

## Greenspan echoes LaRouche, warns of 'financial implosion'

by Marcia Merry Baker

On May 7, Federal Reserve Board Chairman Alan Greenspan addressed a conference sponsored by the Federal Reserve Bank of Chicago, and in his prepared text, warned of dire consequences associated with today's financial system. After making reference to rapid and punitive "cross-border financial flows," Greenspan stated: "It is urgent that we accelerate our efforts to develop a sophisticated understanding of how this high-tech financial system works. Specifically, we need such an understanding if we are to minimize the chances that we will experience a systemic disruption beyond our degree of comprehension or our ability to respond effectively."

Well should Greenspan speak of chances for *systemic disruption*. The disintegration of the global financial system is proceeding apace right now, already at the point of social explosion in East Asia, and approaching the stage of financial blow-out and ensuing chaos even in the so-called invincible financial centers of the North Atlantic nations.

Greenspan's response? In Chicago he spoke of central banks' supreme powers to print money, override the decisions of the governments of nations, and decide what the "public burden" will have to be. Have a problem with that? Greenspan concludes, well, problems are the "price of progress."

In fact, Greenspan's "systemic disruption" is precisely the state of affairs forewarned of by economist-statesman Lyndon LaRouche in January. He said that, "phase one" of financial disruptions in the second half of 1997 (Asian-centered currency devaluations, debt crises, non-payments, insolvency chain reactions) would seem like a picnic, compared to what lies ahead in the second quarter of 1998. All the while, LaRouche has mobilized for urgent action toward a "New Bretton Woods" financial replacement system.

In particular, LaRouche has warned of the explosive "reverse-leverage" effects when the \$140 trillion pyramid of international derivatives contracts, and other speculative obligations, starts to blow. On May 7, Greenspan said, "With financial leveraging there will always exist a possibility, however remote, of a chain reaction, a cascading sequence of defaults that will culminate in financial implosion if it proceeds unchecked. Only a central bank, with its unlimited power to create money, can with a high probability thwart such a process before it becomes destructive."

### LaRouche's January warning

Interviewed on Jan. 14, on the radio show "EIR Talks," LaRouche was asked, "Your forecasts of the great financial crises of '97 were found to be prophetically accurate by many. What's going to happen in the first and second quarters of 1998?" LaRouche responded, by first drawing attention to the lack of political will of leaders and institutions to intervene.

"We are in a peculiar kind of situation, in which what happens is not going to happen mechanistically, that is, it's not automatically out of human hands. You don't go to some fortune teller or some tea leaf reader and say, 'What have the gods prepared for 1998?' It doesn't work that way.

"What happens is, at present, we see that while people like [U.S. Treasury Secretary] Bob Rubin and some others, with the President's support, are moving in useful directions, and generally correct directions, the administration as a whole is not telling the truth. That is, while there are those in the administration, together with people in Europe and elsewhere, who realize that the system is disintegrating, are willing to do something about it, they are unwilling to take on

the overwhelming majority of the world's power brokers, politically and in finance, who at this point are sticking to something like the IMF's hyperinflationary policy.

"The situation is going to become impossibly worse. As we enter the second quarter, or as we enter March—one can not predict a precise date on this, but you get the general picture of how things are going—by the time we're approaching, or entering the second quarter of 1998, we're going to be in the most hellish crisis we've ever imagined, something far more hellish, more profound, than anything that has been seen so far in the 20th century.

"For example, you see the implications of the threatened spread of this crisis out of Southeast Asia, and Asia generally, not only into Brazil and Argentina, Chile and so forth; but, also, they're already beginning to hit New Zealand, which means, next, Australia. And, we can see, very rapidly, particularly when you look at some of the figures of the debt ratios, who is owed what, you see that Europe is going to be hit *very* hard, much more difficult than the United States, within a very short period of time.

"If you think things are bad now, wait until March or April come around. It's going to be impossible. At that point, I think there's going to be a tendency for people to scream, 'Help us! Help us! Help us!' And, that's what I have to prepare for. Because if people, by the second quarter of this year, do not come around to accepting my leadership role in shaping policy response on this question, then I can tell you, *this system is going into something far worse than anything like the 1930s Depression, worldwide. This is going into a virtual New Dark Age.*

"So, this is a very important period. The next weeks, as to what my fate is in the next weeks, will, essentially, probably determine the fate of the nation, and of civilization."

### **New Bretton Woods or bust**

As of May 1998, the drive for the New Bretton Woods approach forged by LaRouche, has taken the form of political election campaigning in the Congressional mid-term races in the United States, and for elections and policy campaigns in key nations around the globe. The April 16 conference in Washington, D.C. of 22 nations, hosted by U.S. Treasury Secretary Rubin, which met on the topic of the world financial crisis, could have been a milestone occasion, but the outcome was to form three study groups—commissioned to report next fall! The pace of the intensifying crisis won't wait, as even Greenspan's remarks make clear.

Early May's tumult and protests in Indonesia underscore the fact that in East Asia, the global financial crisis has entered the phase of social explosion. The International Monetary Fund (IMF) is proceeding on an agenda of cutting productive economic activity; this, combined with the cumulative impact of two rounds of financial crises so far (summer 1997 to December; then January 1998 to the present), have created circumstances that are intolerable.

During the first week in May, Indonesia went through days of protest demonstrations and riots, triggered directly by IMF-ordered price rises of 25-71% for fuel and power. In Seoul, South Korea, where unemployment is soaring each day, mass rallies and strikes may be in the offing for later May or June.

