billion. Later, in 1989, the chain of debt created in connection with the RJR-Nabisco LBO scheme leads to the collapse of the LBO bubble.

November 1988: George Bush is elected U.S. President.

1989: According to Japan's Ministry of Finance, 70% of Japan's trade surplus worldwide is with the United States.

During 1989 and following, the collapse of the real estate markets in the United States accelerates. U.S. bank loans to real estate reaches $884 billion at the beginning of 1990, making up 25% of all bank assets. During the eight years of the Reagan administration, nearly $1 trillion flows into various forms of real estate speculation, and the total amount of private and public debt nearly triples, from $3.873 trillion, to nearly $10 trillion. At the same time, a construction industry study shows that the United States has a $3.3 trillion deficit in maintenance of basic infrastructure. Roughly 37 million Americans have no health insurance. Already in late 1989, the real estate market in the United States begins to collapse, leading to the savings and loans banking crisis of the early 1990s.

A survey by the IMF (published in 1990) warns about the dramatic increase in indebtedness in the U.S. economy. During 1953-80 the total debt—government, corporate, and personal—as a ratio of income, maintains a nearly constant level of $1.36 of debt per $1 of GNP. By March 31, 1989, the level had grown to $1.80 in debt per $1 GNP, greater than any U.S. debt level recorded in the 20th century, except for the Depression years of 1932-33. During the 1950s and 1960s, U.S. companies spent an average of 16% of pre-tax earnings on interest amortization. By the 1980s, this had increased to 56%.

March 10, 1989: U.S. Treasury Secretary Nicholas Brady announces a comprehensive plan for reorganization of Ibero-American debts. To support the debt-refinancing effort, Japan is pushed to put more money into the IMF, and is rewarded by upgraded status in the IMF and World Bank. As a condition for IMF guarantees on a new series of bonds and other debt-refinancing instruments, the Ibero-American nations are forced to carry out radical liberalization of their economies and financial systems. Mexico agrees to the "Brady Plan" in February 1990. Venezuela's President Carlos Andrés Pérez floats the national currency and lifts price controls, leading rapidly to a doubling of food prices.

April 7-11, 1989: GATT meetings in Geneva ratify a "market-oriented system of agricultural trade." In effect, the GATT policy increasingly undermines the basis for national food security, by preventing governments from using "protectionist measures" to support their domestic farm producers, and making nations increasingly dependent on food imports.

April 28, 1989: U.S. Special Trade Representative Carla Hills releases a report outlining a plan to impose massive pressure against trade partners using the so-called "Super 301" trading clause of the "Omnibus Trade and Competitiveness Act" passed by the U.S. Congress in 1988.

May 18, 1989: General strike in Venezuela against the IMF-dictated austerity policy of President Pérez.

September 1989: Harvard Prof. Jeffrey Sachs, a promoter of "shock therapy," becomes an adviser to Prime Minister Tadeusz Mazowiecki's government in Poland. One of the earliest measures is to eliminate food price subsidies, leading rapidly to a 500% price increase for many basic foods.

Sept. 13-15, 1989: The giant U.S.-Canadian retail sales corporation Campeau defaults on $450 million of interest payments, beginning a collapse of the $220 billion bubble of "junk bonds."

Oct. 13, 1989: Major crash on the New York stock market.

Nov. 9-10, 1989: Fall of Berlin Wall dividing East and West Germany. London sounds the alarm, warning against the economic power of a reunified Germany and the potential of an alliance between Germany and east European countries to rebuild the eastern European economies. British commentators warn against a revival of the economic theories of Friedrich List in Germany and eastern Europe—theories which they admit have proven superior to Adam Smith in the development of the industrial economies of Germany, the United

States, and Japan.

Nov. 29, 1989: Alfred Herrhausen, head of the largest German bank, Deutsche Bank, is assassinated, allegedly by terrorists. In the weeks before his death, Herrhausen had strongly criticized the destructive policies of the IMF and called for the establishment of special development banks for eastern European countries, on the model of the German state bank, Kreditanstalt für Wiederaufbau, which financed that nation's postwar reconstruction.

Jan. 1, 1990: Yugoslavian government submits to IMF "shock therapy" policy as proposed by Jeffrey Sachs: the Yugoslav currency is made freely convertible, credit issuance to the economy is cut, and price controls are eliminated, while salaries are frozen at the levels of November 1989. The price for reducing inflation is a 30% collapse of industrial production and mass unemployment. This economic disaster helped create the preconditions for the outbreak of the Yugoslav war in summer 1991.

Early 1990: Wave of failures and bankruptcies among big American financial institutions and transport corporations. These include the real estate giant Campeau (official bankruptcy on Jan. 18, 1990); the investment house Drexel Burnham Lambert, which had pioneered the speculative leveraged buy-outs (bankrupt Feb. 13, 1990); closing down of Greyhound Bus Co., Continental Airlines, TWA, and Pan American Airlines; Citibank and six other big banks in United States are technically bankrupt, but are kept afloat by the Federal Reserve, which continues to pump masses of money into the banking system.

March 13, 1990: Mikhail Gorbachov is named President of the U.S.S.R.

July 1, 1990: Currency union of East and West Germany. Under the terms of the union, the debts of state enterprises under the East German socialist system, which had an artificial character, are converted unchanged into "true" debts, which are taken over by Western banks at a fraction of their value. This results in a completely unnecessary debt burden on East German local governments and enterprises, many of which are bankrupted in the following years.

Under massive pressure from the British and French, and the Bush administration in the United States, the German government under Chancellor Helmut Kohl embraces radical neo-liberal economic policies toward eastern Europe. This includes applying a form of "shock therapy" to eastern Germany itself, in which, instead of modernizing and expanding industry, most of the industry is simply shut down. Between 1990 and 1993, industrial employment in eastern Germany is reduced by two-thirds. By the end of 1997, the official

Why financial bubbles must collapse

Among government officials, economists, and other leading professionals around the world, there is little disagreement concerning the existence of a gigantic speculative bubble on the world financial markets. However, in countless discussions on this topic the author and his colleagues have often been asked: "Why are you so sure that the bubble will collapse the whole system? Why couldn't it *just keep growing,* despite momentary setbacks, as it seems to have done for so long? After all, some famous experts consider that the remarkable performance of the U.S. economy in recent years, including the spectacular rise of the New York stock market, means that a fundamentally new type of economy has been created, a 'new economy,' characterized by permanent growth of financial markets."

This type of question shows that many people, among them professional economists, have not fully grasped the inseparable connection between the hyperbolic growth of financial assets on world financial markets, and a systematic destruction of the physical, productive base of the world economy, illustrated by Lyndon LaRouche's "Triple Curve" (**Figure 6**). In order to help remedy this gap in understanding, the author invented the following simple pedagogical device, in the form of a paradox:

Everyone knows that food production occurs in cycles of planting and harvesting. In the planting season, farmers must purchase seeds and various other kinds of supplies and equipment, which require relatively large expenditures that are only recovered after the harvest. Now suppose that the stock market and other financial markets in the country are rapidly growing, due to an inflow of funds from the outside (from foreign speculators, for example, or as a result of flight capital coming in from other countries whose economies are collapsing). Investing into the stock market promises a much, much greater rate of return, than the farmer could ever hope to obtain from agricultural production. (In fact, due to the collapse of farm prices, farmers in many places are actually losing money.) So, the farmer takes the money he would normally have used to buy seeds and other necessary supplies in the planting season, and invests it into the stock market instead. Now suppose *all* farmers do that. The flood of investment pushes the stock market to unprecedented levels, as the whole population pours their resources into the bubble. Unprecedented wealth is created—on paper. Unfortunately, when the harvest season comes, there is no food. Soon, nobody is alive to enjoy their stock market gains.

—*Jonathan Tennenbaum*

unemployment level has risen to more than 20%. Later, the unemployment wave spreads to West Germany.

July 7, 1990: G-7 summit in Houston agrees to place Soviet Union reform under IMF control.

Jan. 7, 1991: U.S. government takes control of a large bank in the northeast United States, the Bank of New England, after huge injections of government money fail to stabilize the bank.

Jan. 16-17, 1991: Beginning of the massive U.S.-led aerial bombardment of Iraq. The Gulf War is orchestrated mainly by the British, through the strong influence of Thatcher on Bush; although the military campaign is nominally directed against Saddam Hussein, the deeper, geostrategic aim is to contain Germany and destroy the perspective of a powerful economic development process in Eurasia.

April 1991: Karsten Rohweder, another key German industrial leader and promoter of industrial development in the East, is assassinated. Rohweder, the head of the state holding company in charge of reforming East German industry, is shot by a sniper through the window of his house. Rohweder had strongly opposed the radical "shock therapy" applied to enterprises in East Germany, and placed the highest priority on rebuilding and modernizing industry. Rohweder's successor, Breul, pushes forward a radical "free market privatization" policy, leading to the virtual de-industrialization of eastern Germany.

April 11, 1991: California officials take control of Executive Life Insurance Co., with liabilities of $49 billion. This is the largest insurance company failure in U.S. history.

August-September 1991: After the failed putsch of Aug. 19 against Gorbachov, the Soviet Union is dissolved. Russia, Ukraine, and other former Soviet republics declare their independence. Unfortunately, the governments of the newly independent states of the former U.S.S.R. subsequently agree to the conditions laid down at the IMF conference in Bangkok in mid-October 1991, which open the door to the disaster of "shock therapy" and make successful economic reform virtually impossible.

Late 1991: Huge layoffs by U.S. industrial corporations mark the acceleration of a process which comes to be known as "downsizing" (reducing labor force, concentrating only on the most profitable, not the most productive, operations) and "outsourcing" (transfer of production to foreign countries with cheap labor). Parallel with the downsizing process, the U.S. commodity trade deficit increases sharply, reaching $175 billion by 1995.

November 1991: Major collapse in the $60 billion U.S. market of securities based on credit card sales.

January 1992: In Russia, the lifting of price controls, as part of the Jeffrey Sachs-Yegor Gaidar "shock therapy" program, leads to enormous price increases in food and other basic commodities. During 1992, Russia and Ukraine are devastated by hyperinflation and capital flight. The so-called "criminal privatization" leads to a massive transfer of assets to a tiny, corrupt elite of super-rich "New Russians" and foreign interests.

Jan. 3, 1992: In testimony to the Banking Committee of the U.S. House of Representatives, the head of the Congressional General Accounting Office states: "Not since the 1930s has the banking sector been in such a serious condition as now."

February 1992: Major crisis of the insurance company Lloyds of London. Lloyds is forced to raise an additional $3.6 billion to cover financial losses.

February 1992: The Maastricht Treaty is signed for creating the European Currency Union. Far from constituting a positive alternative to the collapse of the world financial system, the Maastricht Treaty is based on radical monetarist doctrines, imposing a regime of drastic austerity and virtually eliminating national sovereignty in the economic domain. The Maastricht "conditionalities" are a new wave of mass unemployment in Europe.

March 22, 1992: Insolvency of Olympia & York, the largest real estate company in North America. On May 15, 1992, Olympia & York officially declares bankruptcy in the United States and Canada.

Sept. 16-20, 1992: The European Monetary System breaks down, under sharp attacks by speculators. Between June and December, European central banks spend DM 188 billion to defend currencies. The Italian lira and British pound are forced to break out of the EMS, and the French franc is also hit hard. A leading role in the attack against the EMS is played by the speculator George Soros, whose Quantum Fund is based in the offshore financial center of the Netherlands Antilles.

It is later revealed, that the attack against the lira, and its resulting devaluation by 30%, had been planned and prepared at a secret meeting on June 2, 1992 on the royal yacht of British Queen Elizabeth II as it was anchored off the coast of Italy. Participating in the meeting were high-level representatives of international finance, including S.G. Warburg Bank and Barings Bank, together with officials of the Italian Finance Ministry. Part of the goal of the operation, was to create favorable conditions for a large-scale privatization of Italian state industries. In October 1995, collaborators of Lyndon LaRouche in Italy submit a formal legal brief against Soros to Italian courts, charging that his huge profits in speculation against the lira and other currencies were based on illegal manipulation and exploitation of confidential information.

Spring 1993: Italy's second largest industrial group, Ferruzzi, collapses and is taken over by creditor banks. This is one of the largest corporate bankruptcies in history, and is linked to losses in derivatives trading. The president of the Ferruzzi group commits suicide.

June 1993: The chairman of the U.S. House Banking Committee, Rep. Henry Gonzalez (D-Tex.), calls for an official investigation of Soros. *EIR* presents information to the committee.

Fall 1993: Second phase of EMS crisis. The narrow band of European Union currencies is broken again, under massive attack from speculators. The French central bank uses up nearly its entire reserves in the effort to defend the franc. European Commission (EC) President Jacques Delors sharply condemns the activities of "Anglo-Saxon currency speculators," and calls for currency controls. Meanwhile, western Europe is hit by mass unemployment.

Aug. 2, 1993: Nobel Prize-winning French economist Maurice Allais warns in an article in the daily paper *Libération:* "The entire West is now in a fundamentally unstable financial situation. Poorly considered decisions could bring the whole world into a collapse, compared to which the stock market crisis of 1987 will seem negligible, and which could be comparable to the Great Depression." Allais warns that "perverse effects of unrestricted currency exchanges are very much underestimated." Referring to the speculative attacks against the EMS, Allais writes: "In the immediate term, only European Community exchange controls would give us the means to temporarily deal with the situation. . . . In fact, no measure that would permit the speculators to succeed, and to enrich themselves, is acceptable. . . . The current attack against the EMS, the only coherent monetary organization in the world, is based on gigantic disinformation. It is animated, supported and orchestrated in an incredible way by financial interests, whose origin governments should investigate."

Aug. 12, 1993: In a French TV interview, Prime Minister Edouard Balladur condemns the speculative attacks against the EMS, saying, "We must reform our world monetary, financial, and credit system, and act to protect the prosperity of nations from purely speculative activities. This is an economic and moral duty of all civilized nations. There are, all over the world, a group of speculators who would like a situation in which all the currencies of the world would float as much as possible. . . . We cannot agree to have billions and billions [of dollars] change direction in a quarter of a second and threaten the prosperity of a country." In the ensuing period, a violent debate breaks out in Europe on the issue of currency controls. Unfortunately, no decisive action is taken.

September 1993: The Shadow Open Market Committee, an influential private group of U.S. economists, sharply criticizes the low-interest-rate policy of the U.S. Federal Reserve, pointing out that it is causing an enormous flood of money into an "asset price bubble" on the financial markets.

Sept. 13, 1993: Historic peace agreement reached between Israel's Yitzhak Rabin-Shimon Peres government and the Palestinians under Yasser Arafat. A crucial feature of the agreement, elaborated in an annex to the signed document, is the plan to engage in joint projects for economic development, including water and transport projects. Unfortunately, much of the promised financial support for economic development of Palestinian areas fails to materialize. The World Bank plays a very negative role in this context; while trying to control the flow of development aid into the region, the World Bank rejects the approach of large-scale infrastructure projects and agro-industrial development, and insists instead on developing tourism and financial centers. In an interview, Foreign Minister Peres complains about the World Bank's foot-dragging and bureaucratic delays: "The World Bank . . . is a cumbersome, slow-working body and it will take years before we see any aid." The delay and sabotage of infrastructure and other development projects greatly aggravates the social and political situation in the Palestinian areas, threatening to destroy the peace agreement. Two years later, Middle East peace is nearly doomed by the assassination of Prime Minister Rabin on Nov. 4, 1995.

Sept. 16, 1993: In a heated debate in the European Parliament, EC President Jacques Delors attacks currency speculation, stating, "I don't see why, on the international level, we should not be studying ways to limit capital movements." Delors raises the possibility of invoking special EC laws to protect against speculation and reintroduce some form of capital controls in Europe. Delors is angrily attacked by officials of the British Treasury, who reject any form of currency control.

September 1993: In a series of public statements, the chairman and leading board members of Deutsche Bank defend the expansion of the financial derivatives market, rejecting warnings that a dangerous bubble has been created. These statements reflect the profound change in policy in Deutsche Bank, which occurred following the assassination of its chairman, Alfred Herrhausen, in November 1989. Deutsche Bank quickly abandons the German tradition of long-term industry-oriented banking, and embraces the "British model," oriented toward purely financial gains. Meanwhile, European countries experience mass protests by farmers and industrial workers over the collapse of real incomes, including a demonstration of 120,000 construction workers in Berlin, a one-day general strike by 1 million workers in Italy, and a major strike wave in France.

Oct. 4, 1993: On the orders of Russian President Boris Yeltsin, troops of the Interior Ministry, using tanks and other heavy weapons, open fire on the Russian Parliament building, thereby ending weeks of disagreements between the President and the Parliament by force. Most of the Western press hails this event as a "victory for democracy," ignoring the fact that 1) the storming of the Parliament put an end to Russia's short experiment with parliamentary constitutional government, effectively giving the President absolute, dictatorial powers; 2) although political motives were involved on both sides, the opposition in the Parliament against the "shock therapy" also reflected the real economic disaster going on in the country. During the first six months of 1993, consumer prices in Russia increased by 344%, while industrial production dropped by 18%.

