

March 1, the Federal Deposit Insurance Corporation (FDIC) issued a strong warning concerning the exposure of U.S. commercial banks and savings and loans to debt issued by Fannie Mae and Freddie Mac. Not only in the case of a liquidity crisis at one of the GSEs, but simply as a consequence of a formal withdrawal of their implicit public guarantees, this debt could plunge in value, thereby causing massive losses at commercial banks and Savings & Loans. Total, unsecured GSE debt held by FDIC-insured banks and savings associations amounted to \$296 billion at the end of the third quarter 2003. On top of this, the same banks and savings associations held \$763 billion of mortgage-backed securities (MBS) issued by Fannie and Freddie.

U.S. Home-Price Bubble Is Global

These holdings add up, on average, to 151% of their core capital of commercial banks involved; in the case of the savings associations, it's 181%. There are actually a number of FDIC-insured institutions which "have very high concentrations of GSE-related securities that amount to more than 500% of their TIER 1 Capital." This means that a 20% plunge of Fannie and Freddie debt titles could wipe out the entire core capital of such banks.

International investors, including not least the Asian central banks, would be hit hard as well. Just as an example, about 30% of the \$92 billion in net capital flows into the United States in January 2004 constituted foreign buying of bonds issued by the GSEs.

But what about the derivatives counterparties? According to its annual filing with the SEC, Fannie Mae has 23 derivatives counterparties, and seven of those institutions, each holding between 6% and 16% of the total, account for 74% of Fannie's \$1.04 trillion derivatives portfolio. Those "counterparties consist of large banks, broker-dealers and other financial institutions that have a significant presence in the derivatives market, most of which are based in the United States," Fannie Mae said. The counterparties were not named, but they are likely led by the usual suspects—JP Morgan Chase, Bank of America, and Citigroup.

The housing market time bomb is ticking. A number of authorities in Britain and elsewhere are now openly talking about systemic threats and are demanding a tightening of liquidity—that is, interest rate increases—in order to "cool down" the financial bubbles. But it's too late to cool them down. Bubbles can only be fed, or they burst. Any considerable rate increase could now bring down the worldwide pyramid of mortgage and other debt titles.

There are only two alternatives: the LaRouche approach of a "New Bretton Woods"-type global financial reform, including a bankruptcy procedure for existing financial obligations and a "New Deal" program to rebuild the physical economies; or a disorderly collapse that would then be used by the financial oligarchy to ram through Schachtian policies on a global scale.

Interview: O. Mays

Ohio Is 'Devastated' By Industry Shutdown

Mr. Mays is the President of the East Cleveland City Council. He was interviewed by Marcia Merry Baker on March 27, 2004.



EIR: The economic situation is severe. Over the past four years, your state of Ohio has lost even more manufacturing jobs than any of the core Midwestern formerly-industrial states. So the whole Metro Cleveland area, and other centers have been devastated. For many years, people have been leaving, and so on.

Please begin with the current situation in your area, and then we can look back over the past four decades to see how things worked in the past, and how we ended up in crisis.

Mays: It has had a devastating effect on Ohio, period; not just on my municipality, in which I serve. Because we have relied and depended on, the industry that we had here. The steel mills and various other entities that we had, have moved out, or closed down. And some of them could not compete. Some merged with other companies. Because we had LTV steel; we had J&L. And other industry in Ohio—Eaton Corporation, Lordstown auto plant, and others, gone.

Basically, they all are gone now. So, yes, it has had a devastating effect on our states.

EIR: Your municipality lost, I think close to 18% of its people from 1990 to 2000, according to the census, so that must typify a lot of the dislocation in the Midwest.

Mays: Well some of that is the result of jobs being lost in the city. And there are some other reasons, for some of the flight. So all of it isn't totally geared to the industrial factor. There are other factors here that caused some of the population, or our census, to deteriorate.

One reason, of some other factors, is the high water bills, and people, as I said, lost their jobs, and as a result, they lost their homes. They couldn't keep up their mortgage payments. There are many factors.

