'Food separatism'

Around the nation, local leaders are resorting to all kinds of local actions, austerity, and food control. On Sept. 22, *Izvestia* reported that many governors have banned food deliveries outside their region's borders, triggering a dangerous trend toward "food separatism." Among the regions cited were Stavropol, Krasnodar, Khabarovsk, and Samara. Earlier, *Izvestia* reported that the Vologda administration had issued an order forbidding the export of staple goods and food products from the region. On Sept. 21, acting Finance Minister Mikhail Zadornov told reporters that more than 60 regions have adopted their own austerity programs.

As of mid-September, there were "bread vans" cruising Vladivostok. Acting Mayor Vladimir Nedelin of Russia's Pacific port city of Vladivostok told Itar-TASS that destitute citizens there are being given coupons, which allow them to buy bread at fixed prices, from vans that drive around the city. Nedelin said there were "thousands" in need of this relief.

On Sept. 16, a local administrator said on the Vremya TV broadcast from Moscow, that "there is a real threat of famine" along the Volga River in southern Russia, where more than two-thirds of the summer crop has been destroyed by drought. Another local official told Agence France Presse that emergency food aid was being sent for 100,000 villagers around Pallasovka near the Kazakstan border. "People are not dying of hunger yet, but it is true that in six districts on the left bank of the Volga River the situation is extremely difficult. There is no more bread," the official said. The Vremya reporter described families as "close to starvation," and the children of the region as in terrible health.

In September, the Russian State Duma (lower House of Parliament) adopted an appeal to Russian President Boris Yeltsin to save the children of Russia from starvation. Reported in the Sept. 23 *Rossiyskaya Gazeta,* the official government paper, the call asked for executive authority to deploy emergency commissions to give aid to children in need, and help to families, including provision of proper food for children, and clothes, footwear, and medicines.

Russia's military also has a severe food supply crisis. On Sept. 26, Viktor Ilyukhin, the chairman of the State Duma security committee, stressed this at a round-table meeting dedicated to the problems of the Russian Armed Forces, the defense industry, and state security. Speaking to representatives from the General Staff, defense-related enterprises, and military scientists, Ilyukhin said that in 1997, budgetary allocations covered the provision of a three-meal daily diet for only 290 days a year, with the calorie content being decreased by 30%.

Moreover, acting Chief of Staff Col. Gen. Valery Manilov added that even this money is delayed for three to four months, and since 1995, no calculation taking inflation into account has been made.

Leaders fail to act to stem financial crash

by Jeffrey Steinberg

World finance ministers and central bankers from 182 countries spent Oct. 6-8 in Washington, D.C., shuffling between the International Monetary Fund (IMF) and World Bank headquarters for their annual autumn meeting. Group of Seven ministers and bankers gathered as well, on Oct. 3-4. And, on Oct. 5, President Clinton personally addressed a meeting of the Group of 22, the group of advanced sector and developing sector nations first assembled under U.S. auspices last April 16 to tackle the growing international monetary and financial crisis.

After President Clinton failed to convince the other G-7 nations to coordinate an emergency conference later in October, along with developing sector governments, to devise a comprehensive plan for a "new global financial architecture," the President decided to use the occasion of the long-scheduled G-22 follow-up session, Oct. 5, to meet with the bankers and ministers of the 22 nations, to review the crisis, and assess the interim studies mandated in April.

The characteristic flaw of everything that President Clinton and Treasury Secretary Rubin attempted during the week of meetings, was their insistence on focussing all reform efforts around a "people-friendly" IMF. The idea that the IMF, whose track has been highlighted by economic devastation, social chaos, and toppling of governments could be reformed in such a fashion, is preposterous.

The most optimistic reports to come out of the G-22 five-hour closed-door session, suggested that most participants agreed that urgent action had to be taken to curb the destructive powers of hedge funds and other speculators, whose activities in the past 18 months brought economic ruin and social chaos to Asia and Russia, and whose next target is Brazil, a country whose economy and banking system are inextricably tied to the United States. Sources close to the U.S. administration reported that Treasury Secretary Robert Rubin is deeply worried about the looming Brazil crisis.