October 1993: House Banking Committee Chairman Rep. Henry Gonzalez holds hearings on the dangers of financial derivatives. An expert from *EIR* is invited to testify. Unfortunately, no significant action to limit derivatives is taken.

Oct. 29, 1993: A "White Book" on employment and economic growth, prepared by the EC under Delors, is presented to the European heads of state. With unemployment in the European Community reaching 20 million, the White Book calls for large-scale projects in the field of infrastructure (especially transport and communications), as a means to provide additional employment and improve the efficiency of the European economy. Later, at the Pan-European Transport Conference on March 14-16, 1994, the Delors proposal is concretized to include a plan to accelerate and expand the construction of a European high-speed rail system. Echoing the LaRouche "Productive Triangle" proposal of 1988-90, the European transport ministers propose developing "infrastructure corridors" linking western Europe with eastern Europe to Moscow and beyond. Unfortunately, the realization of this plan is blocked by British opposition against the Delors plan, and especially against Delors's proposal to provide additional financing for the projects through new credit mechanisms involving the European Investment Bank and European Investment Fund.

November 1993-January 1994: French economist Maurice Allais publishes several articles in leading French newspapers, sharply criticizing the policies of radical "free trade," financial liberalization, and "globalization," promoted by the World Bank and IMF. "A gigantic accumulation of debt is eating away at the core of the world economy," Allais writes in France's newspaper *Le Figaro* on Nov. 29. "The pursuit of global liberalization of the exchange markets . . . [is] at minimum adventurous, and in reality very dangerous." Allais also publishes a devastating critique of the official World Bank-Organization for Economic Cooperation and Development (OECD) study on "Trade Liberalization: Global Economic Implications," which predicted beneficial effects of "globalization" to European and other economies. Allais characterizes the methodology of the study as "pseudo-scientific" and "totally erroneous." "The same men at the World Bank, OECD, and GATT who hold out the prospect of an increase in wealth of $213 billion per year [as a result of globalization] by the year 2002, remain absolutely silent about the financial flows amounting to an average $1.1 trillion per day, 40 times more than the amounts corresponding to trade payments. These financial flows totally destabilize foreign exchange markets and make it impossible to apply trade agreements in any reasonable way. The fact that experts from such leading institutions practice such disinformation, consciously or unconsciously, is unbelievable."

December 1993: World oil markets experience the most dramatic price drop since 1986.

Late December 1993: One of Germany's most famous companies, Metallgesellschaft (MG), suffers losses of more than $2 billion in the derivatives market. The losses were incurred by a New York subsidiary of MG in connection with speculative futures contracts in oil.

Dec. 30, 1993: In a sudden and unexpected move, the fourth largest bank in Spain, Banco Español de Crédito (Banesto), is taken over by the Spanish Central Bank. Economics Minister Pedro Solbes informs the Parliament that the emergency government takeover and reorganization of Banesto is necessary in order to prevent a crisis "of the entire banking sector." Spanish banking officials estimate that $3.5 billion in state assistance would be necessary to rescue the bank, which had been involved in high-risk speculation in derivatives. Banesto is partly controlled by the J.P. Morgan bank of New York.

During 1994, the Federal Reserve begins to raise interest rates, helping to trigger a new wave of financial crises. Going into spring 1994, a major collapse is striking the "emerging markets" in developing countries, particularly in Ibero-America.

Jan. 14, 1994: The second largest bank in Venezuela, Banco Latino, is closed down by the government in connection with huge losses in speculative operations.

March 1994: It is made known that the French state-owned bank Crédit Lyonnais will receive a guarantee of 40 billion French francs to cover bad loans, mostly in the real estate sector. Crédit Lyonnais played a leading role in building up a huge real estate "bubble" in France during the 1980s.

April 10-20 1994: The securities trading subsidiary of the Swedish state-owned bank Nordbanken suffers enormous losses in interest-rate futures speculation, amounting to more than twice its entire capital base.

Spring 1994: Since January 1994, stock market values collapse 30-50% in Ibero-America. Mexico and Venezuela are especially hard hit. Many other markets around the world experience hefty falls in stock prices.

May 12, 1994: Speaking to "EIR Talks," regarding turbulence on the global financial markets, Lyndon LaRouche comments that what Maurice Allais is saying about the financial bubble and the "casino" type of economy, is absolutely accurate, as far as he goes. "What Allais failed to address, and what must be dealt with more than anything . . . is something that the average person in the street does not wish to believe is what is about to occur. . . . What is inevitable is a *complete breakdown* of the entire IMF-dominated, Federal Reserve-dominated, global financial and monetary system. There is nothing that can be done to stop that system from collapsing, unless we shut it down earlier.

"When the breakdown comes . . . we're going to have to start from scratch and build a new monetary system, a new banking system, and a new credit system generally. The United States government has some experience with that, beginning with our first Federal government under George Washington, when we took a bankrupt United States, with a bankrupt credit system, virtually no banking system worth mentioning, no currency worth mentioning; and within a short time, under George Washington and Alexander Hamilton, we were on the way to being, relatively, the richest and most powerful nation on the planet. So we've done that before, we could do it again. . . .

"Once the citizen realizes that the ship *Titanic* is sinking, the citizen is going to start doing some intelligent thinking about lifeboats, instead of trying to get a better stateroom on the sinking ship."

June 24, 1994: LaRouche publishes his famous "Ninth Forecast" in *EIR* ("The Coming Disintegration of the Financial Markets"), warning that "the presently existing global financial and monetary system will disintegrate. . . . The collapse is inevitable because it could not be stopped now by anything, except a politically improbable decision by leading governments to put the relevant financial and monetary institutions into bankruptcy reorganization."

June 16, 1994: Germany is hit by a major financial scandal, involving losses estimated at $2 billion by the firm Balsam AG and the export financing company Procedo.

June 22, 1994: The London government bond market suffers the sharpest drop since 1914. Roland Leuschel, the chief economist of the Banque Bruxelles Lambert in Belgium, writes in the British *Daily Telegraph:* "The countdown to the crash has begun. . . . We are paying the price today for the creation, during the past two years, especially in the United States, of the biggest financial bubble in human history."

June 1994: Before retiring as president of the EC, Jacques Delors sharply criticizes "the brutal and purist neo-liberal ideology" which ignores "the idea of the public good." Delors condemns the opposition of the British, Dutch, and German finance ministers to large public infrastructure projects. Delors in turn is attacked by former London *Times* editor Lord William Rees-Mogg, who calls the Delors infrastructure plan "insane," and warns that it "would push up European interest rates and cause a panic in the European bond markets." Lord Rees-Mogg expresses the hope, that the radical environmentalist movement will mobilize to stop infrastructure projects.

June-July 1994: Extraordinary instability on the world financial markets, sparked by a sharp decrease in government bond prices in all major European and North American markets. In Venezuela, President Rafael Caldera announces emergency foreign exchange controls to defend Venezuela from financial collapse. On June 30, the Venezuelan government creates an Emergency Financial Council, through which "the state will assume operational control of the national financial system."

August 1994: Russia's biggest private investment firm, the MMM company, collapses, causing millions of small investors to lose money.

August 1994: After a few weeks of calm, instability breaks out again on the international financial markets, connected with new increases in interest rates.

Sept. 9, 1994: The prominent British politician and financial expert Denis Healy proposes to impose a tax on financial derivatives speculation, warning that derivatives speculation poses a "systemic risk" to the stability of the world financial system. Healy is denounced in the financial press.

Dec. 6, 1994: The official bankruptcy of the richest county in the United States, Orange County, California, occurs as a result of an estimated $3 billion in losses incurred when the local government invested in derivatives contracts. Prior to the sudden losses, Orange County had been hailed in the United States as a "model" for how to expand income by investing tax revenues into speculative financial markets.

Dec. 20, 1994: The Mexican financial crisis explodes with the catastrophic collapse of the Mexican peso and the immediate threat of a default on Mexico's foreign debt. During the second week of January 1995, the Mexican crisis spills over into all of Ibero-America, causing currency and stock markets to plunge, especially in Brazil, Argentina, and Chile.

Jan. 20, 1995: Roland Leuschel, at Banque Bruxelles Lambert, warns of new financial turmoil. The scale of speculation is so large, he writes, "that no central bank and no government can control it. . . . There are no miracles. Bubbles inevitably burst sooner or later."

Jan. 12, 1995: The U.S. government and Federal Reserve announce that they will make $40 billion in credit guarantees available to Mexico, to stabilize the nation's financial markets. Since Jan. 1, a total of $60 billion in "stand-by" credit facilities has been provided to Mexico. In spite of the unprecedented scale of financial assistance, Mexico nearly goes into default at the end of January 1995. The default is prevented only after the IMF puts up $17.8 billion of its own resources. Meanwhile, Asian financial markets suffer sharp declines.

On Feb. 2, IMF Managing Director Michel Camdessus says, "Mexico was in imminent danger of having to resort to exchange controls. Had that happened, it would have triggered a true world catastrophe." Camdessus warns that Mexico-like crises could occur in 10 other countries.

Feb. 25-26, 1995: The British bank Barings goes bankrupt, in spite of urgent efforts to save it by the Bank of England. The immediate cause of the Barings bankruptcy is losses of $1 billion in derivatives speculation.

April 18, 1995: In a press release, LaRouche warns that the financial and political system of Japan is being pushed toward the point of breakdown, by the refusal of the U.S. government to acknowledge the severity of the global financial crisis. He writes: "Although many economists, such as France's Maurice Allais, have warned of the danger inhering in the ballooning bubble of the derivatives speculation . . . I am the only known economist internationally who has accurately described the process of cancer-like inevitability of the ongoing systemic collapse of the international monetary and financial system as a whole."

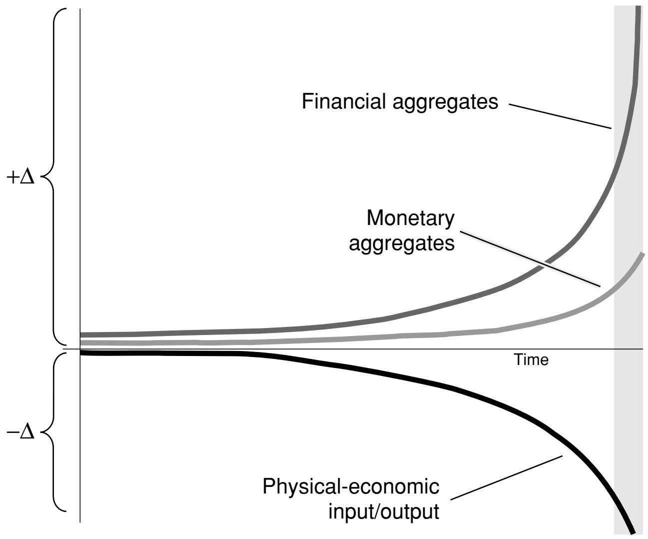
May 1995: After more than a year of heavy losses, eventually forcing it to close down its trading in Eurobonds, the famous British bank S.G. Warburg is taken over by the Schweizer Bankverein of Switzerland.

June 8, 1995: The Japanese Finance Ministry publicly admits that bad loans held by Japanese banks exceed $471 billion. The real figure of bad debts in Japan's banking system is estimated by leading international experts at more than $1 trillion. More and more signs point to a coming "meltdown" of Japan's financial system. Later it is revealed, that in the course of 1995, a secret agreement was made between the Japanese and U.S. governments, for the United States to provide up to $500 billion in emergency credit to stabilize the Japanese banking system, in case a chain-reaction of bank failures were to occur which might threaten the whole world financial system.

June 15, 1995: The Group of Seven economic summit in Halifax, Canada decides in favor of a policy of "reflationary crisis management," in an attempt to prop up the financial bubble at all costs. During July 1995, leading central banks begin to lower interests rates, and to pump new money into the financial system on an unprecedented scale. Japan plays a crucial role in this process. In accordance with the policy agreed in Halifax, the Japanese central bank lowers interest rates step by step, all the way down to 0.5%, flooding the international markets with cheap liquidity. This leads to a purely artificial growth of stock market values in Asia, Europe, and the United States—a phenomenon referred to by U.S. Federal Reserve Bank Chairman Alan Greenspan and others as "financial asset price inflation." At the same time, the international market of off-balance-sheet derivatives grows at an exponential rate.

December 1995: In articles and public speeches, LaRouche introduces his "triple curve," to explain the mechanism leading to the disintegration of the world financial system (**Figure 6**).

FIGURE 6
A typical collapse function



LaRouche's "triple curve" schematic shows how the hyperbolic growth of financial and monetary aggregates ("the bubble") proceeds at the expense of the physical economy, until a point of blowout is reached.

Aug. 21, 1995: Japan's second-largest credit union, the Kizu Shinyo Kumiai, goes bankrupt. Also, at the end of August, the Hyogo bank fails, in Japan's first bank failure in the postwar period. Growing anxiety about the private banks causes the Japanese population to withdraw enormous amounts of money out of the private banking system, and place it into the government-owned Postal Bank.

Many signs point to the fact, that high-level investors connected to British and other oligarchical interests, have begun to quietly pull money out of the stock markets and other financial markets, and to invest instead into precious metals and other "hard commodities." Anticipating a possible collapse of the entire financial system, these circles grab strategic raw materials, in order to have a controlling influence on the world economy in the future.

Feb. 8, 1996: The leading U.S. mouthpiece of the Anglo-American oligarchy, the New York Council on Foreign Relations (CFR), publishes an article hysterically denying the possibility of major financial crises. The article, published in the magazine *Foreign Affairs,* is entitled "Shockproof: The End of Financial Crisis." The author, CFR Director of Studies Ethan Kapstein, claims that "we have found a way to contain crises." "Over the past 20 years, the leading economic powers have created a regulatory structure that has permitted the financial markets to continue toward globalization without the threat of systemic collapse. . . . The financial difficulties of 1995 point to the strength, not the weakness, of the international regulatory structures." Kapstein's article is seen as a direct answer to the growing influence of LaRouche's analysis and policies.

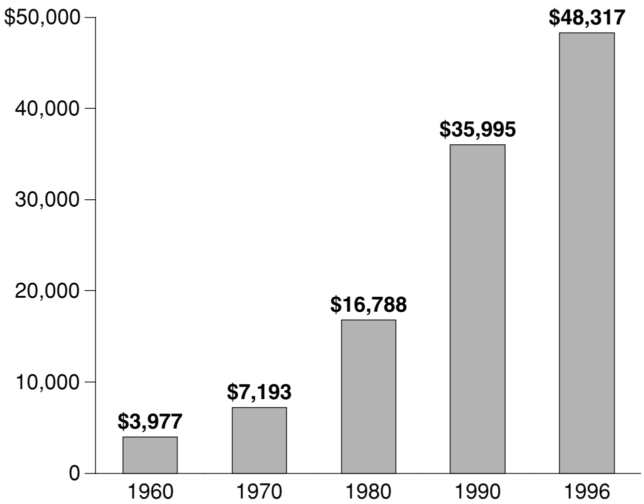
In 1996, the United States suffers the highest level of personal bankruptcies in its history, 1.125 million, or more than 1% of all households in the United States. This is four times the level of 1980. According to figures released by the Federal Reserve Board, the household debt of U.S. families reached $4.875 trillion by the end of 1996—an average of $48,317 per household, with an average yearly interest payment of $9,274 per year. This corresponds to a doubling of the ratio of debt to income for the average American worker since 1980 (**Figure 7**).

Meanwhile, a wave of giant bank mergers occurs during 1996: the merger of Mitsubishi and Bank of Tokyo ($648 billion), and Swiss Bank Corp. and Union Bank of Switzerland ($640 billion). And, there are major mergers in the U.S. banking system, including NationsBank ($290 billion) and First Union ($204 billion).

June 1996: The financial world is shaken by the announcement of huge derivatives trading losses by Japan's Sumitomo Corp., estimated at $2-4 billion.

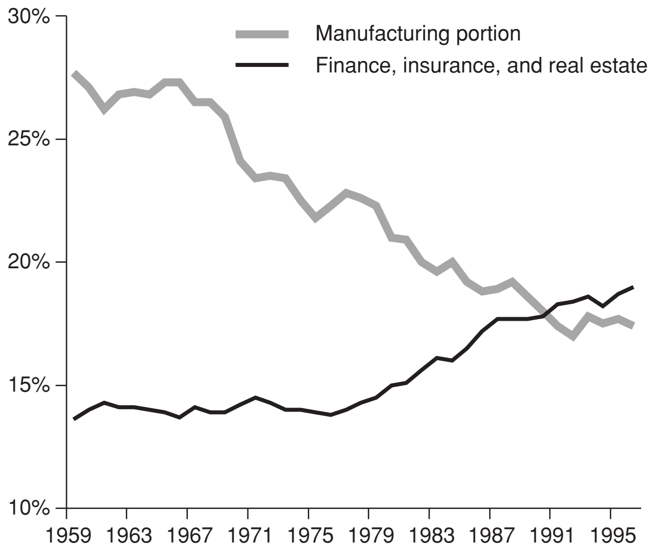
Feb. 15, 1997: At a conference in Washington entitled "Toward a New Bretton Woods," Helga Zepp-LaRouche and Ukrainian Member of Parliament Dr. Natalya Vitrenko issue a call to President Clinton to convene a New Bretton Woods

FIGURE 7
Household debt per U.S. household
(dollars)



Source: Federal Reserve Board, "Flow of Funds Accounts," "Household Table," various years.

