

LaRouche Takes On Project Democracy at Public Accountants' Forum in Peru

U.S. statesman Lyndon LaRouche went head to head with Project Democracy's hatchetmen in Peru, in a Feb. 23 interactive video conference, sponsored by the Association of Public Accountants of Lima, and attended by 400 people in that city. The debate, excerpted extensively below, pitted LaRouche's global strategy to save nations and peoples from the catastrophe now hitting as the world economy disintegrates, against Project Democracy's strategy of using fraudulent "anti-corruption" witch-hunts to tear apart governments across the globe.

Exactly a year ago, the Lima Accountants Association had sponsored a first video-conference by LaRouche. Attended by 500 people, it established LaRouche as the strategic reference for nationalists throughout the course of their hard-fought battle, ultimately lost, to defend Peru from takeover by the Project Democracy narco-machine. (See *EIR*, March 10, 2000, *Conference Report*, for the full transcript of that dialogue.)

Intimidation, Baiting Fall Flat

Today, Peru is a different country, as Luis Vásquez reports in his article in this issue. Yet, for all the police-state measures being taken by the Project Democracy crowd now running the country, under conditions of worsening world crisis, Project Democracy's grip upon Peru is not secure. The last thing those international interests wanted to happen, was for Peruvians to have direct access to LaRouche again. There was a brawl and a half to try and shut down the conference in advance. When the intimidation tactics did not work, the Project Democracy machine decided to take on LaRouche, in a direct debate. Two of the five prominent Peruvians who joined the panel which responded to LaRouche after his opening presentation, came to challenge LaRouche. Unable to counter LaRouche on matters of international economics, the two attempted to bait LaRouche on the issue of corruption, but found they had opened the door, instead, to the most devastating indictment of the actual source of the corruption inundating nations around the world: the British system of liberal economics which Project Democracy defends.

The full exchange was carried live on a simultaneous international, bilingual webcast over *EIR*'s website, www.larouchepub.com, and remains available, in English and Spanish, in the site's archive.

LaRouche: New Bretton Woods System Is Needed

On Feb. 23, 2001, Lyndon LaRouche addressed the Association of Public Accountants of Lima, Peru, by international video-conference hook-up. The full exchange was carried live on a simultaneous international webcast over EIR's website, www.larouchepub.com, and remains available in the archive. Excerpts from the dialogue follow. EIR has translated the questions from Spanish, and added subheads.

Introduction from Peru

Roberto Alva Sánchez: Ladies and gentlemen. I wish you a very good evening. On behalf of the Finance Committee of the Association of Public Accountants of Lima, I have the pleasure of welcoming you to this international video-conference, being transmitted from the United States of America, and entitled "The Challenge of Foreign Investment, Considerations on Country Risk."

Our guest is Dr. Lyndon LaRouche, international speaker and financial expert. We are joined at this time, by the following panelists: Dr. Dennis Falvy Valdivieso, former dean of the Association of Economists of Lima, and economic and political commentator for the newspaper *La República*; Dr. Luis Lizárraga Pérez, senior professor of finance at the University of Lima; and economist and engineer Luis Vásquez Medina, executive director of *EIR* in Peru.

We will now go to the United States, and to Dr. Lyndon LaRouche, whom we receive with warm applause.

Lyndon LaRouche: Thank you very much.

As you probably have observed from the international press, and sources you may have available to you otherwise, at present the international financial system is in a collapse phase. Because of the nature of the situation, because there are no clear decisions from governments on how to deal with this collapse phase, there's a certain amount of uncertainty of where the world goes from here. We can define options, we can define probabilities, but we cannot provide certainties, because the certainties will depend upon what kind of decisions are made.

For example, I would indicate the situation inside the



The interactive videoconference of the Association of Public Accountants of Lima on Feb. 23. Lyndon LaRouche is visible on the screen. The conference turned into a hot debate between LaRouche and two of the five panelists who were invited to respond to his address.

United States:

The United States was hit in this time, with a major deregulation crisis in energy supplies. This affected, to some degree, petroleum supplies, but more emphatically, electricity distribution and gas distribution inside the United States. It affected, largely, utilities. We have had rates of increase of costs of electricity of 400% and so forth, and higher in some areas. There's wild speculation in this field. There are now major moves in various parts of the United States, to reverse this, and to immediately restore measures of regulation. There is a campaign by the leading trade union organization in the United States, to hold meetings in the coming period, calling for re-regulation: that is, to put the system back under Federal and state regulation of public utilities, of the type we had prior to the Carter Administration, in part, prior to these deregulation measures, which have happened recently.

We have, at the same time, a major collapse in the financial markets. We have it almost daily. The chairman of the Federal Reserve System is pouring in billions of dollars of newly printed money, in the form of repurchase agreement types of money, to try to keep the Nasdaq from collapsing below the 2000 index. The Dow is very soft.

The Collapse of the Importer of Last Resort

In Europe and Japan and so forth, we have generally collapsing markets. We're in a period which is characterized by a collapse of the role of the United States, as what became known as the importer of last resort.

Over the period since 1971, of course, there's been a transformation in the world economy, with the Nixon decision, and

the following 1972 Azores decision, in which we established a floating-exchange-rate system. This, of course, was a disaster for the countries of South and Central America, in particular, and for other countries—the floating-exchange-rate system—which has caused the multiplication of the formerly existing debts, and an accumulation of debt. It's been a disaster for most of these countries.

But we've come to the point now, in the recent period, particularly since the 1980s, in which the United States, more and more, relied upon exporting its work to cheap-labor markets abroad, and relying upon these sources, while shutting down U.S. manufacturing and things of that sort. So, therefore, the United States was operating recently, on a very large current account deficit, which, in one estimate I had, was running as high as a \$600 billion-a-year rate.

In addition, the United States was living on the basis of a large influx of foreign exchange, in short-term investments, into the U.S. financial markets, because the profit rates were indicated to be high here.