Following the G-22 session, the Malaysian Deputy Finance Minister told reporters back home that, in stark contrast to the September 1997 IMF-World Bank gathering in Hong Kong where Malaysian Prime Minister Dr. Mahathir bin Mohamad was ostracized for attacking speculators and for singling out George Soros for criticism, this year, Mahathir's words and actions (last month he imposed currency and capital controls to stem flight capital and speculation against the Malaysian currency, the ringgit) were praised by many participants.

Even Treasury Secretary Rubin, while insisting that a worldwide floating exchange rate system is still viable, acknowledged that some developing sector countries could benefit in the short term from capital controls and fixed rates. Japanese Finance Minister Kiichi Miyazawa echoed Rubin's words, and Donald Tsang, the chief financial officer for Hong Kong, strongly defended the Hong Kong Monetary Authority's aggressive intervention into the stock market, to beat back hedge funds that were attacking the Hong Kong dollar in August.

Missed opportunity

Sources close to the White House report that the President abandoned plans at the last minute to deliver a major policy address to the G-22 ministers, possibly as the result of the other G-7 governments agreeing in principle to participate in a heads-of-state summit in November. In addition to the open intransigence from such ostensible G-7 "allies" as France, the President was operating under the cloud of the House Judiciary Committee vote, which took place at the very moment that the G-22 ministers were sitting down with the President, authorizing the full House of Representatives to vote on an impeachment inquiry.

With Congressional Republicans playing out their treason across town on Capitol Hill, it is no wonder that the combined gatherings of the ministers and bankers failed to craft any kind of coherent solution to a crisis that President Clinton has correctly and repeatedly labeled the gravest financial crisis in 50 years.

The crash is on

Unlike all recent gatherings of the G-7, the IMF, or the World Bank, the early October meetings in Washington were shaped by the onrush of the global financial collapse. In the six-week period leading up to the summitry, Russia had gone into sovereign default, triggering a new round of stock market collapses in Europe, Asia, and the Western Hemisphere. From the peak levels of July 17, bank stocks in the United States and Europe plunged by an average of more than 40%. As the bankers were gathering in Washington, the stock markets of western Europe and the United States had wiped out all of the gains posted since Jan. 1.

And, just days before the October fest, Long-Term Capital Management, the Cayman Island-based hedge fund, dominated by Nobel Prize-winning economists and former Fed officials, went belly up, triggering a U.S. Federal Reserve-brokered $4 billion bailout. For the first time, bankers and ministers were forced to admit, what *EIR* and a handful of others have been saying for years, that the off-balance-sheet derivatives trade, involving tens of trillions of dollars in highly leveraged bets, represents the gravest threat of all to the world monetary sytem.

In the midst of the IMF-World Bank festivities, Fed Chairman Alan Greenspan moaned to a gathering of American business economists that the world was faced with a drastic drying up of investment capital, that threatened to bring the world one step closer to economic calamity. For once, Greenspan was right.

A Titanic debate

When all is said and done, the week-long exercise in policy paralysis was dominated by a failure of most of the leading participants, led by an admittedly besieged President Clinton and Treasury Secretary Rubin, to move beyond the effort to "save the system" through a series of short-term "crisis management" measures, all doomed to fail.

By the end of the week, news media around the world were spinning out a variety of half-measures, all discussed in the corridors of the IMF and World Bank gatherings. Richard Medley, a consultant to a number of major banks and hedge funds, told National Public Radio on Oct. 8, that plans were afoot to impose taxes, deposit requirements, and other disincentives on short-term capital flows. Had these ideas been seriously implemented ten or twenty years ago, before the offshore bubble reached epoch proportions, the system might have been salvaged. But today, such measures are wholly inadequate.

Even worse, beginning with a speech to an Oct. 1 *Wall Street Journal*-Dow Jones conference in New York City, Treasury Secretary Rubin spent a good deal of his time over the next week putting pressure on House Republicans to pony up $18 billion for the IMF. Even as Rubin warned, accurately, in a Treasury Department report, that the majority of the 50 states of the United States are suffering severe losses of export earnings, due to the "Asian contagion," the Russia crisis, and the overall collapse of the developing sector economies and currencies, his recipes for relief all began with the demand for the funding of the IMF. So long as the "solutions" being pursued by the Clinton administration include the effort to "reinvent" the thoroughly discredited IMF, the world financial system is as doomed as the *Titanic*.