FIGURE 8
GDP, by component: manufacturing vs. finance, insurance, and real estate



conference.

January-August 1997: The "asset price inflation" on the major stock markets reaches unprecedented levels. The New York Stock Exchange rises from 6,500 to more than 8,000 points in eight months. Over 40% of American families are investing in the stock market.

March 3, 1997: Thailand's largest financial company, Finance One PLC, goes bankrupt. The Thai government closes the stock market for one day.

March 9, 1997: In an article entitled "The $55 Trillion Horror Story," the London *Sunday Telegraph* warns about the danger of a total breakdown of the world financial system, which might be triggered by a collapse of the derivatives market.

May 14-15, 1997: International speculators attack Thailand's currency, the baht.

June 23, 1997: At a luncheon in New York, Japanese Prime Minister Ryutaro Hashimoto mentions the possibility that Japan might liquidate some of its holdings in U.S. Treasury bonds, estimated to have a total value of $450-500 billion. This statement, later denied, triggers a "mini-crash" on the New York Stock Exchange, the sharpest decline since the October 1987 crash.

Despite the growing instability of the financial markets, as revealed by repeated, sudden shocks, the rapid growth of the stock market bubble continues unabated. Between 1991 and mid-1997, the Dow Jones stock index more than doubles in value—a development having no basis in the real economy (see *Feature,* in this issue). During the first two quarters of 1997, stock markets in the western European countries, including France and Germany, increase by 20-30%.

June 27, 1997: Thailand suspends operation of 16 banks.

July 1997: Initial wave of collapse of currencies in Southeast Asia. Massive speculative attack against the Malaysian ringgit, the Philippines peso, and the Hong Kong dollar. At the same time, the Japanese banking crisis worsens rapidly. Emergency measures are needed to prevent the collapse of the Nippon Credit Bank, the Hokkaido Takushoko Bank, and other major banks.

Following the onset of currency and banking crises in Southeast Asia, the currencies of Poland and the Czech Republic also come under heavy speculative attack. Malaysian Prime Minister Mahathir bin Mohamad denounces the speculator George Soros, and calls for international measures to prevent the destruction of entire national economies by currency speculation.

August 1997: Simultaneous heavy losses on stock markets all over the world. On Aug. 15, the New York Dow Jones index falls by 247 points, and the London stock market experiences the biggest collapse since October 1987. The IMF announces a $17.2 billion rescue package for Thailand.

September 1997: The owner of the investment fund Berkshire Hathaway, billionaire Warren Buffett, announces that he is pulling his investments out of the stock market, and instead buying about $10 billion worth of "zero coupon" U.S. Treasury bonds. Buffett says he expects a new stock market crash.

September 1997: During high-level discussions in India and China, Lyndon LaRouche's wife Helga Zepp-LaRouche briefs officials on her husband's forecast that a gigantic financial crisis is about to break out in Asia, that it will almost certainly erupt in October, and will change the entire world situation, and she presents an analysis of the causes.

Sept. 20, 1997: At the Hong Kong conference of the World Bank and IMF, Malaysian Prime Minister Mahathir condemns the "unjust and inequitable world order," and calls for controls against currency speculation. At the meeting, Japan proposes the establishment of an Asian Monetary Fund (AMF) to defend regional stability. U.S. Treasury Secretary Robert Rubin indicates his initial support for the idea, but the AMF proposal comes under strong criticism in the British financial press and elsewhere, especially on the grounds that it would challenge the authority of the IMF. The AMF is not realized.

October 1997: Full-scale explosion of Southeast Asia financial situation. Hong Kong stock market loses nearly one-quarter of its value in four days. Indonesia, threatened with a total financial collapse, calls for international help to rescue its currency. The IMF promises a $12 billion assistance package.

Oct. 14, 1997: Prof. Bruno Gehrig, a member of the board of directors of the Swiss National Bank, issues a strong warning about the danger of a global financial collapse. In a speech to the Swiss Bankers Association, Gehrig says, "Every day, far more than $1 trillion are being traded on the foreign exchange markets. . . . The failure of one participant, who is active in several currencies, can initiate simultaneous liquidity problems for his counterparts in other payments systems. The missing transactions could then block the payments of those counterparts to third parties within the payment system. Here is the danger of a chain reaction and a collapse of payments systems. . . . Settlement risks not only endanger the existence of individual banks, but pose a threat to the ability of the whole financial system to function. Most banks are completely unaware, that they are routinely being exposed to risks in foreign exchange trading, which are bigger in value than their transactions for several days. The amount of risk, even in respect to a single counterpart, can therefore exceed the base capital of the bank. . . . The systemic risks have reached an intolerable level."

Oct. 23, 1997: Hong Kong stock market crashes by more than 10% in one day. Simultaneous, sharp drops in stock prices throughout Europe, the United States, and Ibero-America.

Oct. 27-28, 1997: The New York Stock Exchange drops by 550 points in one day. Only massive interventions by the Federal Reserve, and multinational companies buying up their own stocks, succeeds in preventing uncontrollable panic and propping up the New York stock market.

Oct. 29, 1997: Historic visit of Chinese President Jiang Zemin to Washington. The international financial crisis is one of the topics discussed between Jiang Zemin and President Clinton.

Nov. 5, 1997: International conference in Bonn, Germany on creating a "New Bretton Woods System," organized by *EIR*. Speaking at the conference, Lyndon LaRouche emphasizes the fundamental, global nature of the financial crisis, which can only be overcome by radical reorganization of the world financial system. LaRouche points to the crucial role of cooperation between the United States and China, to carry out the necessary financial reform.

Nov. 17, 1997: Japanese government takes emergency measures to reorganize the bankrupt Hokkaido Takoshuko Bank, the tenth-largest bank in Japan. At the same time, the Japanese Finance Ministry announces the establishment of a special $62 billion fund (so-called Zaito fund) to rescue banks with liquidity crises. However, the total amount of bad debt in the Japanese banking system is estimated at $1-1.2 trillion.

Nov. 23, 1997: Bankruptcy of Yamaichi Securities, fourth-largest securities company in Japan. Yamaichi has liabilities of $53 trillion.

Dec. 3, 1997: The IMF announces a $57 billion rescue package for South Korea. As a condition for its assistance, the IMF imposes a so-called "stabilization program." Lyndon LaRouche denounces the IMF policy as "a medicine much worse than the disease." South Korea remains on the edge of a default, especially in connection with enormous amounts of short-term credits coming due.

Dec. 10, 1997: Since Sept. 30, the South Korean currency, the won, has fallen in value by 88%.

By the end of 1997, more than 5 million industrial jobs have been eliminated in Germany, 2.5 million of them in West Germany.

Jan. 12, 1998: Bankruptcy of Peregrine Investments in Hong Kong triggers a new, worldwide stock market collapse. The Japanese Prime Minister promises that the Japanese government will devote as much as $500 billion to stabilize the Japanese financial system, and to ensure that Japan would not be the trigger of a new "worldwide economic depression."

By February, it is obvious that the bailout package of the IMF has done nothing to solve the crisis. The disintegration of Japan's financial system worsens day by day. A second wave of crisis builds up from February into May. Beginning in February, LaRouche repeatedly warns that the explosion of the new crisis will include not only Japan and Southeast Asia, but also Russia and parts of South America, and will hit Europe and the United States "with terrifying force." LaRouche reiterates his urgent call for U.S. President Clinton to organize an emergency international conference, to declare the bankruptcy of the present world financial system and replace it with a "New Bretton Woods" system, based on the principles of physical economy. Tragically, the U.S. and other government failed to exploit the opportunity provided by the April 16 meeting of 22 nations in Washington, to initiate the process toward a New Bretton Woods. Indonesia was the first casualty. Who will be next?

End Museveni's silent war in northern Uganda

by Linda de Hoyos

Speaking at his enthronement as the Bishop of the Diocese of Gulu in northern Uganda on May 13, the Rt. Rev. Bishop Nelson Onono-Onweng called upon the government of Uganda and all warring parties to come to the peace table and finally bring to an end the 12-year-long war in northern Uganda. To the listeners, who included Ugandan President Yoweri Museveni, the Archbishop of Canterbury George Carey, and high officials of both the Church of Uganda and the Ugandan government, the Bishop pleaded for those responsible to act to alleviate the suffering of the Ugandan people: "Today, we call upon the people of Uganda to reconcile. Today, we call upon Joseph Kony and his LRA [Lord's Resistance Army] forces to reconcile and stop this destructive strife. Today, we call upon His Excellency the President of Uganda and our Government to talk peace with the rebels in northern and western Uganda. Today, we call upon the Government of the Sudan, and the Government of Uganda to improve their relationship in order to end this conflict. Today, we also call upon the international community to respond to the cries of our people in this region, and take active and speedy interest to influence all the concerned to end the conflict."

In direct response to this challenge, Museveni demurred, motivating his continued commitment to a "military solution" to the war by stating that "bad people cannot voluntarily give up their bad ways unless put under pressure." Since the Nov. 5, 1997 Rally for Peace in Kampala, where Roman Catholic Cardinal Emmanuel Wamala and Bishop Macleord Ochola of the Church of Uganda led thousands in a march to call upon the government to end the war in northern Uganda, Museveni has "stuck by his guns," refusing either to deal militarily with the insurgent LRA, or to negotiate with it.

Museveni's policy, even this spring, shows the total inefficacy of this stance. On March 18, the Ugandan dictator travelled to the city of Gulu personally to give political back-up to the Ugandan troops deployed to the area allegedly to fight the LRA. Ugandan forces, he said, are occupying the strategic hills of Kademeri near Bibia and Adodi hills on the Uganda-Sudan border, to ensure that the LRA, which takes sanctuary in Sudan, would not come into Uganda. At the same time, Ugandan sources reported truck caravans delivering weapons, military equipment, and troops to northern Uganda.

But since then, the attacks by the LRA have only escalated, as the LRA entered Uganda from Sudan in mid-April with ease, and swooped down all the way into the southern counties of Kitgum (see map), and attacked "protected villages" at Alero, Anaka, Adilang, and Awer. In short, it would appear that the LRA operates with impunity in northern Uganda—as Museveni rebuffs all calls for a peace process to end the war.

The punishment is being meted out instead to the civilians of the war districts of Gulu, Moyo, Kitgum, Apac, and Lira, who are caught in a deadly cross-fire. It is estimated that 300,000 members of the Acholi group in these districts have been killed in the war.

As of this writing, nearly half a million people in these sparsely populated districts are displaced, and herded into concentration camps which Museveni calls "protected villages" (see map). There are 38 "protected villages" in northern Uganda, where people have been forced to live. Either people go to the camps willingly, out of terror of the LRA, or they are rounded up by government troops and forced to go. In Moyo district, many people have been forcibly removed to villages in completely different districts. The camps are fenced, and persons leaving the perimeters can be suspected of being LRA sympathizers and can be shot. Often, the camps are built beside military barracks, making them shields for Museveni's troops and the "protected villages" targets for LRA attack.

Conditions in the camps are in direct violation of the Geneva Conventions. According to Article 17 of Protocol II of those Conventions, "should such displacements have to be carried out, all possible measures shall be taken in order that the civilian population may be received under satisfactory conditions of shelter, hygiene, health, safety, and nutrition." In violation of this Article, in Museveni's concentration camps, as the accompanying interview describes, the people are on the brink of dying—without food, without water, and even without security. Famine stalks the entire region, but there is no relief, either from the government, or from international agencies. Since the people in the camps are "internally displaced," they are not "refugees," and therefore international agencies cannot provide relief unless called upon by the government. Museveni has not asked them to do so.

London's little war

Museveni's recalcitrant refusal to end the war and bring relief to the population is matched only by the international community's silence concerning it—the tip-off that the war in northern Uganda is not a domestic Ugandan issue.

In just one recent example, the *Baltimore Sun* featured a full-page article on May 17 on famine in southern Sudan, taking the Khartoum government to task as being responsible. In reality, Sudan has bent over backward to work with Operation Lifeline, run by the international relief agencies, to bring food into the war zones of southern Sudan, where the secessionist Sudanese People's Liberation Army (SPLA) has created havoc upon the southern populations.

Furthermore, Sudan has willingly engaged in a peace process to end the war in southern Sudan, started by the SPLA's John Garang in 1983, and has made major concessions to southern demands, bringing nearly all factions previously engaged in the war to sign the April 21, 1997 peace accords.

Yet, while indulging in a diatribe against the Sudanese government, the *Baltimore Sun* says not one jot about northern Uganda, where the same famine conditions pertain, where war continues with no military resolution in sight, and where the *head of state refuses to come to the peace table*.

The *Baltimore Sun* employee who wrote the article, Gilbert Lewthwaite, had in 1996 traveled to southern Sudan illegally with Baroness Caroline Cox, leader of Christian Solidarity International, as part of the Baroness's crusade for a war against Sudan.

Cox, who is also a Deputy Speaker of the House of Lords, has been demanding that the Clinton administration carry out a full-scale war against Sudan. In September 1997, her crusade carried the day at a conference at the misnamed U.S. Institute for Peace, where Roger Winter of the U.S. Committee of Refugees, sidekick Ted Dagne of the Congressional Research Service, and John Prendergast of the U.S. National Security Council demanded war against Sudan, castigating the State Department for its emphasis on "diplomacy." In the December 1997 trip of Secretary of State Madeleine Albright to Uganda, she traveled north to Gulu and declared full U.S. backing for Museveni to wage war northward into Sudan. The policy is being enforced within the administration by Prendergast, along with Susan Rice, U.S. Assistant Secretary of State for African Affairs, and various underlings.

The war should be prosecuted, said Winter in September, "even though I know it will bring about a humanitarian catastrophe."

The war is also being demanded by the Israeli government of Benjamin Netanyahu, which has major interests in turning the Red Sea into an Israeli lake and also for asserting itself in Uganda, from whence it can control the headwaters of the strategic Nile River.

These are the overriding geopolitical aims coming from London, Israel, and their allied networks in the United States, that are perpetrating the war in northern Uganda, killing the population there under the conspiracy of silence based on a military alliance with the British-installed warlord Museveni.

Thus, the troops Museveni ostentatiously moved northward in March are not being utilized against the LRA, but to back up John Garang in his continuing efforts to take chunks of territory in southern Sudan, so that he can bargain with the Sudan government from a position of military strength—a strategy which is not even working.

Museveni's reasons

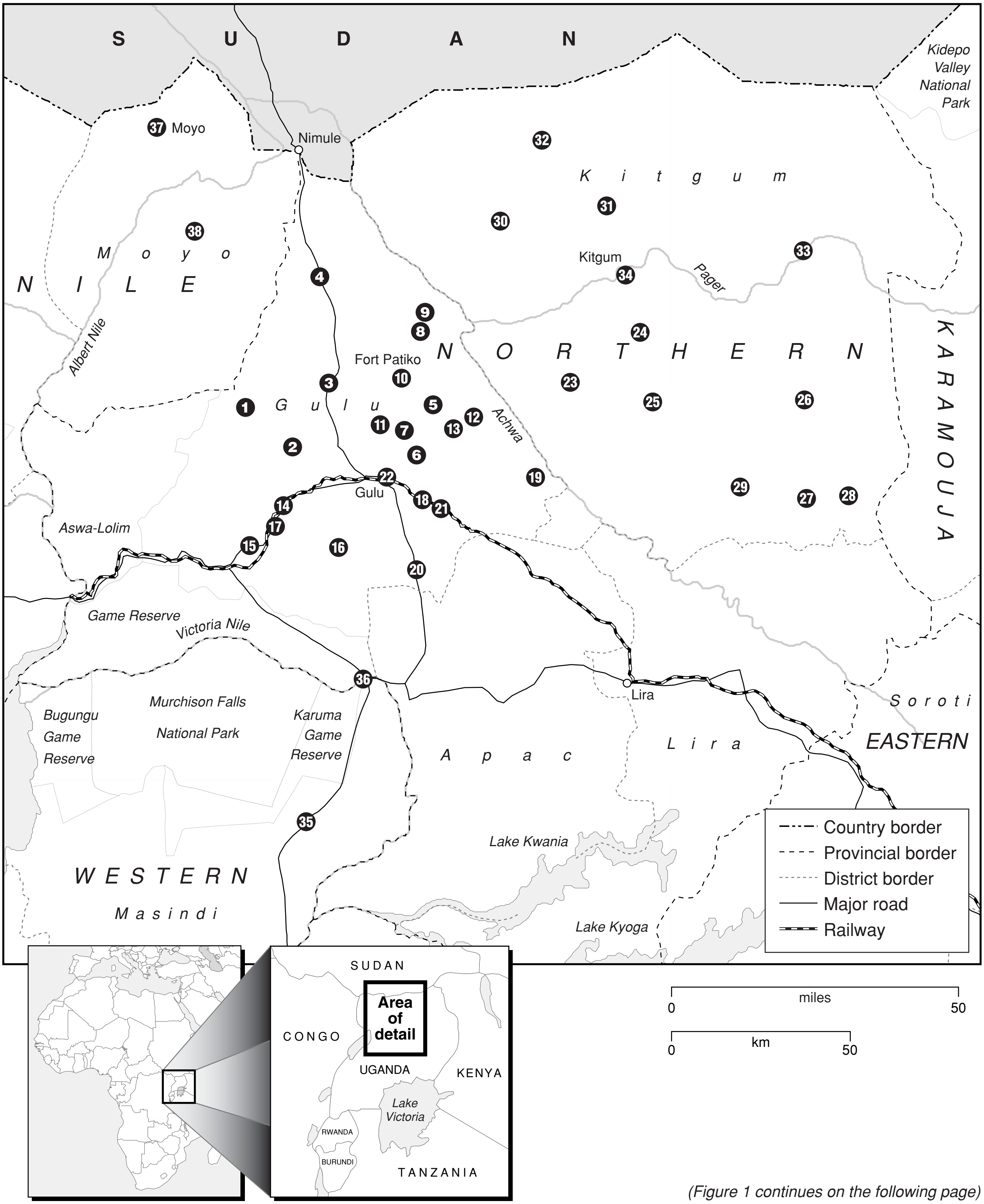
If northern Ugandans are being decimated by the war, Museveni has thrived on it. Upon taking power in 1986, Museveni moved his National Resistance Army forces northward to defeat the remnants of the Ugandan People's Democratic Army of former President Tito Okello, an Acholi from the north. Despite the disarming of many UPDA troops by concerned civilian leaders in the north and guarantees that Museveni's forces could move in peacefully, he unilaterally declared war on the region, burning villages and herding all the livestock into southern Uganda.