There are also other rippling effects, because of the fact that, after losing revenue from industry, there is also less revenue coming into the city as a result of getting less from

the Federal government, because a lot of it is predicated on your census.

EIR: So let's turn back to decades ago. You were referring to J&L Steel, LTV—there are many famous names in northeast Ohio, including metal-working, health care, auto, rubber, and many more. So how would you compare the 1960s to now?

Mays: In the 1960s, the trend, it was still kind of booming, and dependent on those factors. The rubber plant, as you indicated—Akron, Ohio was known as the rubber capital of the world. With LTV, we were known as the steel capital in Cleveland, Ohio.

And don't forget, GE closed a lot of its facilities here. Even in my city, East Cleveland. The only thing left is basically the headquarters and that staff, because most of the plants—the vacuum cleaner plant they had, that closed; the other—I don't recall all the names of the different plants that produced goods—but they have closed here, some in Cleveland, and some in East Cleveland.

And then, we began to lose medical facilities and all. Those have closed. And it sure has a devastating effect, not only on the state, but the cities as well. Because a lot drew from those industries.

EIR: Did you grow up here, or near the mills?

Mays: No, but I've lived here for quite a few years. I am from the West Coast, that's where most of my growing up was. I came here at an early age, here in Ohio. So I've been around for years, during those 1960s which we spoke of. So I am very cognizant of the mills and the booming economy here in Ohio. It was a booming economy at one time.

East Cleveland was a booming city. It was a very accessible city. We had GE; we had other industry; we had the car dealerships; we had a lot of other businesses, small businesses, industrial businesses. The city of East Cleveland was a place where everybody wanted to live.

Then, a lot of people were afraid to live in the city. I've seen it in its heyday, and I've seen it as it began to decline, to where we are today. And hopefully, by the grace of God, we will aggressively begin to address some of the ills that plague our city, and begin to turn it around, as the economy begins to turn around. But it would be more difficult if we cannot get the economy, and get people back to work, and providing those jobs for people.

It doesn't only affect East Cleveland, it affects the country.



Cleveland used to be known as the steel capital of the country, but now the steel mills and other manufacturing plants have closed down. Here, LTV's Campbell Works in Youngstown, Ohio, in 1985.

EIR: As you said before, there is less revenue for the municipalities and counties to run anything. You mentioned something basic, like water. In many parts of the country the water rates are high, because there has not been the revenue over time to upgrade the infrastructure, and then the local residents get hit with rate increases. What is your situation?

Mays: In East Cleveland particularly, we do have a water problem, because we do purchase our water from Cleveland, and some from Cleveland Heights. As a result of that, we have to maintain what we call a "master meter" city. We have to keep the infrastructure going, and as a result, we tack another fee onto the water that we purchase from Cleveland, and this makes it difficult for our residents to pay the water bill. Because the water bill now for a thousand cubic feet of water, costs them pretty close to \$45 to \$50. And that's devastating.

We did negotiate, and were trying to turn it over to Cleveland, to manage the water, as they have done with a lot of "master meter" cities around Cuyahoga County.

We had some difficult times as a result of the railroad traffic. It began to increase through our city; and we were negotiating there, with that, and Cleveland at the time, under the auspices of Michael White, who decided he wanted to do the negotiating for Cleveland, as well as East Cleveland. And I told him that we are the elected officials of East Cleveland, and therefore we would negotiate for our constituents, whom we are responsible for. So we don't need some other city to negotiate for our citizens. And so, as a result of that, he chose to not take over the water.

So this has had a devastating effect. And then we turned our water over to OMI-CH2M Hill to manage. They felt that they could manage our water, and operate it in the black, as well as that their money would be realized from what they

would save us. And they would get their money from that end of it, by collecting it. And that fell through.

EIR: So it still has to be resolved? By some time in April?

Mays: That is correct.

EIR: And besides water, there are other basic necessities in trouble? How would you describe what's happened in some of the other categories—housing, transportation, health care, education? What about health care? Facilities have closed, that people were relying upon?