Now, that's in question. The financial markets in the United States are collapsing. The Nasdaq is in a disaster, and the effect is, the collapse of U.S. purchasing power, and the collapse of the flow of revenue into the United States for investment, has resulted in the collapse of imports into the United States, which has affected Asia—Japan, Korea, China, and so forth—and other countries. Canada, for example, is heavily hit.

So now, we have a chain-reaction collapse of international markets, as a result of a decline of the U.S. market, as an importer of last resort for many countries. Mexico will be

very hard hit by this. Mexico has up to 40% vulnerability in its total income, through exports largely to the United States.

So, this is the kind of crisis we face.

The Lessons of 1929 to 1965

My approach to the thing, is to recommend to my government, that it change its policy, and return to the lessons we learned from the period of 1929 to 1933. We're now in a crisis which is somewhat similar to, but worse than that which we experienced in 1929-1933; that is, the underlying problem is worse today, relatively speaking, than in that period. In that period, the outgoing President, President Hoover, worked closely with the incoming President, President-elect Franklin Roosevelt, to start a process of changes which gave us a highly regulated system, which gradually got the United States out of the Depression. And, of course, Ibero-America benefitted to some degree from the Roosevelt Good Neighbor policy, during that period.

We went through World War II quite successfully, in terms of economics. After Franklin Roosevelt died, some of his policies were abandoned, particularly his foreign policies. But nonetheless, during the period up until 1965, the United States cooperated closely with Western Europe, under the Bretton Woods system, regulated system, under which the United States maintained its market for exports of goods to Western Europe, which helped to build up Western Europe, with U.S. cooperation. And thus, the two parts of the world benefitted greatly. Some of those benefits spilled over into Ibero-American countries.

In 1965-1966, we underwent a change, and for the past 35 years, we've been going away from the kind of economy we had, as economic policy, from 1933 to 1965, into a new kind of highly deregulated, globalized trend. The globalization has taken off since 1989-1990, with the collapse of the Soviet power, and we're now in the situation where we do not have the structure of national sovereignty, and other devices we had earlier, to help defend us against mass unemployment, and things of that sort.

The obvious solution is, because we have to use past history often as a guide to any emergency action we take, the obvious solution is to return to the lessons of the 1933-1965 period. We can restore some of the kinds of policies which worked well then. We can get out of any depression—with some difficulty, of course, but we can get out of it, and we can begin an upward movement.

The question is, how is the present Bush Administration, which is a new administration, going to respond to a situation which demands action, precisely contrary to the policies it was committed to at the time of its election?

You have a movement in Europe. Europe is looking for the possibility, continental Europe, for the possibility of cooperation with Russia, and nations in Asia. Such as the ASEAN-Plus-3 [Association of Southeast Asian Nations plus China, Japan, and South Korea] group, of the ASEAN nations, India,

in the pattern of cooperation, China, Japan, and Korea, and Russia. Europe depends largely upon Eurasian markets, for its survival; that is, continental Europe, in the postwar period.

Recently, Germany, for example, exported about 40% of its total national product, and this margin of Germany's income helped sustain the entire continental European market. Recently, that has collapsed. And now the Europeans, in a struggle to survive, must find foreign markets, long-term foreign markets, to export goods into market. The chief market for Europe is Eurasia—China, Asia generally. Therefore, that kind of move for cooperation with Western Europe, Russia, and the ASEAN-Plus-3 group, is on the move.

The United States, so far, is opposed to that. For example, the Bush Administration views China and Russia as its major competitors, or political adversaries, and thus this tends to jam up the desire for cooperation.

But that's our general situation.

Therefore, I would say, that I would emphasize from my point of view, what are the possibly optimistic alternatives.

Obviously, if this thing continues in this direction, we have a global disaster, and all parts of the world will suffer. The suffering can become incalculable. The political effects can become incalculable. No one can tell. And therefore, my response in the situation, is to say, what *can* we do, what *should* we do, under the best conditions, and what should our policies be.

'We Can Reverse the Negative Trends'

In general, my view is this: The world is presently organized among the United States, as a leading power, which has been closely associated with the Anglo-American group: that is, Canada, the United Kingdom, Australia, New Zealand, and the United States. You have, on the other hand, continental Western Europe, which has a somewhat different orientation than the United States, and the Anglo powers. We have Russia, which is now trying to rebuild, and can play, potentially, a pivotal role in the relations with Europe and Asia. You have Africa, which is almost destroyed. You have a disintegrating situation in South America, and Central America, generally, economically.

My view is, if we come to our senses, the United States will seek to foster cooperation, with a bloc of nations—Western continental Europe, Russia, China, India, and the whole group of other nations around them in Eurasia—for a 25-year perspective, long-term cooperation at low borrowing costs, to build up Asia, at the same time as to use Eurasia as a market for developing Western Europe. The United States should cooperate in that. Under those conditions, you have a virtually destroyed part of the world, which is Sub-Saharan Africa, and you have Central and South America. Of course, these are different areas. But I think that, if the United States changes its policy toward the world at large, and if we go back to the kind of policy which is typified by Roosevelt's Good Neighbor policy, or what President Kennedy wanted to start

with his Alliance for Progress, I think that we can reverse the negative trends, in Central and South America quite easily.

Such things as large-scale infrastructure development projects: For example, Mexico needs railroads badly, if it's going to develop its internal economy. Mexico is going to need assistance in getting out of this dependency upon its cheap-labor exports into the United States. It has a large population. It's the second-largest nation of Ibero-America, and it's on our borders, the United States' borders. The stability and well-being of the people and nation of Mexico, should be of primary concern to the United States immediately.

The condition of the hemisphere — look at the hemisphere as a whole, the Southern hemisphere, Central and South America. We have a region of immense natural resources, which are very much underexploited, because of the lack of development of the infrastructure needed to exploit them. We have a relatively small population in Central and South America, relative to other parts of the world, and vast, untapped resources. So, obviously, under a longer-term program of 25 years or so, with low interest rates on long-term loans, long-term credit, we could establish cooperation in long-term infrastructure projects: in water management, power management, and so forth, which would provide the stimulus for fostering the private industrial development, and agricultural development, there.