The war between the LRA and Museveni has been going on ever since, with neither side making any military headway. The war permits him to keep the northern part of the country in a state of abject poverty and military occupation, and to maintain the entire country in perpetual insecurity—thus justifying his military regime.

In 1994, Museveni halted a peace process that had begun with LRA commander Joseph Kony. The LRA has recruited to its ranks by means of abduction from the local Acholi population, in which every family has lost children either to abduction or to murder when the LRA attacks. Although the Acholi community and religious leaders have been working assiduously for a peace and reconciliation process with the LRA, Museveni has spurned all peace attempts.

As for the LRA, its top "political affairs" leader, Powell Onen P'Ojwang, is headquartered in—where else?—London. Onen is reputed to be a shyster who was reported in the July 6, 1997 *News of the World* to have been involved in a scam to

FIGURE 1
Museveni's 'protected villages' in northern Uganda



(Figure 1 continues on the following page)

FIGURE 1 *(continued)*

Sub-division	County	Number of Persons
Gulu District		
1. Amaru*	Kilak	32,000
2. Awe	Kilak	11,000
3. Pabo*	Kilak	20,000
4. Atiak	Kilak	14,000
5. Awac	Aswa	8,000
6. Onyama	Aswa	6,000
7. Coo-pee	Aswa	9,000
Palaro	Aswa	
8. Made-ade township		4,000
9. Labwonyaro-moo township		5,000
10. Patiko	Aswa	7,000
11. Gwenya-deyo	Aswa	6,500
12. Cwero	Aswa	3,700
13. Paicho	Aswa	5,200
14. Alero*	Nwoya	28,000
15. Anaka (Payira)*	Nwoya	36,000
16. Koc-Goma	Nwoya	5,000
17. Koc-Ongako	Nwoya	7,000
18. Acet	Omoro	16,000
19. Odek	Omoro	11,000
20. Bobi*	Omoro	7,000
21. Lakwaramer	Omoro	6,000
22. Gulu City		50,000
Gulu District Total		*297,400*
Kitgum District		
23. Lacek-ocot*	Aruu	7,500
24. Acholibur	Aruu	5,000
25. Pajule	Aruu	22,000
26. Kalongo*	Agago	6,000
27. Patongo	Agago	21,000
28. Adilang*	Agago	approx. 5,000
29. Lira Palwo*	Agago	approx. 5,000
30. Palabek-Kal*	Lamwo	9,000
31. Padibe*	Lamwo	7,000
32. Lokung*	Lamwo	approx. 3,000
33. Naam-okora	Chua	20,000
34. Kitgum City		50,000
Kitgum District Total		*160,500*
Masindi District		
35. Kiryadongo		
36. Karuma		combined 26,000
Moyo District		
37. Moyo		
38. Adjumani		camps under construction
Grand Total		**483,900**

* "Protected villages" that have come under military attack by the Lord's Resistance Army.

defraud investors of £2.5 million, a fraud for which he has not been prosecuted, but for which he is reportedly under investigation in the United States. Onen, who reportedly keeps some funds flowing to the LRA, is as adamantly opposed to a peace process as his erstwhile opponent Museveni.

Thus the people of northern Uganda are being put through unending suffering and death, by a criminal symbiosis among Museveni, the LRA leaders, and the British/Israeli and U.S.-allied networks who keep Museveni in power for their geopolitical designs in all East Africa—designs that are costing millions of African lives.

Interview

Protected villages: no food, no security

This interview with a teacher from Agago County, Kitgum District, Uganda, was conducted by telephone on May 17 by Linda de Hoyos. The teacher's town and home were attacked by the Lord's Resistance Army earlier in May. The name is withheld for reasons of security.

EIR: How would you describe the situation in northern Uganda now?
A: The situation is not good as regards to the feeding. People are starving.

EIR: Are they starving in the protected villages, or in the entire area?
A: It is just the general area itself.

EIR: Why is that?
A: I think there have been long periods of no rain, and then, because the people are displaced and their food and everything have been looted, it is nearly impossible for them to have enough food.

EIR: How big is the camp in Agago?
A: It is big, but I cannot be specific about the number. But, the influx is great.

EIR: And people come into the camp every night, or are they there all the time?
A: They come when the situation is [one of] fear; they go back and then come into the camp. They go back and dig a piece, and then come back in the morning to the camp and sleep in the camp. The people who come from far away, they just stay there in place.

EIR: Do these camps have buildings? Do people live inside, or outside?
A: They just get settled and they build a small hut where they live. They call them protected camps, whereby they move where the army personnel, the barracks, are—that's where they usually stay, near the barracks. But, there are times the protection itself is not possible, because just last week, some few were abducted from within a few feet in the camp in Gulu.

EIR: There is a fence around the camps?
A: Yes.

People are starving. Most of them die from malaria, because of the lack of food, especially when people flee into the bush and spend their life there. We started sleeping in the grass in February. People just stay in the bush at night, and then there is terrible malaria sickness.

EIR: The army constructed the fences?
A: Right.

EIR: And the army patrols the camp?
A: They do at times, but, you know, the camp is so big that, in some parts of it, the rebels can come in without the army knowing, so they just slip in in small numbers. Second, there are several ambushes where the vehicles are always being attacked. People always travel in convoys to the main town.

EIR: Is the problem that there is no food in the camps now?
A: Actually, in most places they have opened up these feeding centers for the kids, but this is not regular. In the place I come from, they have not started any yet. I remember the German organization came there once and distributed seeds, and then food—only once for this year. But, I think because of the communications and the ambushes, they cannot continue. That happened in March, and up to now, nothing has been distributed.

EIR: Is there still drought?
A: So far, the rain started late, and it is not regular. So, at the moment, we do not expect any fresh food yet.

EIR: And there is no consistent relief coming in at all?
A: No.

EIR: When you say people are starving, do you mean that there have been deaths by starvation?
A: Because there is no food, they eat by collecting some roots. Because, when these people come around, their houses are burnt down, their goats, chickens are taken away, and then there is terrible hardship in getting anything to eat. If they get anything, it is very little.

EIR: Would you say that people are dying of this now?
A: Not quite yet, but the condition is threatening.

EIR: You yourself are sleeping in the bush every night?
A: In my case, since that month, we have been sleeping in the grass, and then we moved into the church nearby where we live. The doors of the church are strong; we went there especially on the day of the attack, when there was a cross-fire. Many people ran into the church, because it was in broad daylight when the fight took place, so we managed to run into the church, in fear that they might get us in the daytime in the grass. So, this is how we managed. The army personnel had to drive the rebels away, and we were saved. So many people died on that day, in that attack. About 15 people within the home died, and about 45 rebels died that day, just in the cross-fire.

EIR: The rebels that were killed, were they adults or children?
A: Most of them are people who have been abducted. Because the rebels abduct the young ones and then they don't give them time to train for fighting; they just put them in the uniform and force them to go to the front line to fight. That is the way most of the rebels who are killed are—the abductees. They abduct from age 14 upwards. On that day we managed to get two captured by the army, but they are in terrible fear, and they had just been forced to go to the rebel camp to fight the government troops. One was 14; another one was a mature woman, who was also abducted.

EIR: Is the military able to protect people?
A: Yes, but at times it is difficult to deal with these people. Sometimes they dodge their way, and then they come through, so it is fairly difficult in that way. I remember when my son's wife was abducted. She had to stay with the rebels for about two days. After discovering that she was pregnant, they released her. This is common with many ladies. There are mature ladies who are abducted, and then they force them to be their wives.

EIR: They also have children at the camps?
A: The very young ones the rebels leave. It is unfortunate when they burn the houses, and they disfigure people, because they always complain that the people or the citizens are the ones reporting them to the government troops. So, when they come to the village, they burn houses. Those who they arrest, they sometimes break their legs, cut their nose, cut their breast, and so on. It is nasty to look at this. For example, just recently, several persons were burned, and an older man was burned in the house, too.

EIR: Is it difficult for the military to deal with this?

A: They are trying to monitor [the situation] anyway, but they are trying their best in a way that they attract the rebels. These rebels follow them. But since there are many [rebels], they attack here and there, and sometimes split into groups, whereby the army is not able to approach them very easily. But they [the army] are trying their best.

EIR: Does the army come and take people to the protected villages?
A: They ask them to move into the protected camps. At times, people find it difficult to stay in the camp, because there is nothing to eat. At times, they flee back to their homes to look for cassava, and at times you find them abducted from there. The situation in the camp is not so fine. So, you find that there is scarcity of food. Sometimes the water problem is also there.

EIR: There is no water?
A: Water is very scarce. There are only a few water holes in my area—maybe three. The number of people is so great; some people decide to look for the water in the ponds and streams when there is rain, but it is not so safe.

EIR: The water is not safe?
A: No.

EIR: Are there sanitation facilities in the camps?
A: That is another nasty part of it. There is no proper sanitation in that area. Some latrine pits are put in, but since the camps are so squeezed together, the holes are just together. Because when you are pushed into the camp, you make your own small huts, and if you have a family which is large in small huts, you park all your children.

EIR: Is there some schooling going on?
A: Not in the resident areas. Most of the schools are closed now. Only a few are open, which are moved into the protected center. Most of the students cannot go there, because the accommodations and the feeding are difficult. Most of our primary schools are day schools, where children come from their home and then go back in the evening. Since they have been away from their homes, it makes it difficult for them.

EIR: So the attack this month was on your home?
A: It was just within the trading center, but my home is near the center. My home has been attacked three times now; this is not the first time. It seems that it is a route by which rebels always pass to the barracks.

EIR: The rebels come in, and the first thing they do is attack civilians?
A: That time when they came, they came in three groups. Another one went to the barracks. Another group laid an ambush outside the barracks. Another group went into the shops and trading center, to loot things for their own use, that is, including my home. My home has been looted three times now. They came at night and just came into the houses. We had learned about them being around, so we had gone to the bush. But when they came at night, they broke open the doors and looted many things. This month, they came at dawn. When they started firing, we managed to run into the church, and locked ourselves up in there, giving them the advantage of taking anything from our homes.

EIR: There were still 15 people killed?
A: Yes, 15.

EIR: Has the government been asked to provide food?
A: There is no food provided yet. No food. There are some NGOs [non-governmental organizations], like World Vision, which are trying to feed the displaced children, and introduce what they call the feeding centers. But the entire community is unable to get what they need to eat. I think that in my place, there is nothing that the government has provided. The Red Cross also is trying.

EIR: What does the government say when you ask about food?
A: I think the parliamentary representative was there last week in our area, and all these things are being forwarded to him. He was also there to witness some of this, but so far, no action has been taken.

EIR: People are not yet dying of starvation, but that condition is now threatening.
A: Starvation is there. Because of malnutrition, people are weak. Very weak, indeed.

EIR: Have children started dying from this yet?
A: Children are dying from measles and malaria, which is probably because of the lack of a balanced diet. There are cases of death there, but I do not know exactly how many have died. But people die from time to time. What I am saying, is what is there.

EIR: How far are you from the border with Sudan?
A: It is a bit far where I come from.

EIR: Are there more troops now than before?
A: They are there. They are mobile troops. They are trying to monitor—they follow the rebels. Wherever they go, they are there.

EIR: People in the United States do not know about this war.
A: They know. The President of the United States was here; I think he is aware of this. He knows. Just last week, we had the Archbishop of Canterbury here; he went to the camps. So I think that this is known to many countries.

Asian Synod at the Vatican debates evangelization, debt renegotiation

by Liliana Celani

A call for renegotiation of the debts of developing nations, contained in the final message of May 13, in the section entitled "Appeal for Justice and Peace," concluded the Special Assembly of the Synod of Bishops for Asia, which took place in the Vatican on April 19-May 14, under the theme "Jesus Christ the Savior and His Mission of Love and Service in Asia: '. . .That They May Have Life, and Have It Abundantly' (John 10:10)." As after other such Synods (the most recent ones were on Africa and the United States), Pope John Paul II will visit the region, before the year 2000 (probably next year), to bring to Asia the Apostolic Exhortation he will be writing within the next few months, using the proposals made during the Synod. The Pope attended the afternoon sessions of the Synod, to "express the desire to make a papal visit to Asia to proclaim the results of the Special Assembly of the Synod of Bishops," Synod press bulletin No. 25 reported on May 12.

The month-long Asian Synod was inaugurated by the Pope with a solemn mass at St. Peter's Basilica, attended by 259 Synodal Fathers and collaborators (34 cardinals, 6 patriarchs, 49 archbishops, 78 bishops, and 92 priests) from Russia, the Middle East, and Asia (Bangladesh, China, India, Indonesia, Japan, Korea, Laos, Cambodia, Malaysia, Myanmar, Pakistan, the Philippines, Sri Lanka, Thailand, Vietnam, Siberia, Nepal, Tajikistan, Turkmenistan, Uzbekistan, Syria, Lebanon, and Iraq).

Specific issues

In the first phase of the Synod, the Synodal Fathers from each country outlined the situation in their country. In the second phase, in the workshop sessions, specific issues were addressed, including evangelization, because, with the exception of the Philippines, where Catholics are the majority (83%), the Catholic Church is still a minority in all the countries that were represented; the culture of life, counterposed to the culture of death; and, the urgency to defeat poverty and encourage economic development. In the final phase, concrete proposals were formulated, and 59 were presented to the Pope, and voted on by the Assembly.

The proposals will remain secret until the Pope issues his Apostolic Exhortation to Asia, but it is clear from the reports on the debate issued daily by the Holy See press office, and from discussions *EIR* had with a number of bishops and archbishops from the Philippines, Japan, Indonesia, and Korea, that the Asian Synodal Fathers called "on the particular churches of the First World to be in solidarity with the poor in Asia," and to intervene against the "negative effects of globalization" and for renegotiating the Third World debt. As Msgr. Arturo Bastes, Bishop of Romblon, the Philippines, put it in the course of the debate, "A concrete issue is the cancellation of the Third World's staggering external debt, a suggestion of the Holy Father himself in his [1994] letter, 'As the Third Millennium Draws Near.' "

During the inaugural mass at St. Peter's, the Pope announced that "the fruit of the Synodal work will . . . be compiled in a book, which will be the post-Synodal document for all churches in Asia." He explained the reason for this Synod for Asia: "How can we ignore the fact that more than three-fifths of the world's inhabitants are Asian and that an important part of them are young people? . . . At this time all the churches must be mobilized." Again, at the solemn closing of the Synod at St. Peter's on May 14, the Pope said, "How can we forget that Jesus was born at that unique crossroads of the world where Asia meets both Africa and Europe?"

All documents issued at the Synod, including the initial "*Instrumentum Laboris*" ("Work in Progress"), acknowledged the ancient culture of Asia, and the need to take it into consideration in the efforts to evangelize: "The new evangelization is called upon to consider not simply the content of the Gospel message, but those to whom it is directed. This was the conviction of great missionaries like Francis Xavier and Valignano in Japan, Ricci in China, De Nobili and Beschi in India." The initial document set the tone of the debate on the Asian crisis, questioning how injustices could be corrected. "One way," it said, "is to bring attention to the burden of foreign debts accumulated by some countries of Asia."

Some Synodal Fathers were even more specific during the debate. For example, reporting at a press conference at the Holy See press office on May 8, Msgr. Martinus Situmorang, Bishop of Padang, Indonesia, "emphasized how the stock exchange collapse and Asian economic crisis hit Indonesia very hard," the Italian Catholic daily *Avvenire* reported on May 9.