Mays: That is correct. Yes, a lot of facilities that we had right in this area alone—I could count four or five health providers that have closed. Starting with Mt. Sinai, Forest City, St. Luke's. . . . There are some others that have closed right here, that people were relying on for care, as well as for employment.

So those people have hit the market looking for employment, as well as looking for other facilities to provide their health care. So this has had a devastating effect on our city.

EIR: Over what time period did these shutdowns take place?

Mays: Some of them within the last 2-3 years, some 5 years ago; some within the last 10-15 years—within that time frame.

EIR: What about the housing situation for those people still trying to hang on, despite the mills closing, and the hospitals shutting, and so on?

Mays: Well, some people are still trying to hang on, and some have lost their homes, because of the economy being the way it is today. Things are skyrocketing, and they don't have their jobs. The economy is still bad here in Ohio. They are losing their jobs, and losing their homes, and basically everything.

We have a lot of homelessness as a result of that; that permeates our cities.

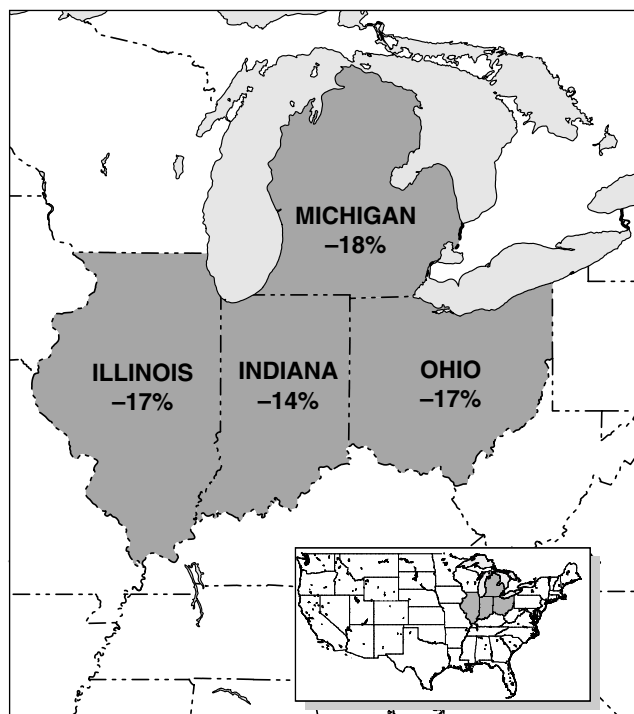
The cities are trying to address some of that situation, as well as the churches and other institutions, trying to aid and assist in that endeavor, but it's just devastating.

EIR: Food relief programs, from the laid-off Goodyear Tire workers near Marietta, have been shown on national TV awhile back.

Mays: Any kind of relief is needed. Insurance is skyrocketing today. People cannot even afford insurance, and that makes it difficult for other institutions that are closing the doors, and cannot provide the services for the people who badly need it.

So it's really a rippling effect. You know, when one business starts closing, it has an effect on others. And then, some of the businesses that we are now seeing, are no longer a sweat-type, but more of a services-type-business, today, and that has effects.

Huge Manufacturing Job Losses in Four Midwestern States, 1999–2003



Just today, we had a meeting, and I was driving past some of these super-malls, and things coming in, and the little businessman, and the strip-malls and things that we have, are now closing their doors. And those employees are losing their jobs as a result of that.

EIR: I suppose Wal-Mart is a leader of that in your areas?

Mays: Wal-Mart is one, and I guess, Sam's Club—which is part of Wal-Mart, yes it has had a devastating effect on other businesses that we were totally relying on. And those distract from your smaller municipalities, that at one time provided some services and had the small businesses that could no longer compete with Home Depots and Wal Marts and all these other big giants that have come in here.

EIR: So without the stores, businesses, and communities, what has happened with providing for education? Do you have your own school district in East Cleveland?

Mays: We have our own school district. I'm sure it has had an impact on the school district as well, not only from revenue, but even from enrollment. Enrollment has fallen in our particular district as well.

EIR: So there is lots of dislocation and harm, as the economy had gone bad.