The potential, as we should know, is enormous. The potential, for example, in Peru, is actually enormous, but requires this sort of thing. So those, I think, are the positive things.

My concern is, and my work internationally, as I deal with nations in Eurasia, deal with nations in Europe, with governments, government circles in Europe—as in Italy, in the case of the New Bretton Woods effort there—is to bring together minds, whether they're in government, or outside government, to discuss this alternative, to the present catastrophe—which *is* a catastrophe. To hope that by bringing intellectual forces and others together, around an understanding of what the world requires, what the problem is, what the options are, what the precedents are, that we could induce governments to come to the table, to make the kinds of agreements, which would be signalled by a New Bretton Woods agreement.

For example: If the nations which are, in a sense, the proprietors of the G-7 system, now G-8 system, as it's called, these nations own the IMF [International Monetary Fund]. They are the controllers of the IMF, with the consent and participation of other nations. If these nations, as the caretakers and responsible parties, the management, the ownership, of the IMF agree, we can make drastic changes in the IMF. These drastic changes would probably mean coming back to pre-1958 standards of regulation, under the old monetary system, with the idea of maintaining a flow of cheap credit, on long-term, and fixed exchange rates; or getting to fixed exchange rates rapidly. Under these conditions, I believe we

can have prosperity.

I think our best hope is the kind of discussion, which discusses these issues, and these alternatives: doing it internationally, as well as within nations, on private levels, on official levels. And hope that by building a consensus for a global recovery, that we could persuade the governments involved, as the crisis becomes more and more acute, to take the kind of emergency action, which will put this process back on a healthy basis.

Thank you.

Mandeville, Free Trade and The Roots of Corruption

Dennis Falvy Valdivieso: Good evening, Dr. Lyndon LaRouche. Listening to your presentation, during which you cover decades in a very short period of time, not only as to economics, but also political and social matters . . . I am more interested for the moment in *my* country, and not so much in the *enormous* powers called the Group of Seven. . . .

I want to be very specific with you. You defended the Fujimori government. You had a few variables in his favor, according to the little I have heard from you. Fujimori fought drugs and Shining Path. I am not going to get into the second issue, because obviously Shining Path had to be fought. But, I always had my doubts about the drug trade part, especially with a U.S. ambassador here in Peru, who many of us suspect has worked with the CIA, and with our unfortunately famous Vladimiro Montesinos, whom you should know about, at least from the wire services.

Well, Dr. LaRouche, on the one hand, I haven't heard you speak about corruption, extended and globalized. Nor have I heard you speak about 1971, when Bretton Woods went to hell, and derivatives appear. . . .

My specific question, Mr. LaRouche, is: Do you think that by going back to your ideas, we are going to be able to develop countries like ours, without a frontal attack on corruption? . . .

Is it good for the health of an economy, such as Peru, which you have so bombastically pointed out has immense potential wealth awaiting to be discovered or utilized? Therefore, sir, I *do not* agree with you. You may have the greatest riches in the world, but if corruption is completely embedded in the politicians, embedded in the media, embedded among the journalists who sell themselves for a bowl of porridge, the wealth will remain there.

LaRouche: The problem of corruption: Now, anyone who is involved in accounting, as most of you gentlemen are, know a good deal about what the problem of corruption is. If you have an economy, which physically is profitable and healthy, then you can have an economy, in which profit comes from the contribution to the increase of the productive powers of labor of the economy. If, on the other hand, you have an economy, which is not growing, in the sense of increasing the physical product, the standard of living, the rate of investment

in productive facilities, in agriculture, in industry, in infrastructure, then where does the profit come from? As you know, as accountants, you have two kinds of profit: One is physical profit, where you can show that there's an increase in the actual physical wealth created, in which an entity acquires a profit based on the gain in the contribution it makes to increase of wealth. There's another kind of profit, which is purely financial profit.

Now, the problem here, goes back to such things, as in the 17th Century, early 18th Century, a fellow called Mandeville—Bernard Mandeville—who is, today, considered the patron saint (or unsaint) of the Mont Pelerin Society, which is a very influential, British-founded society, associated with Friedrich von Hayek and Milton Friedman, for example—Prof. Milton Friedman. Now, von Hayek's formula, as that of Bernard Mandeville before him, promotes corruption. Mandeville said that good comes from evil. You must allow the legalization of evil, to get the good benefit. This is the basis of many radical monetarists' thinking.

Now, the root of corruption, as I see it, largely in the world today, is that, it is very difficult for entrepreneurs any more, under the conditions of the post-'71 system, it's more and more difficult for them to have a gain in income from actually increasing the physical wealth of the country per capita and per square kilometer. However, by various tricks, you can still have profit, which is called financial profit. The problem of a deregulated, radically free-trade system, under these kinds of conditions, where the entrepreneurs who engage in producing physical wealth—such as farmers and industrialists—are weakened, where the infrastructure's not developed, and people are seeking profit, the place to find profit is where Mandeville says to get it: If you can't get it any other way, go to evil.

My view is, that a protectionist model of economy, of the type that the United States had in its best periods, the kind of system that was recommended by Friedrich List, in his system of national economy: That a protectionist economy, a regulatory economy, is the one which promotes, selectively, those who are contributing to national wealth, should be given favorable treatment. Whereas those who are making their profits from financial speculation, or from black sources, should not be protected.

So, the problem of this increase in corruption has come largely from the fact that we have stopped being protectionist. We have stopped taking pride in helping people to develop. And, we've made it more lucrative, and easier, to get large sums of money, as monetary profit, through irregular means.

Now, if you want to go to corruption—I won't go into this here, but you know what I mean. In the highest levels of the United States, the highest levels of political parties of the United States, there is corruption more massive than all the corruption that you could possibly find in Peru! And it comes from the highest level.