The economic and social breakdown situations in Indonesia, in South Korea, and elsewhere, pose a leadership challenge to nations the world over: The IMF-era system is done for. Will there be a replacement system for the benefit of mankind? Or will the doomed IMF system lead to more strife and suffering, ending in global catastrophe and a Dark Age? Internationally, the expiring financial system is being held together day-to-day by the rapid printing of money, and the crushing of living standards and production. But, its days are numbered.

One gauge of the urgency of facing the breakdown, and acting, is that even the Asian-based non-governmental organizations, not oriented in the past to economic fundamentals, issued a united appeal in early April for action on the international hot money flows that have shot down whole national economies in the region. Below, we provide the full text of this Asian NGO appeal to control foreign speculation.

However, the institutional policy response has so far continued its stall-out. As we go to press, finance ministers and

## **LAROCHE ON THE NEW BRETTON WOODS**

**"The present fatally ill  
global financial and  
monetary system must be  
radically reorganized.**

**It can not be reformed, it  
must be reorganized.**

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in bankruptcy, conducted  
under the authority  
not of international  
institutions, but of  
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central bankers are gathering in London, for a Group of Seven meeting on May 8, and foreign ministers are meeting on May 9, preparatory to the heads-of-state gathering on May 15 in Birmingham, England. But no counter-IMF actions are planned.

In Washington, D.C., the House of Representatives has balked at providing the \$18 billion of pledged money to the IMF—a useful move, but still the Congress has not had the sense to organize the funeral ceremony for the failed agency. The IMF, as the events in Indonesia make clear, cannot be “reformed,” or “improved.” It must be buried. IMF Managing Director Michel Camdessus said on May 5, in Melbourne, Australia, that the Fund could face the biggest crisis in its 53-year history, if the U.S. Congress doesn’t cough up the \$18 billion. So be it.

## Asian NGOs demand action on financial crisis

*The following memorandum, on the Asian economic crisis and the role of currency speculation, was signed by a number of Asian non-governmental organizations on March 27, and addressed to the Asia Europe Meeting (ASEM) summit in London on April 3-4. It shows that even the politically correct are dragged toward reality because of the physical economic collapse and the failure of institutions. Many of the signatories, such as “back to nature” Sulak Sivaraksa, represent the worst sort of “third worldism,” but the statement of the crisis, and the demand that ASEM take action, indicate the severity of the global financial crisis. A subhead has been added.*

**Memorandum** to the Asia Europe Summit in London, 3-4 April 1998 from non-governmental organizations and individuals in Southeast and Northeast Asia:

We, the signatories to this memorandum, are deeply concerned about the devastating impact of the present financial crisis upon the people of Southeast and Northeast Asia. Millions of women and men have lost their jobs. There is severe deprivation within the poorer segments of society as a result of the dramatic increase in the prices of basic necessities. The crisis has made indigenous communities, migrant workers, and other marginalized groups even more vulnerable than before. In some parts of the region, there is hunger and starvation.

While the causes of the crisis are varied, it is undeniable that it was triggered by the massive outflow of short-term, speculative capital from the region. It was this outflow which led to the rapid depreciation of a number of currencies and the decline of stocks and shares. The adverse consequences of this continue to be felt in almost every sector of the economy.

It is because short-term, speculative capital is so fickle, moving in and out of money markets in search of quick, huge profits, that it has wreaked havoc upon many Asian economies just as it had caused a lot of damage to various European and Latin American economies in the past. It is not widely known that speculative capital, which is massive in size and scale, dominates global financial transactions today. It wields much more influence than long-term capital investments in the real economy. This is why it is in a position to make and unmake economies.

Currency speculation should be curbed and controlled at the global level. There should be effective mechanisms for regulating currency trading itself, out of which has arisen currency speculation. Currency traders should be made accountable while currency trading should be made transparent.

Though calls for curbs upon currency speculation have become more frequent in recent months, international institutions, charged with ensuring global financial stability, and most international organizations, have been rather lukewarm in their response. The International Monetary Fund (IMF) for instance, has not gone beyond a promise to study the problem. The G-7 [Group of Seven] has not shown any inclination to address the issue. It is only organizations such as the G-77, the G-15, and ASEAN [Association of Southeast Asian Nations]—all linked to the South—that are concerned about currency speculation and the volatility of the international financial system.

It is our earnest hope that the Asia-Europe (ASEM) Summit in London in April 1998 will show some empathy for the sufferings of the people of Northeast and Southeast Asia. Since countries in both continents have been victims of currency speculation, they should realize the importance of taking concrete measures to bring some order and stability to the money markets of the world.

### Curb speculation

*We therefore urge the ASEM Summit to put forward tangible proposals on curbing currency speculation and regulating currency trading.*

At the same time, as individuals and organizations espousing the incorporation of moral values in the economic order, we are deeply conscious of the fact that the present international financial system is almost totally devoid of ethical principles. That money, a medium of exchange, has now been transformed into a commodity of profit, is a moral indictment upon the entire system. Everything today, from nature to culture, has a monetary value to it. Indeed, the system itself is sustained by the constant manipulation of interest rates—an institution which is abhorrent to all the major religions of the world.

If we are disturbed by the lack of ethics in international finance and international economies, we are equally distressed by the inability of certain national elites to uphold moral principles in the governance of their societies. In these