TABLE 1A

Four Midwest Industrial States Lost 573,000 Manufacturing Jobs, 1999-2003

	Employment in Manufacturing		Manufacturing Jobs Gone	Percent Change
	1999	2003		
Ohio	1,027,600	854,500	173,100	-17%
Michigan	898,100	733,800	164,300	-18
Illinois	882,100	733,000	149,100	-17
Indiana	664,700	577,500	87,200	-14
All Four	3,472,500	2,898,800	573,700	-17%

TABLE 1B

Four Bordering States Lost 311,400 Manufacturing Jobs, 1999-2003

Pennsylvania	863,400	727,500	135,900	-16%
Wisconsin	594,800	515,300	79,500	-13
Missouri	371,800	314,200	57,600	-15
Kentucky	309,000	269,600	39,400	-13
All Four	2,139,000	1,826,600	311,400	-15%
Total, Eight States	5,611,500	4,725,400	885,100	-16%

Source: U.S. Bureau of Labor Statistics.

Mays: That's true, as the jobs have gone overseas, or to your Southern states, where the economy, I guess, is a little less high than it is here—or the cost of living, I'll put it that way, is not as high, in some of the Southern states. As well as a lot of these industries, belting up and going elsewhere, or just closing down, period. Because they can no longer compete, or operate, with the cost of living.

Then, there is the EPA and all the other factors that come into play. So all of them have a profound effect on businesses today, and all of the demands that they have to adhere to.

EIR: Now, when some people try to keep a job anywhere in the area in recent years, do you find they are having to drive long distances to commute?

Mays: That is true, and a lot of times, they cannot afford to get to those particular jobs, because, they lack public transportation, or they do not have cars themselves. So it makes it even more difficult as well.

EIR: Someone who does try to drive or car pool, how far are some going right now? To Akron—50 miles?

Mays: Even farther than that. Some of them go to Solon. There are other places, trying to keep up with where some of the businesses are relocating, that are leaving what we call the inner city, or city suburbs, and are going farther out.

We try to compete with them. A lot of times, they give tax abatements. And then will take our resources and money

to put roads and things in, to make it profitable.

EIR: In contrast, decades ago when the mills were still operating, you had quite a percentage of people who lived in walking distance, or easy driving distance to the mill. What was the public transit like, then and now?

Mays: At that time, yes. It was more accessible, whether you had a car or not, or you had bus transportation, or other transportation—people car pooled even during that time, to get to their jobs. Or in a lot of instances, some people could walk to their job. That is no longer accessible now.

EIR: Did you have trolleys, buses?

Mays: Here we have both, rail as well as buses. In the past, and even now.

EIR: What was the height of population in East Cleveland?

Mays: 45,000 to 50,000 people. Right now, it's 27,000-plus.

EIR: In Cleveland proper—you're right next door—there have been big cuts in the police and fire forces in the last few months?

Mays: They laid off, I believe, 200-plus policemen, and a number of firefighters. They are looking at a \$66 million budget deficit.

We, so far, thank God, have been able to maintain; we have not laid off any firemen, or policemen in East Cleveland. We're trying to manage. But as I said in letters I sent out to all of the department heads, and employees under their auspices, we do not have wiggling room. We're looking for ideas and methods to tighten up, and to work as safely as you possibly can, without making any mistakes. We're all in this boat together, and so therefore, we either will swim, or we all will drown. So therefore, we expect you to do your part, and to provide the services that are so badly needed in our city.

EIR: You have been Council President for awhile?

Mays: I have been on Council for over seven years. I have been the President of Council only since January, 2004. I have been Vice President for a number of years.

We're working on coming up with ideas to generate revenue, and that is what most of the cities need, to provide the services to the constituents, which we serve.

I've been challenged, and I like to challenge, to come up with revenues besides taxing people. And that has been a sore thorn in my side, as far as some of my colleagues, who are more apt to continue to want to tax people.

LaRouche: Restore Midwest 'Production Capability'

Lyndon LaRouche, campaigning for nomination as Democratic Party candidate for President, toured Missouri and Michigan in November 2003. Here is an excerpt from his speech in Detroit on Nov. 20 (for full text, see www.larouchein2004.net).