For example, this case of the speculation in energy prices:

What's happening to California, which is now causing a major political crisis, as well as financial crisis. This is corruption! You have entities like Enron, which are engaged in speculation. They don't really produce. But, they move into the market, and through speculation, they drive the prices of energy for households and industries, up as high as 400%. And loot them! Two large entities in California—Pacific Gas & Electric and Southern California Edison—are on the verge of bankruptcy, because of looting by these kinds of influences. *This is pure corruption!* But, in the United States, it is a form of corruption which is presently legalized!

And, therefore, I think, the key to this, is to recognize this point that has been often made in history, and in the history of economics: That you have to establish a *moral* standard, for what you promote and do not promote in national economy; in terms of state regulation, in terms of tax policy, in terms of accounting policy. You have to establish these protectionist standards, which say, those who contribute to the benefit of the people, as entrepreneurs, as laborers, as farmers, they should be encouraged to produce and to invest in expanding their productivity. Those who live like parasites on financial speculation, such as derivative speculation—which, in my view *should be totally outlawed!* Look, we have probably \$400 trillion, estimated, of recorded and unrecorded financial derivatives floating on the world market today, against a world Gross National Product, estimated in the order of \$42 trillion.

Now, how are we going to deal with a collapse of a \$400 trillion financial bubble in derivatives, against a \$42 trillion Gross National Product of the world, which is now collapsing?

So, I think the question of corruption: Don't go at the petty corruption. Corruption is a system which *we*, with our negligence, with free trade, with the policies of the Mont Pelerin Society, have licensed, have practiced. We have penalized people who do honest work, who are honest industrialists, honest entrepreneurs, who contribute to the economy. And, as long as we don't make the moral distinction, between who is doing something useful and who is a parasite, you're going to have corruption. And, when you have a condition like now, when the economies of the world are poor, in physical terms, then, people who wish to become rich, find that you become rich from corruption, not from honest labor.

Fujimori and Peru's National Sovereignty

Moderator announces that Patricio Ricketts Rey de Castro, former minister of education and well-known journalist and political analyst, and Alejandro Indacochea, senior professor of business administration at the Catholic University of Peru, have joined the panel.

Falvy Valdivieso: I would like to ask you a very simple and clear question: You, in your writings that I have read, praised Mr. Fujimori because, according to you, he was the



President Alberto Fujimori inspects a tunnel, which the military had built underneath the Japanese embassy in Lima, where narco-terrorists held hostages in 1996-97, before a counter-terrorist raid freed them. The London-Wall Street “democrats” never forgave the President for his success against the terrorists.

only person fighting the drug trade. Our poor evidence—which is poor because our technology is still very poor, not like your satellite technology—shows us through some videos that Fujimori’s adviser, named Montesinos, really laundered money, and was in cahoots with the drug trade. There is sufficient evidence of this to say that this is so. There is also evidence that that gentleman was being sponsored by the CIA. . . .

My question, sir, is why were you wrong, and why did you believe that he was this little . . . nobody, a poor naïve little Chinaman who knew nothing of the business, when there is evidence that Fujimori was linked to this money laundering and to Presidential airplanes that went to Russia, to the Russian mafia, to deliver cocaine for weapons? I would like a concrete answer, if you would be so kind.

LaRouche: First of all, I have always operated internationally, on the basis of respect for the sovereignty of nations. As you may know, if you look at what I’ve written, or what my associates have written, that I was extremely critical of certain aspects of President Fujimori’s economic policies. I did not think that the economic liberalization policy, even though I knew it was, in a sense, imposed upon him by, also, our great North American friend, as you would say—that I didn’t think it was the best thing for Peru. But, nonetheless, I always defended the sovereignty of Peru, as I do now. And, therefore, I do not meddle in the sovereignty of a country. I make my criticisms objectively, as required.

Now, on the question of Montesinos. I think this area is a very dark area, and I think we ought to get not too enthusiastic about coming to conclusions about it. Because, there are cer-

tain mythologies and there are certain realities. And, I’ve been dealing with spooks for a long period of time, and had them coming at me, and so forth. So, I know something about the business.

You have to recognize that the CIA operates in Peru, for example, under the auspices of the State Department. It is the intelligence arm of the State Department. There are other intelligence arms of the United States government, which do not operate through the State Department, including the special warfare division of the military. They also operate.

Also, in dealing with anti-drug operations: Anti-drug operations, in every part of the world, are very dirty. As well as the drug operations *and* the anti-drug operations. In drug intelligence operations, what the anti-drug operative tries to do, is to penetrate the drug networks. Now, how do you penetrate the drug networks? The way in which—it’s like when the police investigate prostitution, or organized crime. The way they investigate, usually they penetrate the inside of the networks they are investigating. They use dirty money. They sometimes—in drug traffic, often—they will process drugs, as a way of getting to the top level, so to speak. So, these things go on.

So, therefore, the mere fact of a U.S. intelligence anti-drug operation, being involved in passing drugs and money, in Peru, as part of the anti-drug operation, does not really surprise me. It’s the way things are done. And I, therefore, do not draw very strong conclusions about—and I don’t pass judgment on the issue: To me, it’s still an open question, personally.

Fujimori, in the case of, what happened in the [Japanese]

Embassy: I supported him strongly, because there were forces in the United States, including in the U.S. government, which were taking an opposite view. He acted courageously, in the case of this matter, and therefore, I supported him and supported the sovereignty of Peru. Even though I had all these reservations about many of his policies, I had to respect him, as a President, and respected him when he was defending the sovereignty of his country; whether or not I had other differences with him.

I don't meddle inside countries, in any way I can avoid it.

The Economics of the 'General Welfare'

Luis Lizárraga Pérez: Good evening, Dr. LaRouche. We are having our second meeting with you, after last year. I would like to recall that on that occasion—when the United States was still in an upswing, in the stock market, above all—you forecast the collapse of the stock market, and the economic risk that this signified. This, in fact, happened, particularly in the Nasdaq, where we have seen declines of more than 50%, in the problems of the European stock markets, the drop of international interest rate levels, and all this has generated the decline which you had already forecast a year ago, including that it had been inflated for electoral reasons, among other things, as you explained at the time.