At the final press conference on May 13, where the results of the Synod and its final message were announced, *EIR* asked about the proposals introduced by a number of Synodal Fathers (from Japan, the Philippines, Indonesia, and India) on the urgent need to reorganize the world financial institutions, such as the International Monetary Fund and World Bank, and for debt reorganization and cancellation on the occasion of the Jubilee, as John Paul II has proposed. Msgr. Orlando B. Quevedo, Archbishop of Nueva Segovia, the Philippines, confirmed that there is a "consensus among Synodal Fathers on the idea of globalization, its negative impact on Third World countries and the poor in those Third World countries," and quoted the final message calling for Third World debt reorganization (see accompanying interview and *Documentation*).

British journalists attending the press conference were less interested in the key issue of economic development, although it will be a fundamental one for the church in Asia in the coming months, but rather, asked whether the church would be more "aggressive" against the Asian governmemts, as in Indonesia or India. The obvious answer, from the bishops from India, Indonesia, and the Philippines who gave the press conference, was that the situation in these countries is already "overheated," and the role of the church is, rather, that of calming it down, and helping the poor.

Documentation

Church leaders speak out against globalization

The following are excerpts from statements to the Synod.

Pope John Paul II:

God is praised by the lands of Asia and the oceans surrounding them, the Himalayas with the highest peak in the world, and the immense rivers. God is praised by cities rich in millennial traditions, the centuries-old cultures of the continent with civilizations much more ancient than those of Europe. . . . How can we forget that Jesus was born at that unique crossroads of the world where Asia meets both Africa and Europe? He came into the world for all the continents, but for Asia in a special way; and Asia could therefore claim a certain right to pride of place.

Msgr. Rev. Leonardo Z. Legaspi, OP, Archbishop of Caceres, the Philippines:

The group asks the Synod to call for a discernment in Asia of the phenomenon of globalization. It asks the Synod to call upon sister churches in the First World to join the churches in Asia to appeal to international bodies for justice and equity.

Msgr. Arturo M. Bastes, SVD, Bishop of Romblon, the Philippines:

As church, we Asians should denounce the evils coming from globalization, and we are appealing to our sister churches of the First World to join us in our crusade for justice and solidarity among nations. A concrete issue is the cancellation of the Third World's staggering external debt, a suggestion of the Holy Father himself in his letter, "As the Third Millennium Draws Near."

Msgr. Rev. Peter Remigius, Bishop of Kumbakonam, India:

Globalization erodes the culture and economic values of the poor countries; moneymakers and multinational companies destroy the values of family. As a pastoral response, the church should appeal that the debts of the Third

World countries be cancelled or lightened in the Jubilee Year.

Cardinal Julius Riyadi Darmaatmadjia, Indonesia:

We are not experiencing the invasion of a new culture resulting from the globalization of the world economy and the over-saturation of the mass media. We are engulfed by materialist, consumerist, and hedonist attitudes, fierce competitiveness, greed and selfishness in many fields. Many have become totally apathetic to the will of God. . . . Most dangerous of all is when people adopt attitudes of the "survival of the fittest" and *homo homini lupus* [man preying on man] as their guiding principle in the field of politics, religion, trade or work. . . . Protracted poverty does not permit a person to grow as one should in the image of God.

Final message, from the section "Appeal for Justice and Peace":

We call on the particular churches of the First World to be in solidarity with the poor in Asia and to be their advocates with their own governments and with world economic institutions such as the World Bank, the International Monetary Fund, and the World Trade Organization, so as to bring about what Pope John Paul II called in this year's World Day of Peace Message: "Globalization without marginalization. Globalization in solidarity." We strongly recommend that during the Jubilee Year 2000, the Third World debt be renegotiated and its crushing burden alleviated.

Interview: Msgr. Orlando B. Quevedo

A New Bretton Woods is the only solution

Monsignor Quevedo, OMI, is the Archbishop of Nueva Segovia, the Philippines. He gave a press conference at the Holy See Press Office in Rome on May 13, to report on the results of the month-long Synod of Bishops from Asia at the Vatican. In response to a question from Liliana Celani of EIR, *he described the "Appeal for Justice and Peace," contained at the end of the Synod's final message, which included the recommendation "that during the Jubilee Year 2000, the Third World debt be renegotiated and its crushing burden alleviated," as Pope John Paul II had previously proposed. Monsignor Quevedo added that there was a "consensus of the Synodal fathers on the idea of globalization, its negative impact on Third World countries and the poor in those Third World countries." At the end of the press conference, Celani asked the Archbishop to comment on the proposals to reorganize the financial and economic system raised by a number of Asian bishops and cardinals during the workshop sessions, proposals that the Pope will eventually use to prepare his "Apostolic Exhortation on Asia."*

EIR: Could you add more about the discussion at the Synod on the negative effects of globalization on Asia, and particularly on the situation in your country, the Philippines?

Monsignor Quevedo: We have two groups among economists in the Philippines. The first group supports globalization, liberalization, deregulation. The other is a minority group of economists who think along the lines of Mr. LaRouche, one of whom attended your conference on a New Bretton Woods in Washington [on March 18], which was addressed by Mr. LaRouche. These are people who think of development with a human face, which means to say that the poor have to be looked at; they want an economics that, instead of "trickling down," trickles up.

My own judgment is that globalization reverses the ethical order of reality and makes the human person subordinate to market forces, which we cannot control. So, it's a sort of tyranny of the market forces over peoples. Not even governments seem to be able to control them.

EIR: As a matter of fact, U.S. Federal Reserve Chairman Alan Greenspan just admitted this.

Monsignor Quevedo: But unfortunately, this is the thinking of a minority, and it is unfortunately identified with the left, the Marxist left. And that is the problem.

EIR: Do you not have this economic thinking in the Church? Do you not have economists who follow the social doctrine of the Church in your country?

Monsignor Quevedo: I do not think so. We have the idea that the social teachings of the Church generally say that market forces must be controlled.

EIR: From what I have heard, there were a number of concrete proposals to change the policies of the International Monetary Fund at the Synod. I know these proposals are secret until the Pope issues his Apostolic Exhortation, but can you say a bit more about them?

Monsignor Quevedo: There is a general appeal that ethical norms and juridical norms must be pressed upon governments and monetary institutions, and that solidarity among churches will be necessary for this, so that governments and monetary institutions in the First World will see that happen.

EIR: Do you also think that a New Bretton Woods system, as it was proposed by Mr. LaRouche, is the only solution?

Monsignor Quevedo: I think it is the logical conclusion in the economic sphere. The old Bretton Woods is devastated.

Rowland scam aimed at Mohammad Al Fayed

by Jeffrey Steinberg

On the eve of significant moves by the chief investigating magistrate in Paris, yet another effort has been launched to subvert the ongoing probe of the Aug. 31, 1997 automobile crash that claimed the lives of Princess Diana, Dodi Fayed, and their driver, Henri Paul. And, once again, the disruption may be the handiwork of the British Establishment's favorite hooligan, Tiny Rowland.

On April 22, 1998, police in Vienna, Austria arrested an American, Oswald LeWinter, as he attempted to extort $16 million from Mohammed Al Fayed, the father of Dodi Fayed and the owner of Harrods department store in London. Since February, when he gave an interview to the *Mirror,* Al Fayed has been on record, that he believes his son and Princess Diana were the victims of a murder conspiracy.

Among the most disturbing unresolved aspects of the tragedy, is the missing Fiat Uno that collided with the Mercedes 280-S carrying Princess Diana and Dodi Fayed, causing the fatal crash. The Fiat sped from the crash scene in the Place de l'Alma tunnel and has disappeared, along with the driver.

On June 5, 1998, magistrate Hervé Stephan is going to convene an extraordinary group interrogation of more than 20 eyewitnesses to the crash, to attempt to resolve some of the contradictions among their accounts. Magistrate Stephan has also ordered a comprehensive review of the emergency medical response at the crash site. Princess Diana survived the crash, but it took nearly two hours for rescue workers to get her to a hospital, just four miles away! Princess Diana bled to death just moments before the ambulance arrived at Pitié Salpêtrière Hospital.

The extortionists

It was not long after Mohammed Al Fayed gave his controversial interview to the *Mirror,* and then met with magistrate Stephan, that the LeWinter hoax was launched. Through intermediaries, LeWinter contacted Al Fayed in late March 1998, claiming that he had CIA documents proving that the CIA and Britain's MI6 had conspired to assassinate the couple. The initial approach was made by a Beverly Hills, California attorney, Keith Fleer, of the law firm Tennenbaum, Emmanuel and Fleer. Fleer called Doug Marvin, a Washington lawyer who does work for Al Fayed, claiming that he was representing four serving CIA officers. A New Mexico-based journalist, George Williamson, subsequently came into the act, as a go-between and bagman. Two other men, one claiming to be a former "top CIA officer" named Jim Thompson, and another claiming to be an ex-Mossad officer known only as "Gershom," were also involved in the extortion attempt.

In phone discussions between Fleer and Harrods security director John Macnamara, a 26-year veteran of Scotland Yard, Fleer offered to provide a series of CIA top-secret documents on the murder plot, in return for $20 million in cash, to be deposited in an Austrian bank account.

Macnamara was hardly about to buy into the Fleer deal. He had taped the telephone conversations, and, on April 13, 1998, he traveled to Washington to meet with senior officials of both the FBI and the CIA. It was agreed in those meetings that Macnamara would pursue the negotiations with Fleer and his "CIA clients." A week later, Macnamara, having wired $25,000 for travel expenses to a New Mexico construction company, went to Vienna, Austria for the scheduled document exchange. He was accompanied by two FBI Special Agents and a representative of the CIA.

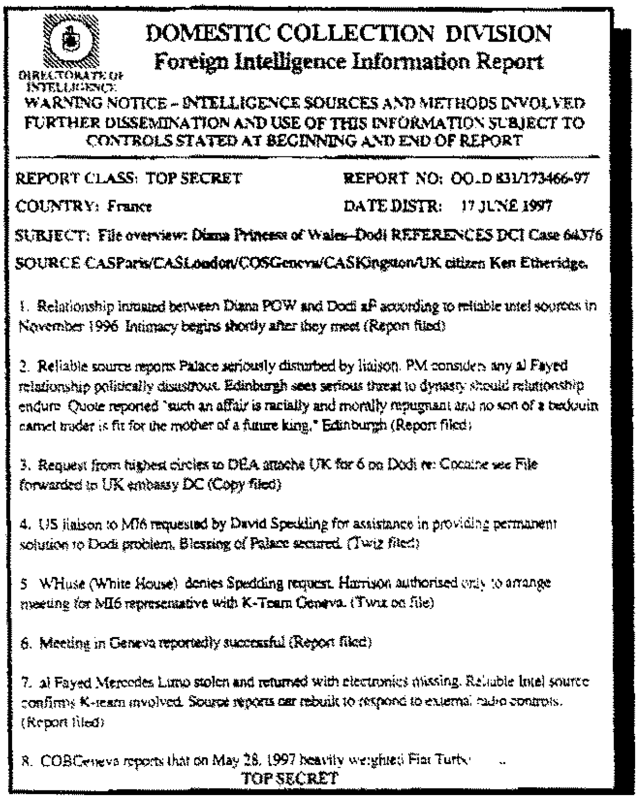
On April 23, after several more days of negotiating with Fleer and George Williamson, a meeting was finally arranged between Macnamara and the "CIA officer." At 2:30 p.m., Oswald LeWinter showed up at the meeting place. He was using the name "George Mearah." In the first meeting, LeWinter/Mearah specifically named Tiny Rowland, the ex-Lonrho boss, and his personal security chief, Kenneth Etheridge, as having been involved in CIA operations.

The initial LeWinter-Macnamara meeting was surveilled by another member of the LeWinter "team," a former Czech intelligence officer named Karol Koecher. The involvement of Koecher added another ironic twist to the scheme. Karol Koecher and his wife, Hana, had defected to the United States from Czechoslovakia in 1965, claiming that they had been secretly working with Radio Free Europe, and had to flee the communist state. In reality, the Koechers were Czech intelligence officers, assigned by the KGB to establish a long-term penetration of the United States.

After a brief career as a college professor, Koecher began taking graduate courses at the Russian Institute at Columbia University in New York, according to authors Joe and Susan Trento, and William Corson. At Columbia, Koecher came in contact with Zbigniew Brzezinski, who apparently helped him get a job as a CIA translator. Eventually, Koecher managed to get a job in the CIA's Directorate of Operations, which gave him access to sensitive field intelligence on U.S. espionage activities inside the East bloc. Ultimately, both Koecher and his wife were unearthed as KGB "sleepers" and were jailed.

While in prison in New York State, Koecher met Oswald LeWinter, who was also jailed, for smuggling methamphetamine from West Germany into the United States. On Feb. 11, 1986, Karl and Hana Koecher were freed in East Berlin in a spy swap for Russian "refusenik" Natan Sharansky, now an Israeli cabinet minister.

Koecher escaped back to Prague just hours before police



DIRECTORATE OF INTELLIGENCE

DOMESTIC COLLECTION DIVISION
Foreign Intelligence Information Report

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FURTHER DISSEMINATION AND USE OF THIS INFORMATION SUBJECT TO CONTROLS STATED AT BEGINNING AND END OF REPORT

REPORT CLASS: TOP SECRET — REPORT NO: OO-D 831/173466-97

COUNTRY: France — DATE DISTR: 17 JUNE 1997

SUBJECT: File overview: Diana Princess of Wales–Dodi REFERENCES DCI Case 64376

SOURCE CASParis/CASLondon/COSGeneva/CASKingston/UK citizen Ken Etheridge.

1. Relationship initiated between Diana POW and Dodi aF according to reliable intel sources in November 1996 Intimacy begins shortly after they meet (Report filed)

2. Reliable source reports Palace seriously disturbed by liaison. PM considers any al Fayed relationship politically disastrous. Edinburgh sees serious threat to dynasty should relationship endure Quote reported "such an affair is racially and morally repugnant and no son of a bedouin camel trader is fit for the mother of a future king," Edinburgh (Report filed)

3. Request from highest circles to DEA attache UK for 6 on Dodi re: Cocaine see File forwarded to UK embassy DC (Copy filed)

4. US liaison to MI6 requested by David Spedding for assistance in providing permanent solution to Dodi problem. Blessing of Palace secured. (Twiz filed)

5 WHuse (White House) denies Spedding request. Harrison authorised only to arrange meeting for MI6 representative with K-Team Geneva. (Twix on file)

6. Meeting in Geneva reportedly successful (Report filed)

7. al Fayed Mercedes Limo stolen and returned with electronics missing. Reliable Intel source confirms K-team involved. Source reports car rebuilt to respond to external radio controls. (Report filed)

8. COBGeneva reports that on May 28, 1997 heavily weighted Fiat Turbo ...

TOP SECRET

This forged CIA document, supplied by Oswald LeWinter, was part of an effort to extort $16 million from Mohammed Al Fayed, the father of Dodi Fayed. It purports to show that the CIA was involved in the assassination of Dodi and Princess Diana.

moved in to arrest him, too.

When Macnamara met with LeWinter a second time on April 23, 1998, the Austrian police moved in and arrested LeWinter, who, while he was being dragged off, threatened to kill both Mohammed Al Fayed and John Macnamara.

The law-enforcement team next searched LeWinter's hotel room, and found the documents that had been promised in the earlier telephone discussions with Fleer.

EIR has obtained copies of the documents, one of which was published in the *Mirror* on May 14. The documents were fairly sophisticated forgeries. A memo bearing the logo of the CIA's "Directorate of Intelligence, Domestic Collection Division" claimed that MI6 had solicited CIA support for an assassination of Dodi Fayed and Diana POW ("Princess of Wales"), but that the White House had refused to give its okay. However, the memo went on, the White House had authorized the CIA to connect MI6 official David Spedding to a Mossad hit-squad in Geneva, Switzerland, referred to as "K-Team."

There were several flaws in the forged CIA document. For one thing, as of the late 1970s, the Domestic Collection Division, a unit that debriefs American businessmen and academics who travel abroad, was transferred to the Directorate of Operations. The LeWinter document was dated "17 June 1997."

LeWinter's pedigree

Back in the 1960s and early 1970s, LeWinter had been a source for the Domestic Collection Division, according to several people interviewed by *EIR*. The CIA found him less than reliable, and reportedly severed all ties to him before the end of the 1970s. But that did not deter LeWinter.

In the 1980s, he began appearing in a series of high-visibility disinformation schemes. During the 1988 Presidential campaign, he claimed that he had been in Paris with George Bush in 1980, when the Republican Vice Presidential candidate had worked out a secret deal with Ayatollah Khomeini, to delay the release of American hostages in Tehran until after the November elections, to prevent Democrat Jimmy Carter from winning reelection. There was, in fact, compelling evidence that the Republicans had interfered in the hostage negotiations to obtain a delay; but LeWinter's claims of secret supersonic jet flights by George Bush to Paris were absurd, and helped to obscure the legitimate leads and cover up the real October Surprise scandal.

Following the Dec. 20, 1988 bombing of Pan Am 103 over Lockerbie, Scotland, LeWinter surfaced once again—this time, in league with Tiny Rowland. LeWinter appeared in a documentary film, financed by Rowland, and produced by Alan Francovich, the late London-based American filmmaker, who had been in the orbit of CIA defector Philip Agee. On camera, LeWinter presented himself as a high-level career CIA officer, who had been involved with a special unit in Frankfurt, West Germany, that was implicated in the Lockerbie bombing. At the time of the film, Rowland was courting the Libyans, and saw the film, which exonerated the Qaddafi government of sole responsibility for the Pan Am 103 bombing, as a way to deepen his Tripoli connections.