St. Louis has had a Detroit-style catastrophe, probably worse than that. They've lost the aircraft industry, which used to be centered around there: McDonnell Douglas, and so forth. It used to be a hub center, for air transport. It's dying.

Now, it has, in that area, the potential of that kind of manufacturing. Well, the United States has lost its rail system. I intend to give it back its general trunk rail system. Now, when we built the transcontinental system, which unified this nation, as one nation from Atlantic to Pacific, we started from St. Louis, and we built a rail system, or a complex of rail systems, out of the St. Louis hub, which used to be a hub for the wagon trains, before then. So we built that.

Now, we're going to have to build a high-speed transport system, for freight and passengers, from a hub located in St. Louis, to the West Coast. It'll go through the North, Middle, and South, as we always did before. But this time, it'll be magnetic levitation—not necessarily the one that's used in Germany, but the best magnetic levitation system we can devise, based on the experience of other countries. We develop the United States. We would use St. Louis as an assembly point for the development of this system.

Now, let's go to Detroit: What do you do here? We have an automobile industry, which has outlived its usefulness in its present form. So therefore, now we have to take

the production capability of Michigan, Ohio, and Indiana, and use that productive potential before we lose it altogether, in devising a new variety of product required. . . The area used to have engineering facilities, machine-tool capabilities. It was not the automobile manufacturers that were essential to the industry; it was the machine-tool vendors who supplied the components of the system. This is the area, where a lot of the jobs have gone out. We now get imported assemblies from poor countries, for automobiles, rather than making the components ourselves. . . .

So, therefore, we have to rebuild that, and we have to orient our production capacity to national priorities, the way we went for the aircraft industry before, the automobile industry before then, and the railroads. So, now we need a national transport system, which will do all kinds of things. . . .

So, what we need is, we need rapid-transit systems, as a way of reintegrating and reconstructing our economy. We need a way that people can walk out the front door, walk a short distance, get to some kind of light rail, or some other system, and get to their destination without having to go through a traffic jam. So, therefore, we have a great need in this country, for developing a new national transportation grid, which integrates high-speed freight and passenger traffic, which integrates it in terms of local communities, high-speed transit systems, to get people off the parking lots called highways, in order to make it possible for people to live in a community, and have efficient access to their schools, to the place they work, and so forth. We need that.

So, therefore, this area must be rebuilt. It must be rebuilt based on its existing capabilities, redesigned and applied to a new mission. And the mission is a national transportation system. Automobiles were a transportation system; we also have other kinds of transportation systems. We're going to do it. And by this kind of method, we can address the problem.

And I said, the economy does not lend itself for us to levy a tax, to levy on our constituents at this time. We must find other means of generating some revenue, to provide the services which we need to provide to our citizens, and to remain a city, besides taxing them. Because it didn't only happen only to the governmental entities across this country; it affects the residents and constituents, which we serve as well. They have to find ways to manage their homes, and operate without us taxing them out of the city.

And so, the commission which is supervising our finances—we are under the auspices of the state, as far as our finances is concerned—the commission has challenged me to come up with other ways besides taxing, because I

told them I would not support a tax levy.

EIR: There are similar, prominent situations in the same boat. Over the state border, you have Pittsburgh. They were recently declared a "distressed" city under a Pennsylvania law passed in 1997. This way, the state doesn't have to say, "receivership or bankruptcy"; they call it "distressed." And it's another famous, former steel and factory center, in the same crisis situation. Bigger than your own city, but the same process.

In Ohio, the law declares municipalities in "fiscal emergency"—that is the expression?

Mays: That is correct. East Cleveland is one of those. That's

why I said, it's under the auspices of the state. You know, Cleveland was under that, before, and the way it is headed at the moment, it may be in that status again. And I believe there are others elsewhere in the state.

EIR: As you know, Mr. LaRouche is addressing the situation. In particular, in recent weeks, he went to St. Louis; he went to Detroit, and he spoke of the need for a "Midwest" economic rejuvenation, based on freezing the unpayable debt, and starting up transportation again—heavy production and high-tech transportation, etc. That would be made to order for the corridor in which East Cleveland is located.