Our concern, as Dr. Falvy said earlier, is our country. We see, that at the level of Latin America generally . . . but in our country particularly, despite the fact that some economic indicators such as inflation, devaluation, and GNP, somewhat, etc., still maintain reasonable levels, however, the recession has kept unemployment and underemployment at *very* high levels, a situation which is *very* serious in our country. . . .

What is your recommendation? How do you see the situation? What can you tell us concerning the situation which our country is facing at this time? Aside from these economic problems, we have, as has been well noted, pre-election problems, a problem of certain chaos, a problem whereby we are surprised by all that has occurred, and a new election is coming up. What is your view, and what is your recommendation for our country, within the world context, as it exists currently as far as risk levels for our country, which is one of the so-called "emerging" countries?

Thank you.

LaRouche: First of all, one has to understand, as you all know, that the world is unjust. And the relations among states, today, are unjust.

Under those conditions, what should be done, could be done. What should be done, first of all, in the case of Peru? The way in which you get the kind of development that Peru needs, in the history of modern economy, starts largely in basic economic infrastructure: large-scale works in transportation, water management, power, municipal development, urban development, and so forth, which creates the infrastructure on which an economy develops. These investments in

infrastructure, generally, are of 20- to 25-year duration. That is, you can not take these on cash-over-the-barrel exchanges. They're long-term investments, usually of 25 years minimum duration: To build a highway system, to rebuild a city, to build a water system, you have think in terms of a payout on a 25-year period; or in the period, shall we say, of a generation, from the birth of a child, until they're reaching fully adult maturity. These are the normal things.

So, therefore, this requires very low interest rates. It requires, not so much money lending; it requires credit. A country does not want to borrow somebody else's money, it wants to get the credit with which to buy the things it wishes to buy from abroad, for its own domestic needs for developing a project.

This is what Brazil needs, what Peru needs. Brazil needs it as well. But, this kind of project is the basis: a system of long-term credit—25 years—say 1%, as we used to have it at optimal terms, under the old IMF. Projects which are going to be implemented, and, also, at the same time, to encourage other lending projects, credit, to go with private investments to go with it: To build a highway means that the country has to employ people, to build the highway. Private industry is developed to assist this project. Or, a railroad, or whatever. In water projects, the same thing is true.

So, that infrastructure projects which represent—oh, probably 40% of the total national income, production income, may be involved in infrastructure. That is, 40% of the throughput for developing and maintaining an entire economy, may be infrastructure. This was the case, for example, under Roosevelt, in recovery from the 1933, '32 Depression: That projects like the Tennessee Valley Authority, or the way in which Roosevelt used the Reconstruction Finance Corp. The result was, that for every dollar that was spent in this kind of infrastructure development, about \$1.40 would show up as further investments in the private sector. And, this is the way in which it should be done.

What I would hope, is that we come to an agreement on reconstruction of, for example, the hemisphere. I've long been for a hemispheric cooperation association, of the United States with its neighbors to the south, of this type. To create a facility by which, some of these things which are transnational: for example, some of these highway, railroad, water projects, they're transnational. They can involve each nation, but they are projects which benefit all nations together.

And, these kinds of things should be the way to go to the future.

On the question of the physical economy, which you referred to. The second question: Often people, as accountants, make a mistake. And, everyone who thinks like an economist as well as an accountant knows it: That we often measure performance in terms of money. And, when you get into this derivatives area, for example, you realize that what may be profitable in money terms, may not be profitable in terms of the economy as such—the physical economy.

And, therefore, it's very important that we understand, that economy involves chiefly physical things. It involves the education of the labor force, which is learning scientific principles, largely, in schools—elementary and secondary schools and universities. It involves the development of scientific technologies. And it's the application of these technologies, through capital goods and so forth, to labor, which results in an increase in the output, over the effective cost of the input. And, what I emphasize is paying more attention to the *non-linear* side of the economy.

For example, I've written a paper on this, which will be published soon, which deals with this issue of the lessons from Vladimir Vernadsky, who was the developer of biogeochemistry [see *EIR*, March 2, 2001]: That we have three sets of physical principles, according to Vernadsky. One is, you have the non-living processes, and these are the subjects of normal physics. But, then, we know that living processes do not come from non-living processes. They have different principles, and they are efficiently physical principles. For example, most of the area of the Earth we live in, which is called the biosphere by Vernadsky, is made up of oceans. Where'd the oceans come from? The oceans were created by living processes. Where does the atmosphere come from? It was made by living processes. Where do most of the minerals and so forth, we use, where does it come from? From living processes—the result of it.

And, then, also we find that, in addition to the biosphere, that man, through his cognitive processes, his powers of discovery of principle, represents a still-higher level of physical principle, in which we're able to increase the rate of growth of the biosphere, relative to the planet as a whole.

And, it's this kind of thinking, that, in the case, for example, of infrastructure: In order to live, we have to make the desert bloom. We have to turn deserts into fertile areas. We have to build railroads; we have to build transportation systems; energy systems, and so forth. We must think of these as an extension of the biosphere, as creating the necessary conditions of life, under which enterprise can function. Without this infrastructure, it can't function.

And, so, we have to think more and more in deeper terms, in philosophical terms, about how an economy actually works, and not simply assume that an accounting report, which reports certain financial figures, tells us the truth about how the economy worked, or why it worked, or why it didn't work.

'The Public Interest Comes First'

Lizárraga Pérez: Thank you. I would like you to expand on the subject. One of the responsibilities that certified public accountants have, is to provide information for tax purposes. These taxes generate the fiscal revenue. However, a large part of the country's tax revenues have to be used to pay the so-called foreign debt. Our foreign debt fluctuates between \$30-32 billion, of which 30-32% is owed to the private banks . . . and another 30% to what is called the Paris Club.