Apart from LeWinter's own claims of continuing links to Rowland, during his conversations in Vienna, the phony CIA document seized in LeWinter's hotel room referenced "Ken Etheridge," Rowland's security chief, and a former, corrupt British police detective, who was demoted after his links to London's leading pornographer were publicly exposed. Rather than return to the uniformed division, walking a beat, Etheridge went to work for Rowland.

Postscript: On May 15, 1998, CIA Public Affairs Officer Anya Guilsher issued an public statement about the LeWinter "CIA memo": "The document is a clear fabrication," she said, adding, "Any allegation that the CIA was in any way connected to any such plot is completely absurd."

While the document was phony, and the CIA was not part of any plot to murder Diana or Dodi, sources close to the Agency have told *EIR* that it had picked up some indications of moves to eliminate Diana and Dodi in the late spring of 1997—several months before their deaths. The warnings, although vague, were reportedly passed on to a Middle Eastern government. The CIA files are undoubtedly a well-spring of information that would be of benefit to anyone honestly attempting to solve the murder case of the decade.

Jordan's King Hussein pardons opposition leader Laith Shubeilat

by Our Special Correspondent

When the leading Jordanian opposition figure, Laith Shubeilat, was jailed on Feb. 20, *EIR* wrote, that the case would be a weathervane for the political process in the Middle East: The scales of justice would be more sensitive to political considerations made by the kingdom's highest authorities, than to the weight of any court evidence that might be presented relating to the charges. Now, on May 18, King Hussein announced a pardon for Shubeilat, which should lead to his release. The implications of the King's action, and the manner in which he took it, are far-reaching, for the future of the country and the region.

Shubeilat, who had been arrested, convicted, jailed, and pardoned in 1992 and again in 1996, was taken into custody this time, on charges that he had instigated crowds to riot in the southern city of Ma'an, where he had delivered a Friday sermon. Shubeilat had explicitly warned against violence in his sermon, and had been arrested on his way back to his home in Amman, long before any demonstration took place. The immediate intervention of the police had led to clashes, during which one man was killed. This precipitated further demonstrations, and the city was put under siege for a week, with hundreds jailed.

The operation had all the markings of a deliberate provocation, a set-up intended to entrap the former parliamentarian. By striking a blow against Shubeilat, as in the two previous cases, the authorities were attempting to intimidate and silence the entire opposition.

The context for the arrest was defined by the escalating crisis between the United Nations inspections team and Iraq, and the rapid deterioration of the Israeli-Palestinian talks, fuelled by Israeli Prime Minister Benjamin Netanyahu's obstinate refusal to comply with agreements made. Shubeilat not only defended the rights of Iraq, but had been acknowledged as a Jordanian political counterpart by the Iraqi leadership, which agreed to his requests for the release of Jordanian citizens held in Iraqi prisons.

Shubeilat has also been the major spokesman in Jordan against the terms of the 1994 peace treaty with Israel, and the economic policy package that the International Monetary Fund (IMF) has imposed on the country. Shubeilat has argued convincingly, that the peace treaty has not yielded the promised "peace dividend," but has instead led to a collapse in living standards for the Jordanian population, the majority of whom are Palestinian. Furthermore, he stressed, the IMF structural adjustment program, with its lifting of state subsidies on consumer goods, liberalization of prices, excessive taxation, and across-the-board privatization, including strategic economic interests, would destroy the economy and impoverish the population. That the Islamist activist has been right, is underlined by the catastrophic plunge in living standards, with 30% unemployed and 40% living below the poverty line.

During the period between his arrest and his conviction and sentencing to nine months in prison, on May 12, two important developments occurred in the region. First, the tables were turned on Netanyahu in the peace talks, as the United States toughened its stance, issuing ultimatums to Netanyahu, and Hillary Clinton publicly endorsed the establishment of a Palestinian state. King Hussein also blamed Netanyahu for the deadlock. Second, inside Jordan, the powerful professional unions, which represent the engineers, doctors, lawyers, dentists, pharmacists, and so on, escalated their defense of Shubeilat, and their activities against the IMF stranglehold on the economy. At the same time, social tensions were being fuelled through the deployment of an obscure terrorist group, which started planting bombs in Amman, bringing blind terror to the capital. Significantly, the "Reform and Challenge" group later linked to the explosions, is based in London.

Finally, the crisis in Indonesia took a turn for the worse, as economic and financial breakdown was transformed into demonstrations in the streets, rioting, and challenges to reigning President Suharto.

The King engineers a shift

The scene was set for a dramatic confrontation between the forces of the opposition and the government of Prime Minister Abdul Salam Majali. And, the opposition was not the vocal but impotent opposition parties in parliament, which have been de facto a loyal opposition, but rather the 13 professional associations, which represent actual power in the economy. Shubeilat was the president of the most powerful of the unions, the Jordan Engineers Association (JEA), until replaced by his vice president after being jailed. Under Shubeilat's leadership, the associations had successfully boycotted not only economic conferences planned with Israel, but also the last political elections in November, in protest against "a steady erosion of parliamentary authority and the lowering of the ceiling of public freedoms." Following the elections, the King had commissioned the government to study a law regulating the associations, which would have deprived them of their political power. By making membership voluntary, instead of mandatory, the new law would have limited their constituency character, and by separating members of the public from those of the private sector, it would have weakened them. Finally, the proposal to supervise the unions through a government appointee, was obviously intended to muzzle the unions completely.

On May 2, the associations appealed to the King, to meet and hear their demands, which included changes in repressive laws regarding the unions and the press, halting a planned government takeover of pensions funds, and blocking the IMF-dictated privatizations. King Hussein signalled his willingness in principle to meet, and said he would freeze the pension fund takeover. He said that the unions and the government should reach "a consensus which will give us the opportunity to accomplish more and more for this country and the region."

Then, on May 18, without forewarning, and escorted by a high-ranking delegation, King Hussein made a visit to the unions' headquarters. It was during that meeting, that the King engineered his shift from a confrontationist stance to one of cooperation, or cooptation.

The meeting of the presidents of the 13 unions, representing 80,000 professionals, was taking place in order to draft a "Salvation Charter," a list of grievances to present to the King. It was expected to contain clauses rejecting the peace treaty with Israel and also the IMF privatization plans.

During the three-hour discussion, the King told the press later, "We turned a new, bright page of cooperation and trust." Accompanied by Prime Minister Majali, Crown Prince Hassan, and Royal Court Chief Fayez Tarawneh, the King appealed to the union presidents to undertake "serious efforts to build the future and deal with reality in a vigilant and responsible manner," according to an account in the Jordan News Agency, Petra. He said the achievements of Jordan should not be belittled, and emphasized the importance of maintaining a "continuous dialogue" between the government and the governed. In a clear bid to depoliticize their activities, he said the priority of the unions should be to improve standards and efficiency in their professions. But, in reference to the feared law regulating the unions, the presidents "were assured that no law will be drafted without being openly and thoroughly discussed with the associations," said Abu Gheida, president of the JEA, and former vice president under Shubeilat.

Peace with Israel

The other major issue thrashed out in the meeting, was peace with Israel. Here, King Hussein stuck to his commitment, which he said was a strategic option, to peace. He elaborated on the need to prevent further wars, saying, "We must learn from the suffering that we endured in the past five decades, and from the 1967 and 1973 wars, unprepared and ill-planned steps that the Arabs took without an accurate analysis of the circumstances." He recalled, "We went to Madrid [the peace conference in 1991] with Arab consensus," and provided the Palestinians with an umbrella that enabled them to take part in the conference. He said Jordan would "stand by the Palestinians until they gain their rights on their national soil." Here he stressed his support for the U.S. efforts, which he said were based on UN Resolutions 242 and 338, and for the principle of land-for-peace. Finally, he reported on initiatives undertaken with the United States and UN aimed at lifting the sanctions against Iraq.

More than any issue per se, what demonstrated the King's position vis-à-vis the opposition, was what he said about Shubeilat. According to reports from Amman, it was Hussein Mjalli, president of the Lawyers' Association, and also chief attorney for Shubeilat, who told the King, that all 13 unions agreed in one demand: Free Shubeilat. This, the King did, declaring to his Prime Minister and Prince Hassan, that he was thereby ordering the Islamist's release. King Hussein said, "The Shubeilat affair is over." He added that "his colleagues [would be] guarantors for him," meaning that the professional unions would be charged with guaranteeing Shubeilat's good behavior.

Why the King did what he did, is no mystery. The Hashemite monarch, who has just celebrated 45 years on the throne, is a consummate politician and fine interpreter of social processes. Having Shubeilat out of the picture was seen as useful, when one last chance was being given to Netanyahu to play ball. Once it was clear that Netanyahu was not complying, there was no way that the lid could be kept on the opposition in Jordan. Thus, releasing Shubeilat was opportune.

But, more deeply, the decision to pardon Shubeilat signals the King's determination, that he must find a means of coopting, or collaborating with the opposition, if he wishes to maintain stability in the highly volatile kingdom. Some observers in Jordan have spoken of the King's moves as reflecting the "Suharto effect," or the option to acquiesce to the opposition rather than risk civil war.

If King Hussein has selected his moves with an eye on Indonesia, it will be crucial, that he fully grasp the dynamic behind the Indonesian drama and where the parallels to the Jordanian situation lie. Charges of corruption and nepotism against the Indonesian President have obfuscated the fact, that the causal force behind the unravelling of the country's economy, the debasement of its currency, and the resulting desperation of its suddenly pauperized population, has been the IMF, and no other. Thus, if the Jordanian monarch seeks stability for Jordan, he must break with the IMF policies which have condemned his country, as well as the prospects for peace, to death.

Report from Bonn by Rainer Apel

Reviving a lost spirit of cooperation

It is time to revitalize a genuine spirit of republicanism in U.S.-German relations.

A few days after U.S. President Bill Clinton, during a visit to Germany on May 13-14, prominently mentioned the role of German emigrés such as Carl Schurz in the defense of the United States against the Confederacy, Germany officially celebrated the anniversary of its first freely elected parliament, established in May 1848. The parliament, which was convened with deputies from all regions of Germany and Austria after the March 1848 revolutions, met in Frankfurt, at St. Paul's Church, beginning on May 18 of that year, and it was immediately recognized by the United States. The Americans endorsed the assembly's work on a republican constitution, which to a great extent relied on the U.S. Constitution. The Americans particularly encouraged efforts to replace the regimes created after the 1815 Congress of Vienna in the 34 German feudal states that existed at that time, with an elected, all-German national government.

American support for the St. Paul's Church assembly was crucial when the feudal German oligarchy struck back against it. In some regions, military force was used to abolish existing regional parliaments and cancel the mandates of deputies to the assembly. To escape prosecution by the feudal regimes, many Germans emigrated. From the autumn of 1848 on, a great number of republicans and other citizens who had lost confidence in the near-term chances of making Germany a republic, went to the United States, the only beacon of freedom at that time.

Among the Germans who chose to emigrate were citizens from the Eisenach region, in the state of Thuringia. Craftsmen, scientists, journalists, and teachers, they settled mostly in Iowa, where, in the town of Waverly, they established a Lutheran college and named it "Wartburg." This was to commemorate the Wartburg castle in Eisenach, where Martin Luther stayed while in exile during the early 16th century, when he was under the imperial ban of the Hapsburgs.

The Waverly connection, which had its ups and downs with the changing German regimes over the last 150 years, was revitalized after German reunification in 1992, when the citizens of Eisenach established a sister-city tie.

This is just one of many such transatlantic connections which were established as several million Germans emigrated to the United States. But, the Eisenach-Waverly connection has become particularly prominent now. Following Clinton's visit, there is now talk of a project to intensify such contacts, and to utilize the fact that, as Chancellor Helmut Kohl also pointed out in his Berlin speeches during Clinton's visit, 20% of the American population can trace their ancestry back to German origins. For the success of the "next century of U.S.-German friendship," which was proclaimed during the Clinton visit, the strengthening of these kinds of contacts will be important, not least because of the fact that the postwar elites who established the first 50 years of U.S.-German friendship after 1945, are dying out.

It must be said, however, that those 50 years of postwar U.S.-German ties were not without problems, which had to do with the fact that the republican foundations of that friendship, the spirit of 1848 and 1861, when many emigré Germans joined the Union armies against the Confederacy, no longer played much of a role. The Germanophobe Trumans, Kissingers, and Bushes dominated relations with Germany after 1945, the Presidential terms of Reagan and Kennedy being the exceptions, because they offered aspects of a genuine friendship. Clinton, similarly, has offered friendship, and even a strategic partnership, without the kinds of conditions that Presidents before him have always insisted upon.

For the Germans who want this new friendship, it has been an historical opportunity, not to be missed, that Clinton has been in the White House since 1993. Now that Clinton has reinitiated his offer for a strategic partnership, not quite on the level of his visit in July 1994, but in a similar spirit, the question is posed, how to make it a reality. U.S. Ambassador John Kornblum said something quite important in this respect, in a speech in Leipzig on May 8. He said that Germans should recall that for their ancestors, the United States, from its inception, has always been a "vision of a better society." The Germans who emigrated to the United States during the last century, Kornblum said, not only wanted to leave Europe to become Americans, but were also in the historic tradition of those for whom, for the past 400 years, even before the United States became a nation, the idea of "America" served as a standard for their efforts to improve their own societies. In that context, he said, the United States was "the only state to officially recognize" the St. Paul's Church assembly, and on that historic foundation, future U.S.-German relations, after the end of the Cold War and German and European partition, should develop.

International Intelligence

New Bretton Woods video aired in South America

A half-hour excerpt of the video of Lyndon LaRouche's March 18 speech on implementing a New Bretton Woods system, was broadcast in Spanish on May 14, by the Carivision cable network in the Dominican Republic. The broadcast was aired as campaigns for Congressional and local elections, on May 16, were coming to a close. Plans are under way to broadcast the full 90-minute video soon.

LaRouche's name also figured prominently in the campaign of Ramón Emilio Concepción, who is running for Senate on the slate of the new Institutional Democratic Party. Concepción told an interviewer for the TV program "Good Night, Mr. President," that the world is in the midst of the "worst crisis in history, and none of my rivals is offering a solution. LaRouche was the only economist who forecast what's taking place." Concepción has put forward a Dominican version of the LaRouche-style draft bill for an economic recovery, similar to ones that have already been introduced in Mexico and Argentina.

In Argentina, excerpts from LaRouche's New Bretton Woods video were broadcast on cable on May 7 and May 9, reaching an upper middle-class neighborhood in greater Buenos Aires. Portuguese dubbing of the video has just been completed for distribution in neighboring Brazil.

Binaisa: Blame Britain for Rwanda slaughter

Godfrey Lukwonga Binaisa, chairman of the African Civil Rights Movement and former President of Uganda, set the record straight on the 1994 genocide in Rwanda, in a May 13 response to a letter in the May 11 issue of the *New York Times,* by Belgian parliamentarian Alain Destexhe. Destexhe, wrote Dr. Binaisa, "by merely blaming the United Nations and its Secretary General Kofi Annan for the genocide in Rwanda in 1994, fails to address the important issues that led to that horrendous event. Among those issues he overlooks are: Who started the invasion of Rwanda in October 1990 from Uganda and for what purpose?

"As claimed by Ugandan President Yoweri Museveni, the Rwandan Patriotic Front, which now forms the current government in Kigali, invaded Rwanda from Uganda, as deserters from the Ugandan army. . . . President Museveni has never explained how one of the 'deserters' could be his own chief of Ugandan military intelligence at the time, Paul Kagame, the current Vice President and Defense Minister of Rwanda, and chief of the Rwandan Patriotic Front.

"The truth is that but for the invasion of Rwanda by Uganda, with the British and other western powers supplying Uganda with the sinews of war, there would have been no genocide in Rwanda four years later." The war was "managed" by Uganda's Museveni, "as an agent of British expansion in the Great Lakes region. This time, the British . . . intend to capture the region's fabulous mineral wealth and other natural resources. In addition, they intend to depopulate the area by making Africans fight fellow Africans, and thereby satisfy the wishes of the chairman of the World Wildlife Fund, HRH The Duke of Edinburgh and Consort of HM Queen Elizabeth II, who at one time remarked that in the next life, he would like to be reincarnated as a vicious virus and kill millions of people to reduce the world's population. . . ."

Did Thatcher hire Mossad agents against the IRA?

According to a May 14 documentary on Britain's Channel 4, former Israeli Mossad chief for Europe Rafi Eytan claimed that British Prime Minister Margaret Thatcher had him help the Secret Air Services (SAS) run a campaign against the Irish Republican Army. Eytan was the Mossad agent in charge of hunting down and killing the Arab terrorists who had murdered Israeli athletes at the 1972 Munich Olympics.

Eytan said that, shortly after Thatcher came to power, he received a secret briefing at the British Home Office. He then trained SAS troops in the desert in Israel, and ran joint Anglo-Israeli operations against IRA members in the U.K., the Middle East, and elsewhere.