Mays: Yes, that could be one of the ways to jump-start the economy again. To move forward, to try to eradicate some of the problems that plague our cities now, because of the economy the way it is.

Until we can find ways to put people to work, and to be able to sustain themselves, that's going to be a problem. Right now, that is the major problem. And we cannot continue to allow our jobs to continue to go overseas, and then send the things back to us to buy them. And what are we going to buy them with, if we don't have anything to buy it with.

And then, they are hiking the prices. They get it done for—whereas they may have had to pay a person here, working for \$5 or \$10 an hour, they go there and get it done for 50¢ or a dollar an hour.

EIR: So, it's not working, as you say. There are also those who argue: Solve things by casinos—like in Detroit, or entertainment meccas. Pittsburgh has prevented river boat gambling, but the trend is everywhere.

Mays: We do not have one here in Ohio. And I know that there has been some rumbling in reference to that. We're losing revenue from that perspective, by Ohio citizens going over to Detroit, or going to Canada, or going to Las Vegas. There're other places to gamble. And now I believe, Indianapolis has a casino.

EIR: The argument is made, that you should have gambling instead of having real production and restoring the economy. Run your economy on casinos and entertainment. A disaster.

Mays: Everything cannot be predicated on just those two energies alone, because of the fact that, everybody cannot work there to generate the economy. Suddenly it would be a boost—it would aid and assist providing some jobs for some people, but we need some big industry, as LTV and Republic Steel and companies.

EIR: Then, besides the casino promotion, there are those backing gambling in the form of real estate speculation. There was just an event March 24 at the Cleveland Convention Center to play up the idea of a riverfront real estate project along an eight-mile stretch of the Cuyahoga River, as something promoted to "save" Cleveland—like they're saying in Wash-

ington, D.C. where D.C. General Hospital once stood. Swanky housing, a few high-price restaurants, trolleys, as opposed to the mills and production-based economy. You see that hype in your region?

Mays: It could be offered. Suddenly, whatever we can muster that is going to generate anywhere, from 25, to 30 or 40, 50, 60 or 80 jobs, or 100 jobs, that suddenly is a boost to any revenue, to any municipality, because of the fact that it will generate some more revenue, and provide some jobs for people. I'm a business-oriented person. I know what the economy—I've taken economics, so it gives me some perspective as to what it does take to operate a city.

And a lot times, in a lot of the city, we have not tried to embrace business, or tried to attract business here, because we cannot compete with a lot of the outer ring of suburbs, which I indicated earlier, are offering tax abatements. And when you are land-locked, those are other areas you have to look at and take into consideration, because we cannot attract the large industry, as other neighboring communities can. Cleveland is one. We cannot compete with Cleveland. But at the same time, we are land-locked, so therefore, our city does not lend itself to a lot of big businesses or whatever.

We can embrace the small and medium businesses in our city.

EIR: So you're saying, that if the ball got rolling for a really restored economy in the really big areas, of Great Lakes shipping, and transportation, and mills, then whatever the location—like your own, you'd be back in gear?

Mays: Sure we would. I think we would suddenly have a stimulant for the economy in our city as well. There are other ideas that I have, hopefully that will be implemented in our city, to hopefully give it a boost.

We have removed all our parking meters in our city. That's revenue there that we lost.

The other thing we have to become more aggressive about, is in rehabbing. Those individuals who qualify for their homes, to eradicate the violations that have been cited by the housing inspectors—aiding and assisting them in that endeavor, to keep the stock of homes, and things of that nature, which will begin to increase our census, and as a result to get in more money from that perspective. And also that will be providing more jobs as we rehab. So it suddenly will be a boost to our economy, and the city of East Cleveland.

EIR: You've been conferring with Mr. LaRouche to see what can be done.

Mays: Right. I hope that the economy can be turned around, and we can see some drastic changes in our particular municipalities in Ohio, and particularly, hopefully, we can get to address something that will bring some industries in here that will begin to turn Ohio around particularly, and provide jobs for Ohio.