My specific question, is: What do you think of the tremendous effect on our country, on the Peruvian economy, which is in acute recession, of servicing the foreign debt? And also, what possibilities do you see on a world scale, internationally, to alleviate, diminish this service on the foreign debt such that the country could use those resources for internal investment?

LaRouche: We did a study some years ago, of the debt of the combined countries of South and Central America. And we observed, by this study, by taking 1971 as a starting point—that is, the point at which the famous Nixon shutdown of the fixed exchange-rate system occurred, that what would happen was, actually the countries of Ibero-America have more than repaid *every penny* which they borrowed from foreign countries, which they were actually delivered. What actually happened, how this thing was done—it was done by the following method: Is that the London Club, for example, would organize a raid on a national currency of an Ibero-American country. Then, they would declare the country to be in default, in a mess, by financial warfare. Then, someone would bring in the IMF or the World Bank—usually the IMF—and bring in the foreigners to say, “Well, we're going to negotiate to get you out of your bankruptcy.” And, they would say, “You're going to write down the value of your national currency.” So, the country would say, “Okay, we're going to write down the value of our national currency. Therefore we will pay the debt, foreign debt, at the same rate as before. We'll pay it in our national currency. We're obligated to pay out of our currency. We'll repay in our currency.” But, they said, “No! If we write down your currency value, on the world market, we're going to increase your debt, to compensate for that to the foreign creditors.”

And, if you look at the debt of the countries of Ibero-America, you will find that these countries have, in aggregate, more than paid everything that they actually ever borrowed!

If these raids had not been run, largely by the London Club of financial speculators, you wouldn't have the mess.

Now, the second question comes in: We now come to the point that the total obligations—financial obligations of the world, can never be repaid. The whole system is *bankrupt*. If you had the books before you, you'd know it. You may have some idea of what these books look like. They're bankrupt!

Now, what have you got? You've got a real economy, real nations, real production facilities, and real people. You can not shut them down. So, then you come back to a principle, called the law of equity: the principle of the general welfare. The model for this was something that was developed in the United States, under Roosevelt: It was called Chapter 11 bankruptcy. Now, in Chapter 11 bankruptcy, you pull the creditors and the debtors of a bankrupt institution together. But you also put a third party on the table, in the negotiations, called “the public interest”; the general welfare. And the public interest comes first. Not the creditors. Not the debtors. The public interest comes first. Because the obligation of government is to efficiently defend the general welfare of all of the people and their posterity.

So, what we're going to have to do—this bankruptcy is going to occur; it's going to collapse; it's inevitable. So, therefore, rather than having a chaotic bankruptcy and repudiation of debts, we'd do much better to have an orderly bankruptcy, which is why I want a New Bretton Woods conference: To assist in organizing a kind of international Chapter 11.

What I would do, which may please the former questioner, I would simply say, "We write off the books, immediately, *all financial derivatives obligations*. Nobody pays. Nobody owes. Wipe them from the books." And reorganize the remaining debt, as we would in any ordinary, good bankruptcy proceeding. But, always act to protect the general welfare, under the same rules which the United States adopted as Chapter 11 bankruptcy rules, under Roosevelt, during the 1930s.

That's what we're going to have to do with this situation. We can not have countries shut down. We face the fact that much of the debt is illegitimate. It is based on an artificial arrangement. It was not honestly incurred. It was imposed upon people by overreach, and people are suffering. You say, "We'll pay what we can. But we can't pay more. It doesn't exist. We can not shut down our nations, and starve our people to death."

So, let us look to the future, rather than the past, as you do in any regular bankruptcy reorganization.

The Strategic Threat to Peru: Drugs

Alejandro Indacochea: Good evening, Mr. LaRouche. I must confess that after receiving the invitation to participate in this video-conference, after entering your webpage, I was quite concerned. I was quite concerned that a security alert bulletin was released internationally, which says: "Now Comes the Narco-Democracy of 1%"; that, with Fujimori, the only government that truly was fighting against narco-terrorism in all of Ibero-America has fallen; that military leaders are being jailed. . . .

After having examined your career, your highly interesting opinions regarding the architecture of, the instability of the world financial system, I reached the conclusion that you lack information about the country. You are not informed. You have just said that you are respectful and prefer not to meddle in internal matters, but when you say something like this, internationally, you *are* meddling in internal affairs and presenting a distorted picture, which isn't true. International opinion is being confused. Why? Because no one is going to be able to deal with, to address a problem that they don't see, or that they see as totally confusing.

I would invite you to come to Peru now, and to see for yourself the connection between the drug trade and the corruption of the institutions, which has left us practically without leaders. Where there has been collective frustration. . . .

It is not the economic or financial crisis which most concerns us, at the moment. . . .

Thank you.

LaRouche: Well, I've never been much concerned about

Peru being a source of problems for the world. I've been concerned, on the narco question, of the threat to Peru of the international narcotics trafficking. That's where the problem lies.

Right now, for example, take the strategic threat to Peru on the narco side. You've had the virtual disintegration of Ecuador, in the dollarization of its economy. You have a situation in Colombia, which is an adjoining country, which is part of this problem, which is now out of control. You have an operation now in process to destabilize and break up Brazil into several parts, including taking the part of Brazil, which most closely adjoins the border of Peru, and turning it into a nest of problems, by actually denationalizing that area, in effect.

So, therefore, the problem, the threat to Peru, comes not so much from the inside—though the history of the narco-terrorists in Peru is well-known to me. And, that is a very dangerous problem, which the Peruvian military has kept under control for a number of years. I know these things, and how they work. And, to understand these things, you have to know how this operation works. It is not a matter of generalities: You've got to know how what you're dealing with operates. This is *not* endemic. It does not come from the people, up; it's organized from the top. And, it's organized internationally: It is not a problem of a nation, as such. It's a problem *to* a nation! It's a threat *to* a nation. And, the major threat to Peru, on the count of the narco-trafficking, comes from the outside Peru, not from inside it. Though it may become serious inside.