Eytan reportedly also said that he had provided the British with a copy of the PROMIS law-enforcement software, to help track the IRA targets. This is the first public admission that Israel had obtained the software, which had been developed under proprietary arrangement for the U.S. Justice Department by the Inslaw firm in the 1980s. Inslaw was never paid for PROMIS, and, they charged, the DOJ illegally sold it to foreign governments. The fact that the Israelis apparently got the software illegally, implies possible involvement by one of the DOJ's top "permanent bureaucrats," Mark Richard, who has been the liaison to foreign intelligence services for decades.

Fissures split Britain's African warlords

Tensions between Eritrea and Ethiopia reached a high point mid-May when Eritrea invaded Ethiopia, causing a major embarrassment to the British warlord coalition that had been forged in blood to destroy Sudan. The invasion is over disputed territory between the two countries, whose forces fought each other for decades before Eritrea gained independence from Ethiopia in 1991.

Eritrean dictator Isaias Afwerki, a crony of Uganda's Yoweri Museveni, did not attend the Entebbe summit with President Bill Clinton in March, because he and Ethiopian dictator Meles Zenawi refused to be in the same room, according to sources.

In December 1994, Afwerki, summarily and without reason, broke diplomatic relations with Sudan, and offered the Sudanese embassy in Amara to Baroness Caroline Cox's National Democratic Alliance. But, it took a lot more pressure to pull Zenawi's Ethiopia into the anti-Sudan camp: That only occurred after the phony assassination attempt on Egypt's Hosni Mubarak at the Organization of African Unity summit in Addis Ababa, Ethiopia in July 1995, which was promptly blamed on Sudan.

The disruption in the anti-Sudan clique

caused the Democratic Republic of Congo to cancel its summit in Kinshasa to celebrate the first anniversary of Laurent Kabila's regime. One regional source told *EIR:* "I could never have imagined things would go this far. This new conflict could completely transform the military and political balance in the region."

Turabi rejects any idea of theocratic state

Dr. Hassan Turabi, the president of the Sudanese National Congress, repeatedly rejected any idea of a theocratic state, "like that of the Taliban in Afghanistan or the Christian theocracy of Calvin in Geneva," in an interview with Germany's *Der Spiegel* of May 21. Lamenting the discrepancies among Islamic regimes, Turabi announced that he has been working for two years on a new interpretation of the Koran, which he hopes to complete within another year or two. "My interpretation," he said, "concentrates on the present, although my model is the tolerant first Islamic state in Medina, which was never repeated. Naturally, the interpretation of *Sharia* [Islamic law] has to be adapted to the problems of today."

Turabi said that Sudan's draft Constitution, now being voted up by referendum, "resembles in essential points the modern constitutions of America and Europe." Although the Constitution is shaped by Islam, there is in it, the complete freedom of religion, he said.

China-Taiwan talks take on new life

President Bill Clinton's upcoming visit to China is being seen as an opportunity for both China's President Jiang Zemin and Clinton to contribute to new ideas to solving differences between the Mainland and Taiwan.

At the end of last year, President Jiang's close associate, Wang Daohan, who heads the Association for Relations Across the Taiwan Strait, met with a group from the New Party of Taiwan—pro-unification traditionalists who split from the KMT party—and floated several new ideas. "We can talk about anything, including the flag, the name of the country. The 'one China' is not tantamount to the People's Republic of China. It refers to a new China that compatriots on both sides of the Straits will build together," said Wang, according to transcripts released by the New Party.

Names such as "Greater China," or just "China" were discussed. Total autonomy for Taiwan, provided it ceases moves toward independence, was discussed. The success of the Hong Kong turnover, and the role of Tung Chi Hwa and other Hong Kong political and business leaders in Taiwan relations, have created a new, open environment for unification discussions.

Iranian daily appreciates Clinton's policy on Israel

An editorial in the May 11 *Tehran Times,* entitled "Principled Stance of Clinton Can Solve Middle East Crisis," expresses the view, shared by moderates inside Iran, that President Clinton has shifted his policy toward the Mideast crisis.

According to the article, "Clinton has now started realizing the bitter fact that to support Israel's unjust stances is not in the national interest of his country. It was Washington's biased policy towards Israel that undermined the credibility of the United States among even the front-line satellite states of that country.

"We wish the Clinton administration had adopted a firm and principled policy on the Middle East from the very first day of starting the peace process. What is at stake is not the issue of the Palestinians, Jews or Arabs. Sane men wish that these ethnic and religious communities could live in complete harmony."

The editorial ends by noting that Israeli Prime Minister Benjamin Netanyahu has asked British Prime Minister Tony Blair to mediate. "Such a move is nothing but to buy time and detract the world public opinion from the real issue, which is fulfilling what Israel and the Palestinians have signed. The Zionist regime has to come to its senses."

Briefly

THE AUSTRALIAN Federal Police is about to sign an agreement with Beijing, which will make it part of a 15-nation network fighting drug trafficking. Under the arrangement, Australian police will be posted to Beijing, where they will work with Chinese law enforcers, sharing intelligence and knowledge of each other's judicial system, to achieve convictions.

THE CORSICAN National Liberation Front-Historical Wing announced the end of their three-month "truce" since the murder of the island's French prefect, Claude Erignac. The May 13 announcement came when the FNLC took responsibility for a bombing in Marseilles. Another bombing attempt, against a bank in the Corsican capital of Ajaccio, was foiled.

BRITISH anti-terrorist police arrested eight Muslims believed to be members of the London-based Algeria Armed Islamic Group (GIA). The British were finally spurred to action against the very terrorists they protect, because they believed that the GIA was planning an attack on the World Cup soccer games, to be held later this year in France.

PATRIARCH OF MOSCOW and All Russia Aleksei II said that capital punishment is tantamount to premeditated murder and violates the Biblical commandment "Thou shalt not kill," Interfax reported on May 12.

PHILIPPINES Vice President Eric Estrada was leading in the Presidential elections in early returns on May 11. Estrada is a popular former movie star. The most likely vice presidential candidate appears to be Sen. Gloria Macapagal-Arroyo, the daughter of a former President. Although allied to President Fidel Ramos's party, she has, on occasion, broken with him on globalization. The final vote tally is expected to take up to two weeks.

EIR National

Anti-China hysteria targets Clinton and his China policy

by Edward Spannaus and Marsha Freeman

Goaded on by leaks from Federal governmment officials hostile to President Clinton's policy of strategic engagement with China, a wave of "yellow peril" hysteria has swept through the U.S. Congress. With the Eastern Establishment news media and Congressional Republicans in the van, Congress is attempting to cut off all U.S. high-technology trade with China—the result of which would be to cede to European companies much of the exports and trade with China now carried out by U.S. corporations, and to isolate the United States from the world's most populous nation.

Around the time of last October's summit between Presidents Clinton and Jiang Zemin, Lyndon LaRouche stated that the U.S. relationship with China is the most important bilateral relationship that the United States has with any country in the world. He emphasized that the U.S.-China combination is the only force in the world capable of defeating the evil British Empire and leading the world out of the current, onrushing economic breakdown crisis.

The objective of the British- and European-centered oligarchy known as the "Club of the Isles" has been to force a split between the United States and China, isolating the U.S. and creating circumstances under which the Chinese could be manipulated into adopting an adversarial posture against the United States. The actions just taken by the U.S. House of Representatives—were they to succeed—would go a long ways toward accomplishing this objective.

House votes to curb exports

On May 20, the House approved four measures by lopsided votes, designed to limit satellite and high-technology exports to China. The measures were all in the form of amendments to the defense authorization bill.

The House passed, by a 364-54 vote, a ban on exports or re-exports of satellites to China. Another amendment, prohibiting the transfer of U.S. missile equipment or missile-related technology, passed 412-6. And an amendment prohibiting U.S. companies from participating in investigations of launch failures in China passed 414-7.

The House also passed, by a vote of 417-4, a non-binding "sense of the Congress" resolution urging President Clinton not to enter into any new agreements with China involving space or missile technology during the June summit in Beijing. The resolution also declared that the granting of a waiver to Loral Space and Communications earlier this year was "not in the national interests of the United States."

The effect of the House amendments, if also passed by the Senate, would be to cancel all pending and future satellite deals with China, including a $600 million deal involving Hughes Electronics. "The impact on American domestic producers will be significant," said Hughes, "because it would cut us out of the competition of selling satellites not only to the Chinese, but to customers in other countries that want to launch in China."

The May 21 *Wall Street Journal* said that the House measures "open a window for foreign corporations to jump ahead in the competition to provide global-communications services." Last year, there were 35 launches of commercial satellites on U.S., French, Russian, and Chinese rockets. There could be a demand for as many as 350 launches over the next few years. European companies would pick up much of the business from developing countries, which now use U.S.-made satellites which are launched on Chinese rockets, because of a shortage of U.S. launch rockets. And European companies are not subject to the same sort of rigid restrictions on dual-use technology that U.S. manufacturers are.

In short, the only country which will be hurt by a cutoff of U.S. high-technology exports to China will be the United States itself.

New York Times lies

The immediate background to the current anti-China hysteria is as follows. On April 13, *New York Times* writer Jeff Gerth accused the Clinton administration of giving missile technology secrets to China, by allowing the launch of U.S.-built communications satellites on Chinese rockets, which could supposedly be used for military purposes.

Later, it was "revealed" that the CEO of the parent company that built the satellites in question, Space Systems/Loral, was the single largest contributor to the Democratic Party during the President's reelection campaign. Accusations are now being thrown about, that the President was willing to give away American military secrets to China, in exchange for cash.

But, as the White House has emphasized, there has been a continuity of policy regarding using Chinese rockets to launch U.S.-made commercial satellites from the Reagan and Bush administrations to the present.

In 1988, President Reagan had given a green light to granting export licenses for American satellites on Chinese rockets. In early 1989, the Bush administration signed an agreement with Beijing to limit Chinese launches of U.S.-built satellites to nine such launches through 1994. After the June 1989 Tiananmen Square bloodshed, a Presidential waiver was required to get around the sanctions imposed on China by the U.S. Congress. The first launch of a U.S.-made satellite on a Chinese rocket took place in 1990, approved by President Bush. A total of 16 waivers have been signed, nine by Bush and the rest by Clinton.

Gerth's fallacious assertion—mindlessly repeated by other news media and in Congress—was that potential dual-use rocket/missile guidance technology had been given to the Chinese during the investigation of a launch failure of a Long March rocket carrying a Loral satellite, in early 1996. Much is being made of the fact that the Clinton administration granted another waiver to Loral in February 1998, while the Justice Department was still investigating the 1996 incident.

The truth of the matter is that *no* missile technology was given to the Chinese by Loral or anybody else. A May 18 statement issued by Space Systems/Loral stated: "Loral makes commercial communications satellites, not launch vehicles. The company did not advise the Chinese on how to fix any problems with the Long March rocket." The Chinese, Loral states, "and the Chinese alone—conducted an independent investigation of the launch failure, and they determined that the problem was a defective solder joint in the wiring—a 'low-tech' matter."

However, insurance companies insisted that representatives of several satellite companies review the results of the Chinese investigation. A committee of U.S. engineers concurred with the Chinese on the cause of the launch failure. "The entire activity was carried out openly. Press releases on the review committee's work were issued . . . no sensitive information—no significant technology—was conveyed to the Chinese," Loral states. The only real issue involved was that the committee presented its conclusion to the Chinese, before consulting with the State Department. This provided the pretext for the Justice Department investigation.

Both Loral and the White House have stated that there is no connection between the Justice Department investigation of this breach of procedure, and the issuance of a waiver by President Clinton to launch another Loral satellite this past February. President Clinton has been accused by Gerth of souring the DOJ investigation, by granting a new satellite launch waiver, so the story goes, because Loral Chairman Bernard Schwartz is a major funder of the Democratic Party. But there is not a shred of evidence that the President's decision to grant a waiver to Loral was in any way influenced by Schwartz's contributions.

A spokesman for Loral in New York told *EIR:* "We're embroiled in an internal administration policy debate." As far as Capitol Hill is concerned, he said simply, "There are some people who think we shouldn't have any trade with China, at all."

Gerth wrote another article on May 15, centering on sensational leaks from the Justice Department regarding Johnny Chung, a former Democratic Party fundraiser who has been indicted by the Justice Department, and who is now reported to be cooperating with Federal prosecutors in hopes of obtaining leniency. Gerth reported—all based upon anonymous sources—that Chung said that a large part of the nearly $100,000 he gave to the Democratic Party in the summer of 1996 came from a top Chinese military official, through the officer's daugher, an executive of China Aerospace Company. But there is absolutely no evidence that anyone in the Democratic Party or the administration even knew about the Chinese contributions—if indeed they even happened.

But it was nevertheless these two *New York Times* articles which gave rise to shrieks that the Clinton administration had given guided-missile technology to China, in exchange for campaign contributions—which technology could then be used by China to launch nuclear warheads against the United States!

As soon as the story came out, House Speaker Newt Gingrich and other Republicans called on Clinton to cancel his trip to China scheduled for June. The White House has stuck to its guns, and said that the trip will go ahead. Spokesman Mike McCurry said on May 21 that "the President sees building a more positive, constructive relationship with China as in the best interests of the American people," and that it would be irresponsible of the President not to pursue this relationship because of the controversy being stirred up in Congress. "And after the dust settles from those votes yesterday, and some reason comes back to prevail in the halls of Congress, we'll move on, get on, with the relationship."

Support grows for McDade-Murtha 'Citizens Protection Act of 1998'

The Citizens Protection Act of 1998, designed to clean up prosecutorial abuses by the permanent bureaucracy in the Department of Justice and other government agencies, was introduced into the U.S. House of Representatives by Joseph McDade (R-Pa.) and John Murtha (D-Pa.) on March 5 (see "Exonerate LaRouche, to Stop America's Political Lynchings," EIR, *May 15, 1998). As we go to print, it now has 137 Congressional co-sponsors:*

Alabama
Robert Aderholt (R)
Spencer Bachus (R)
H.L. (Sonny) Callahan (R)
Bob Riley (R)
Alaska
Don Young (R)
Arizona
Ed Pastor (D)
Bob Stump (R)
Arkansas
Jay Dickey (R)
California
Brian P. Bilbray (R)
Ken Calvert (R)
Tom Campbell (R)
Gary A. Condit (D)
Christopher Cox (R)
Randy (Duke) Cunningham (R)
John T. Doolittle (R)
David Dreier (R)
Vic Fazio (D)
Elton Gallegly (R)
Duncan Hunter (R)
Stephen Horn (R)
Jerry Lewis (R)
Ron Packard (R)
Nancy Pelosi (D)
Richard W. Pombo (R)
Dana Rohrabacher (R)
Esteban E. Torres (D)
Colorado
Dan Schaefer (R)
Connecticut
Rosa DeLauro (D)
Nancy L. Johnson (R)
Florida
Michael Bilirakis (R)
Mark Foley (R)
Tillie K. Fowler (R)
Porter Goss (R)
Carrie P. Meek (D)
John L. Mica (R)
Dan Miller (R)
Joe Scarborough (R)
E. Clay Shaw, Jr. (R)
Clifford B. Stearns (R)
Karen L. Thurman (D)
C.W. Bill Young (R)
Georgia
Mac Collins (R)
Charlie Norwood (R)
Idaho
Helen Chenoweth (R)
Illinois
Danny Davis (D)
Ray LaHood (R)
William O. Lipinski (D)
Donald Manzullo (R)
Bobby Rush (D)
Indiana
Steve Buyer (R)
David M. McIntosh (R)
Peter J. Visclosky (D)
Iowa
Jim Nussle (R)
Kentucky
Anne Northup (R)
Louisiana
Bob Livingston (R)
William Jefferson (D)
Maine
John Elias Baldacci (D)
Massachusetts
Joe Moakley (D)
Maryland
Albert Wynn (D)
Michigan
Vern Ehlers (R)
Joe Knollenberg (R)
Mississippi
Mike Parker (R)
Roger F. Wicker (R)
Missouri
William (Bill) Clay (D)
New Jersey
Rodney P. Frelinghuysen (R)
Frank A. LoBiondo (R)
H. James Saxton (R)
Chris Smith (R)
New Mexico
Bill Redmond (R)
Joe Skeen (R)
New York
Sherwood Boehlert (R)
Michael P. Forbes (R)
Benjamin A. Gilman (R)
Amory Houghton (R)
Sue W. Kelly (R)
Peter T. King (R)
Rick A. Lazio (R)
Jack Quinn (R)
Gerald B.H. Solomon (R)
James T. Walsh (R)
North Carolina
Cass Ballenger (R)
Bill Hefner (D)
Charles H. Taylor (R)
Ohio
David L. Hobson (R)
Marcy Kaptur (D)
Steven C. LaTourette (R)
Deborah Pryce (R)
Ralph S. Regula (R)
Louis Stokes (D)
James A. Traficant (D)
Oklahoma
Tom Coburn (R)
Ernest Jim Istook (R)
Wes Watkins (R)
J.C. Watts, Jr. (R)
Oregon
Robert (Bob) Smith (R)
Pennsylvania
Robert A. Borski (D)
Mike Doyle (D)
Philip S. English (R)
Chaka Fattah (D)
Bill Goodling (R)
Jim Greenwood (R)
Tim Holden (D)
Paul E. Kanjorski (D)
Ron Klink (D)
Frank Mascara (D)
Joseph McDade (R)
Paul McHale (D)
John P. Murtha (D)
John Peterson (R)
Joseph R. Pitts (R)
Curt Weldon (R)
South Carolina
James E. Clyburn (D)
Lindsay Graham (R)
Floyd D. Spence (R)
Tennessee
John J. Duncan (R)
Harold Ford (D)
Zach Wamp (R)
Texas
Henry Bonilla (R)
Tom DeLay (R)
Gene Green (D)
Ruben Hinojosa (D)
Sheila Jackson Lee (D)
Silvestre Reyes (D)
Ciro Rodriguez (D)
Utah
Merrill Cook (R)
James V. Hansen (R)
Virginia
Thomas J. Bliley, Jr. (R)
Bob Goodlatte (R)
Jim Moran (D)
Owen Pickett (D)
Robert C. (Bobby) Scott (D)
Norman Sisisky (D)
Washington
Norm Dicks (D)
Jennifer B. Dunn (R)
Doc Hastings (R)
George R. Nethercutt, Jr. (R)
West Virginia
Alan B. Mollohan (D)
Nick J. Rahall (D)

Wieczorek: 'Free trade is the enemy'

In an interview on KSOO radio in Sioux Falls, South Dakota on May 20, LaRouche Democrat Ron Wieczorek, who is running for Congress, told the audience of host Rick Knobe that he had just returned from a week-long tour of western South Dakota. What he saw of the poverty and lack of development there proves that he and Lyndon LaRouche are right about economics—that a new international monetary system is needed, now. Wieczorek said, "I toured the Pine Ridge Reservation with Dick Hagen, a State Legislator there. A 55-mile-by-140-mile area of land, with no bank, no nursing home. Where life expectancy is 56 years for a man. These are my *friends*. This is a *damned* intolerable situation. I would call it a national emergency. Here, we have a Third World country, in the middle of the heartland of the United States of America."