Documentation

President Clinton addresses the IMF

On Oct. 6, President Clinton delivered what was billed as a major policy address to the opening session of the annual autumn meeting of the International Monetary Fund in Washington. Excerpts from the President's speech follow:

A half century ago, a visionary generation of leaders gathered at Bretton Woods to build a new economy to serve the citizens of every nation. In one of his last messages to Congress, President Franklin Roosevelt said that the creation of the International Monetary Fund and the World Bank, and I quote, "spell the difference between a world caught again in the maelstrom of panic and economic warfare or a world in which nations strive for a better life through mutual trust, cooperation and assistance." The Bretton Woods generation built a platform for prosperity that has lasted down to the present day. . . .

The IMF and the World Bank have been vital to the prosperity of the world for the past half-century. We must keep them vital to the prosperity of the world for the next half-century. Therefore, we must modernize and reform the international financial system to make it ready for the 21st century.

The central economic challenge we face is to harness the positive power of an open international economy while avoiding the cycle of boom and bust that diminishes hope and destroys wealth. And the central political challenge we face is to build a system that strengthens social protections and democratic institutions so that people everywhere can actually reap the rewards of growth. We must put a human face on the global economy. An international market that fails to work for ordinary citizens will neither earn nor deserve their confidence and support. We need both an aggressive response to the immediate crisis and a thoughtful road map for the future. . . .

We must address not only a run on a bank or a firm, but also a run on nations. If global markets are to bring the benefits we believe they can, we simply must find a way to tame the pattern of boom-bust on an international scale. . . .

In the end, we must fashion arrangements that serve the global economy as our domestic economies are served, enabling capital to flow freely without the crushing burdens the boom-bust cycle brings. . . .

At a moment of financial crisis a natural inclination is to close borders and retreat behind walls of protectionism. But it is precisely at moments like this that we need to increase trade to spur greater growth. Again, we must never lose sight of what the fundamental problem is. We need more liquidity, more growth in this world today. Only by tearing down barriers and increasing trade will we be able to bring the nations of Asia, Latin America, and other parts of the world back onto the path of growth.

U.S. in rapid decline, yet Rubin talks up IMF

On Oct. 6, the Treasury Department released a state-by-state analysis, detailing the local impact of declines in U.S. exports, and the specific industry effects in individual states from the global financial crisis. A page of data on each of the 50 states shows drastic drops, by sector, of up to 60% in volume of exports, and of domestic economic activity, from the the first quarter of 1997 to the first quarter of 1998. The rate of decline since is even worse.

Treasury Secretary Robert Rubin is quoted in the Treasury News departmental release on the new study, stressing the danger of this process to the nation, and need for action. However, he then resorts to the reflex-reaction of calling for the country to fund the International Monetary Fund.

Rubin warns: "The study demonstrates the importance of international trade with both Asia and the world's developing nations to each states. Clearly events in Asia, Russia and Latin American are having a direct impact on the prosperity of America's farmers, workers, and businesses. The United States has a very real interest in stemming the tide of global economic turmoil.

"One important way we can act to deal with these threats is to fulfill our responsibility—and to provide the funding that the President has requested for the IMF. The international community must have the resources that it needs to deal with this crisis that has spread to so many emerging economies and threatens the economic well-being of the American people."

Among the highlights of the report is the agriculture crisis, showing that, "Forty percent of all U.S. agricultural exports go to Asia, more than to any other region. In the past year, total U.S. exports to Asia have decreased by 11%." In the state of Minnesota, for example, "exports to Asia in the agricultural products sector, the principal sector that exports to the region, decreased 50% between the first quarter of 1997 and the first quarter of 1998."

Manufacturing areas are likewise reeling. In Pennsylvania, "exports to Asia in the industrial machinery and computers sector, one of Pennsylvania's principal export sectors to the region, decreased 39% between the first quarter of 1997 and the first quarter of 1998." In Texas, the fourth-ranking state exporter to Asia, in terms of money value, "exports to Asia in the chemical products sector, one of the state's principal export sectors to the region, fell by 40% between the first quarter of 1997 and the first quarter of 1998."

The Treasury report concludes: "An important danger of the financial crisis is the contagion effect. Russia's economic difficulties and the recent market pressures in Latin America are in part due to contagion. The further deterioration of those economies and others in Asia could have an even more significant impact on the U.S. economy."

If the IMF is not replaced with a new "LaRouche economics" Bretton Woods system, the U.S. economy is dead.—*Marcia Merry Baker*