The danger is that you can get a border situation, an uncontrolled border situation, in which Ecuador, Colombia, and parts of Brazil become a nest of danger to the borders, and to Peru as a whole.

Now the problem here, is—you're right. Largely, the problem lies with the United States. It lies with, for example, the Inter-American Dialogue. You want to talk about drug pusher Number 1? It's the Inter-American Dialogue. These are the ones who insist no anti-drug measures be taken. They insist on legalizing it, on the basis of what I referred to before: this idea of Mandeville, that good comes from evil, through liberalization. These are the dangers. And, what you have, then, is that you have a powerful interest, typified by the chairman of the New York Stock Exchange, Grasso, going down to embrace Reyes in Colombia. You've got these problems! The father of the present President of the United States, was up to his ears in this stuff, in the name of Iran-Contra!

What happened in Peru, in terms of the actual drug income in Peru, was *pennies* compared with the scope of this stuff. Drug money was used, collected in the way you described it: It starts with a few dollars in Peru, it goes through the narcotics in Colombia, it goes up the chain, and it goes up 30, 40 times that amount on the way up. What happens with this money? This money is then exchanged, it was involved in the Russian gangster operations. You had islands in the Caribbean, where

Russian chiefly was spoken, because the gangsters were trading drugs for rubles, there. That sort of thing. You had the armies, as in Afghanistan, in Pakistan. Whole wars are run on the basis of financing with drug money.

We have a similar problem in Africa. This is not the problem of *these countries, as such. They did not create the problem.* Without the consent of the Anglo-American powers, *it could not have happened.* And, the moral responsibility lies more with my own government, than any government of Peru. We could have done things. Sure. You had Ambassador Jordan, down there, who was opposed to the drug traffic. General McCaffrey's an honest man—the drug czar of the United States. But, then, look at McCaffrey's proposals, his efforts, and compare them with the policies of his superior. The policies of Al Gore, for example, as Vice President. The policies of the Bush crowd.

Yes, the problem is there. But, the problem in Peru from drugs, doesn't come primarily from *inside* Peru, it comes from outside, as you indicate. The danger right now, is the threat to Peru, running through borders such as Ecuador, Colombia, and parts of Brazil. If Brazil is destabilized—and there's now an effort to destabilize Brazil, there's an effort now to bring down the present government of Brazil, to topple it. If they topple it, and if the powers that take over, that I think would take it over, if they topple it, then you're going to have the fragmentation of Brazil, and you're going to have the whole area going into crisis.

So, yes. The truth is: My country is the chief responsible party, because we have the power, and we don't use our power in the right way, and we condone it, and we protect—we protect the Inter-American Dialogue. The U.S. State Department supports McCaffrey, on the one hand. But it also intervenes, on the other side, on behalf of continuing the activity of the drug pushers.

My country is more responsible. And I know it. And I do something about it. But, my view is, lay the whole truth on the table.

Who Are the Destabilizers?

Indacochea: I am frustrated, because you have not responded to my main question. You *are* meddling in Peruvian sovereignty at this time. This *is* destabilization. . . . I refuse to believe that now we have a democracy of 1% in the country. I am afraid that you have generalized, global information, but you don't know the current Peruvian situation. I am afraid that you don't have all the information about what is going on. If you were a Peruvian citizen, you would be concerned, and would realize that the responsibility lies not only abroad, with the bad guys, the Russian mafia, and neighbors. No! There was drug trafficking *here*, it was deeply entrenched, and the corruption comes from that. So, by repeating this information internationally, you are destabilizing us as a country. It sends us contradictory signals, and as a Peruvian citizen, I cannot accept it. This is the main area in which I

believe I have not been answered.

Thank you.

LaRouche: I thought I had answered it, actually. I didn't write that. I know what I've said, and I say it. That's the fact of the matter.

Indacochea: Might I ask a question? A brief one, very brief.

Vásquez Medina: If you will allow me. . .

Indacochea: No! No! Excuse me, one moment. I am dumbstruck, because this is an academic forum, and for him to tell me this by decree—because this is a decree! He is shutting me up. He is not giving me an explanation. I am most frustrated, concerned.

Vásquez Medina: I think I can clear the matter up for you. And I can explain the matter to the audience.

I think you have the right to present that, but please read carefully what you are talking about. Because the document you are reading from, is from a statement of *mine*, that I issued. At the end of the document you will see my name, Luis Alberto Vásquez Medina, of the Ibero-American Solidarity Movement. That is the group which shares LaRouche's ideas, but I am a Peruvian citizen. And I take full responsibility for that statement, from which you have read selectively, and which obviously doesn't give the full sense of the document.

What I stated there—and everyone in the audience has a copy, because we were graciously permitted to distribute two documents, and which are not by LaRouche, but are my views and the views of my movement on Peruvian affairs—is that we are currently witnessing the fact that the changes in Peru are fundamentally the result of the U.S. and the international depression, and we were criticizing that situation. And we said that what was coming—and it now seems to be happening—was a situation in which there would be a dialogue with the terrorists, and concessions would be made along the lines of the Colombian model. That is what we stated there.

So, to be just, and truthful, and in order to not get prematurely bitter on a whim, Mr. Indacochea, simply read the document, and don't attribute it to someone who didn't write it.

Indacochea: Very briefly. Secondly, I would like to tell Mr. LaRouche to change his representative here in Peru, so that he gives him up-to-date and accurate information, and not of this sort. Evidently, I did read that Engineer Luis Vásquez was asserting that there is a 1% democracy, and leading the country in the current situation. My proposal from here, is that Mr. LaRouche, whom I have been following for many years, change his representative in the country.

Vásquez Medina: My question, Mr. LaRouche—to leave the comments to the commentators—is the following: Three or four decades of deregulation, and all the ideologies of [post-industrialization], have reduced the U.S. economy to



Heavy construction and farm equipment are an integral part of this military parade in Lima. The equipment bears the decal "Development for All."

a lamentable state. The United States has been deindustrialized; it previously was the breadbasket of the world, and today it is importing food, including from countries that are going hungry, like Mexico, Brazil, etc. You have called this "the importer of last resort," where the U.S. has a trade deficit, presenting historic figures, historic records, of a trade imbalance.