Wieczorek also told Knobe, the former mayor of Sioux Falls, why Democrats should choose him in the June 2 primary, over Jeff Moser, to challenge incumbent Republican John Thune: "My hero is Abraham Lincoln and he was one of the greatest, actually the greatest, Republican ever elected to office. . . . So here's Abraham Lincoln, the Republican, and you've got FDR, the Democrat. And if you studied their policies and speeches like I have, both of these men know what the American System was all about, and this is what makes great statesmen. . . .

"From '79 to '83 in my farm business—I was a Massey Ferguson dealer—I saw one-third of my farm customers either retire, most of them just went broke, some of them committed suicide. To me, it was a terrible crisis. And 10 years prior to that, these guys had been the miracle producers of the world. They were feeding the whole world. And all of a sudden, at once, they had turned into sorry managers. . . . Then, I saw the company that I represented, the largest manufacturer of farm equipment in the world, the third largest manufacturer of equipment in North America, file bankruptcy in 1985.

"So I had to start looking at things, and that's when I began my sincere studies into economics and politics. And I think I've run across what we need: . . . my whole program and my campaign are based on the need for a New Bretton Woods system."

Knobe asked the candidate to explain this "Bretton Woods monetary system . . . in simplistic English." After detailing the history of Franklin Roosevelt's convening the postwar powers in rural New Hampshire, to create international credit institutions, especially to rebuild Europe's war-ravaged industrial base, he explained how the International Monetary Fund and World Bank—born of Bretton Woods—devolved into predatory enforcers of free trade on hapless Third World and former communist countries. "Well, today, after the free-trade attacks—like on Russia, when the Wall came down in '89—today we're looking at almost ten years, after this free-trade invasion of Russia, and what do we have? We have Russia at 25% of the productivity that it had in 1989.

"Free trade is worse than communism. They keep telling us to wait. How long do you have to wait? Russia has lost 1 million people per year, for seven years—"

"You talk to the people who have been over to Russia," interjected Knobe, "and they say, Russian folks don't know how to work! . . . Communism falls apart and now they've got to compete worldwide, and they don't know how to do it. . . . That's what I'm hearing."

"That may be what you're hearing, Rick, but I was in east Germany in '93, three years after the Wall came down, and I met with the people who had worked on the commune farms, over there. And, I had pictures of how we operate over here, and my brothers and myself operating large, custom-harvesting operations, major investments in agriculture equipment. They have the same thing over there. But they have commune farms: And, one of their farm managers—somebody had made some comment about 'they don't know how to work.' He said, 'My people work from sunup to sundown.' And, I believe him, because that's where my heritage comes from, and I know how hard everybody in the Wieczorek family works. . . .

"These people are very industrious. Today, we look at what free trade has done for Germany. In '93, I spent three weeks over there . . . and I told them what it would do to them: Today, Germany has 15, 16% unemployment. This is the worst since 1932."

Get back to the American System

Wieczorek explained: "We have to end free trade. We have to get back to the policies of the American System. Along with the destruction of Russia, we've lost a trading partner. You know, free trade was supposed to create trade: But we lost Russia! We've lost all the former Soviet Union countries as trading partners.

"In the past year, due to the deregulation of the banking system, the floating currency system, you can see what happened in the Southeast Asian sector: Indonesia, Thailand, Malaysia, South Korea—those areas of the world. They had 30-90% of the value of the currencies destroyed, taken away from them in a matter of three to four months. Taking away from the people, what they had worked 30 and 40 years for. . . . And look what's happened—we've lost that market. Free trade is just as destructive as the bombs that were dropped in World War II. . . . This is the system that has always been the enemy of the American System."

Congressional Closeup by Carl Osgood

Brownback badgers Indyk on sanctions against Iran

Sam Brownback (R-Kan.), chairman of the Senate Near Eastern and South Asian Affairs subcommittee, at a hearing on May 14, demanded that the Clinton administration go ahead with sanctions, under the Iran-Libya Sanctions Act (ILSA), against the French Total oil company and Russia's Gazprom, because of their involvement in natural gas development in Iran.

Assistant Secretary of State for Near East and South Asian Affairs Martin Indyk acknowledged that a State Department report identifies Iran as "the most active state sponsor of terrorism." But, he said, "we believe the prospects for change are there." He pointed to the election of President Seyyed Mohammad Khatami, and numerous other changes, including Iran's efforts to "turn a new page" in its relations with other nations in the region, as evidence that "change is afoot" in Iran.

Indyk refused to say whether sanctions would be imposed, because no decision had yet been made (though rumors abound that President Clinton will waive the sanctions). To discuss it in an open hearing, Indyk said, would be "inappropriate." He assured Brownback, however, that "whatever decision is made, the assessment will be based on how best to promote the purposes of the legislation."

The hostility of other nations toward the ILSA was revealed when Charles Robb (D-Va.) asked Indyk about how they view such secondary boycotts. Indyk replied, "They do not see why their companies should be punished for things which they consider to be the right thing to do in terms of international commerce, and they view the legislation as an issue of extra-territoriality, where we are trying to extend our law to other countries and other companies."

Bankruptcy reform is a boon to credit card firms

The markup of the Bankruptcy Reform Act (H.R. 3150) in the House Judiciary Committee on May 12, was a good demonstration of the bad that can result when the incessant propaganda claiming that the U.S. economy is the strongest it's been in 30 years, is not challenged. Proponents of H.R. 3150, such as Rep. Bill McCollum (R-Fla.), argued that because of the "strength" of the economy, the record 1.4 million personal bankruptcy filings in 1997 can only be attributed to "abuse of the system." Therefore, the system has to be reformed in order to make Chapter 7 bankruptcy more difficult. This the bill does.

H.R. 3150 is also sponsored by George Gekas (R-Pa.), Rick Boucher (D-Va.), and Jim Moran (D-Va.). However, not all Democrats on the committee are enamored of this bill. John Conyers (D-Mich.) said, "We've taken a law which has always worked to balance the needs of debtors and creditors and skewed it to the benefit of unsecured creditors." Jerrold Nadler (D-N.Y.) said that the underlying assumption of the bill is that millions of Americans are deadbeats, which, he said, is a "slander" against the middle class. He said that it was the credit card industry which is seeking the changes in the bill.

Nadler and Conyers complained about the speed with which the bill is being moved. The last major reform of the bankruptcy code, passed in 1978, involved 50 hearings over five years. The House GOP wants to pass this bill in a few months, and with only four hearings. McCollum said, "We don't need five years to do a good bill, and this is a good bill." The committee approved the bill by a voice vote after two more days of debate.

Tobacco legislation taken up by Senate

On May 18, the Senate began consideration of legislation to implement last year's agreement between state attorneys general and the tobacco industry. The bill has followed a tortuous path to get to the Senate floor, and has exposed ideological splits within the Republican caucus. The legislation is the result of a compromise worked out by Commerce Committee Chairman John McCain (R-Ariz.), which is supported by Senate Democrats.

The GOP leadership, however, has weighed in against the bill. Majority Leader Trent Lott (R-Miss.) predicted on May 12 that the bill would not pass. Two days later, John Ashcroft (R-Mo.) and Rod Grams (R-Minn.) trotted out a collection of neo-conservative ideologues from groups including the National Taxpayers Union, the Cato Institute, and the Heritage Foundation, who complained that the bill "is the most massive, comprehensive tax increase imaginable," as one of them put it.

However, the vote in the Finance Committee on May 14 showed a deep split among Senate Republicans. The committee approved the tax portions of the bill by a vote of 13-6; Republicans were split 5-5, giving Democrats hope of passing the bill. Minority Leader Tom Daschle (D-S.D.) said the day after the vote, "We feel we've picked up some momentum." He forecast that there would be 60 votes for the bill, enough to shut down any filibuster. By May 18, Lott had indicated a change of heart, telling reporters that the bill now "has a chance," assuming it is amended with some GOP alternative.

A similar bill is pending in the House, sponsored by James Hansen (R-Utah), Marty Meehan (D-Mass.), and Henry Waxman (R-Calif.), which has already been endorsed by President Clinton. However, the House GOP leadership has indicated that the bill will not come to the floor.

Agreement reached on transportation bill

On May 18, a House-Senate conference committee announced that it has agreed on a highway bill that had been under negotiation for more than three weeks. The $200 billion plan sets aside $158 billion in outlays and $167 billion in contract authority over six years for highway construction, with the remainder going to safety programs and mass transit.

The compromise guarantees that gasoline taxes will be used solely for highways and mass transit, rather than for other programs or for budget balancing. This has long been a priority for House Transportation and Infrastructure Committee Chairman Bud Shuster (R-Pa.). The agreement also waters down a drunk driving provision that was in the Senate bill, and protects $9.3 billion in the House bill that is earmarked for 1,467 specific projects.

Differences with the White House were apparently ironed out. Office of Management and Budget Director Franklin Raines had warned in a letter to Congressional leaders on May 12 that he would recommend that President Clinton veto the bill if it is financed by "spending the surplus, by reducing the domestic discretionary caps, by using unacceptable offsets, or by forcing cuts in domestic priorities." However, after the agreement was announced, the White House indicated that the President will likely sign the bill when it comes to his desk.

Helms introduces Cuban humanitarian aid bill

Senate Foreign Relations Committee Chairman Jesse Helms (R-N.C.), joined by a bipartisan collection of 21 co-sponsors, introduced a bill on May 14 to authorize up to $100 million of U.S. humanitarian aid to civic organizations, such as the Catholic Church, operating in Cuba. Helms compared Pope John Paul II's visit to Cuba earlier this year to the Pope's June 1979 visit to Poland. Helms declared, "The United States must now help the Cuban people cultivate those seeds of liberation just as the United States worked with the Pope in helping the Polish people in their struggle against Communist oppression nearly two decades ago."

The bill, entitled the Cuban Solidarity Act, would allow direct flights to Cuba to deliver private and U.S. government donations of food and medicine, and mandates a pro-active U.S. policy of support to opposition groups inside the country. Helms said that the bill would "add a new dimension to the U.S. policy regarding Cuba." He emphasized that the U.S. embargo against Cuba will not be otherwise affected by the bill.

Sen. Bob Graham (D-Fla.), one of the co-sponsors, said that the bill will have three important effects. "First," he said, "it will assist in providing the humanitarian assistance directly to the Cuban people, particulary those most in need. Second, it will strengthen the position of the non-governmental society in Cuba," including the Catholic Church. "Third, it will help to undermine Castro's policy of denying food and medicine as a means of achieving political control." Graham added that it was "U.S. support for democracy movements in Poland and other countries in eastern Europe that helped millions of people win their freedom. . . . We should not deny the same opportunities for liberty and freedom to the people of Cuba."

Financial services bill clears House

On May 13, the House passed H.R. 10, the so-called financial services modernization bill, by a vote of 214-213. The close vote, and the fact this was the third attempt to bring the bill to the floor, reflect widespread uncertainty about the consequences of breaking down the firewalls between banking activities and securities and investment activities. The bill allows the affiliation of banks, securities firms, and insurance companies by repealing the Depression-era Glass-Steagall Act.

Many of those who had doubts about the bill, such as Ed Markey (D-Mass.), were mollified by amendments that increased "protections" for depositors and investors. He said, "Tearing down Glass-Steagall is a good idea if we build in the proper safeguards, firewalls to protect investors and depositors and taxpayers."

However, Bruce Vento (D-Minn.) pointed out that "those that need . . . this measure are the Citibanks and Travelers that have basically entered into agreements which are not permitted under current law. Therefore, this bill is a must-pass measure for them." The fact that such institutions as Citibank and Travelers are violating current law, makes protections built into the bill of questionable effectiveness.

Editorial

It's the IMF that's to blame

U.S. State Department spokesman Jamie Rubin, queried at a press conference on May 15 about the crisis in Indonesia, stated baldly that "the IMF program is not the source of Indonesia's troubles."

We beg to differ. The record shows that whenever the International Monetary Fund comes in with a "rescue package" for a nation, that nation is chewed up by the global financial oligarchy, then spit out—whatever is left of it. That is why, a little over one year ago, Lyndon LaRouche issued a call for "a war of annihilation against the IMF."

Look at a few examples of IMF "success stories."

Mexico: In January 1995, following a near-blowout of the international monetary system when Mexico's peso fell through the floor, a $50 billion "rescue package" was put together, including some $17 from the IMF.

Conditionalities: The IMF imposed: wage reductions, government spending cuts, interest rate hikes; privatization of the state-owned oil company Pemex, as well as ports, airports, telecommunications, and other companies.

What happened: As of February 1997, twenty-two percent of per-capita production of consumer goods and 29% of production of producer goods were wiped out. Real unemployment doubled, to nearly 50% of the labor force. Manufacturing workers were reduced from 10% to 5% of the total labor force. In August 1997, the government claimed 7% growth in first half of the year, but close inspection revealed the statistic to be a fraud. What growth there was, *EIR* showed, was largely due to exports, rather than to any growth in the domestic market.

Russia: For six years, Russia's status as a great power has been stripped away by IMF "reforms." In February 1998, after long negotiations, the IMF agreed to continue its $10 billion Extended Fund Facility for Russia; $700 million will be doled out per quarter, until the year 2000, provided Russia adheres to IMF conditionalities.

Conditionalities: firing of 10-15% of public sector employees; draconian budget cuts and privatization of state-owned companies; harsh measures against companies delinquent in tax payments; decreasing import duties for goods having no Russian analogues; other secret agreements.

What happened: As of March 1998, mass layoffs of public employees; wage arrears to public employees stand at $9.6 billion; functions of the State Duma (Parliament) are essentially controlled by the IMF. In 1995, twenty percent of firms were operating at a loss; in 1996, forty percent were. The black market is pervasive; life expectancy has plummetted and the health of the population has deteriorated sharply.

Poland: Poland is such an IMF "success story," that it no longer receives any money from the Fund. But in fact, it has never recovered from the shock therapy of 1990, when in just one month, industrial production fell by 31%, trade by over 50%, real wages by 30%, and prices increased by 80%. As a result of the deteriorating standard of living during the last eight years, the birth rate collapsed to 1.6 per woman in 1997, the lowest since World War II. More than 50% of families live in poverty.

Thailand: In August 1997, following a massive assault on the baht, the IMF concluded a $25 billion "stabilization" deal with Thailand, the biggest since the 1995 Mexico bailout.

Conditionalities: $3 billion in budget cuts; 3% increase in the Value Added Tax; establishment of derivatives markets; foreign banks to be allowed to own an even higher percentage of Thai firms than the previous limit of 25%; privatization of more state enterprises; freeze on wages.

What happened: As of May 1998, the IMF money is going almost entirely to pay derivatives losses to foreign speculators. Interest rates are over 20%; liquidity in the economy has dried up, with warnings that 50% of all firms will be bankrupt soon if that is not corrected; the baht is further weakened; nearly all infrastructure development programs are halted; state-sector industries and banks are being privatized.

Commented Malaysian Prime Minister Dr. Mahathir bin Mohamad: "The baht is still sliding and the Thai economy is still in bad shape after borrowing $21 billion from the IMF. So, why do you borrow from the IMF, if it is not going to help at all?"

We think he has a point.