The question is: How is this situation going to be affected by the fall in interest rates which has been going on, more or less at an accelerating rate, these past two years, as a result of policies imposed by Greenspan? The U.S. has sucked in capital with high interest rates, to cover its trade deficit. But the capital that was going to the United States has fallen, with interest rates that are no longer going to be attractive. . . .

How is this hyperinflationary, low-interest-rate policy going to affect things, in the short term?

U.S. Financial System About To Explode

LaRouche: You have to appreciate: We're not talking about months; we're talking about a very short period of time. In the recent weeks, Alan Greenspan and the Federal Reserve System have gone absolutely panic-stricken. The U.S. monetary policy, U.S. financial policy, is in a state of absolute panic. There are solutions, but there is no political will for a solution. And without political will for a measure, which will cause a solution, you're going to have increasing panic. This panic is going to reach an explosive point, in the near future. My concern is, there's a tendency on the part of some in the U.S. government, to go to crisis-management measures, to try to distract attention from the crisis. Now, what Alan Green-

span is doing, is absolute lunacy. It is not a policy; it is pure desperation.

It's not going to continue this way. We're going to get to a point soon, at which: Either you will have Middle East wars, and similar kinds of things which distract public attention from the problem; you will then have measures, emergency measures taken inside the United States to control the political situation. Or, you will have a sensible solution, in which the United States decides to abandon its present policy, and go to the kind of policy, which can cope with the situation.

That's where we stand. That's the situation. We are at the end of the line.

As I said at the beginning, in my opening remarks: We can not predict what is going to happen. We can define the parameters of the crisis, and what the options ought to be, what direction they ought to take. But, what will happen, will be determined by the way powerful forces react to this crisis, especially the United States. And that's the only way you can read this situation. We're dealing with a very short-term point of decision.

Ban Privatization!

Patricio Ricketts: Good evening, Mr. LaRouche. It's a pleasure to be able to participate in this talk with you. . . .

There has been a lot of talk around here, and not just now but for some time, of country risk. In my opinion, there is a certain confusion, because everyone applies the criteria in a way that I would say is most convenient for them. For example, the political situation of the moment, someone's statement, an inopportune phrase in the newspaper, could suppos-

edly entirely change the flow of foreign investment.

It is persistently stated, for example, that one of the situations which is harming and causing risk for the country, is the halting of privatization. According to many economists, or people who speak with such authority, halting privatization is seriously affecting us. . . .

So, if you were a Peruvian finance minister, how would you view this problem from here?

LaRouche: Suppose I were Secretary of the Treasury of the United States, and, someone were to ask me, "What are factors of country risk in Peru?" Well, I would tell them to abandon the privatization program, to minimize the country risk. Because, if you privatize — . Look at the case of deregulation in the United States in the energy field. We have an absolute disaster in the United States, as a result of a process of deregulation, which is actually a process of privatization. At this point, there's a groundswell, throughout the United States, in the labor movement, and elsewhere, to reverse deregulation; to go back to re-regulation. If you look at the effects of the energy crisis caused by deregulation in the United States, you would say, "This is the major factor in making the United States, right now, a greater country risk factor." And, therefore, for the United States, I would say, the best way to reduce the country risk of the United States, is to ban privatization!

Not that we're against private industry, but there are those areas of investment, which are basically infrastructure, which are either regulated areas — . In the United States, we have a double system: You have facilities, utilities, public utilities, which are owned by the government, or created by them, or they were managed by the government, in the sense of regulation, but the ownership and the regulation was largely in private hands. And that worked, under a regulated system. If you destabilize that structure in infrastructure, you will cause an increased country risk.

Because, what's risk? Risk, in this case: If you're going to invest in a country, what's the first thing you're concerned about? You're concerned about, what can you get in terms of transportation? What can you get in terms of power supplies, to maintain your industry? What can you maintain, in terms of water management? What do you have in terms of urban infrastructure? What do you have in terms of hospital facilities? What do you have in terms of schools, and so forth? These are all factors that determine, for a private investment, either as a direct corporate investment or an investment in a private company, whether or not you would want to invest in that country, or in that locality in that country. Therefore, the first step to make Peru *less* a country risk, is not to have privatization.

Privatization is simply a method of picking the bones of a country. People come in. They take a transportation system; they take a power system; they take other facilities, and they loot them! They take them over. For example, let's take the case of — under Carter — in the case of deregulation of trans-

portation: In 1977, the United States had a very good transportation system, private transportation system, under the Interstate Commerce Commission rules. We had a system of fixed rates. The function of the rates was to ensure that, in a small community, outside the major cities, you could have an industry in a community, and that community could get freight service at rates, at prices, and with the regularity, which was competitive with that of a major city. Under deregulation, the immediate effect of deregulation, was, the competition went very high in the urban centers; and the service was cut off and the rates were driven up in the outlying areas. And, the result was, a disintegration of the transportation system in the United States. And whole communities that had been prosperous communities, were actually destroyed as a chain-reaction effect, of this deregulation of transportation, and privatization.

So, these are all the same thing. Privatization is not, by me, recommended to enhance country risk. Somebody will come in, and say they want you to privatize, because they've got some friends who want to come in and steal. It's that simple.

Roberto Alva Sánchez: We would like to express our thanks to Mr. LaRouche, and to the distinguished panelists who participated in this exchange.

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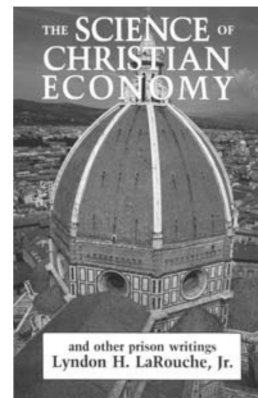
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