in the marketplace (as opposed to the market in stocks). It is small wonder that hardly any dot.com companies selling to the consumer are making money, either here or in the U.S. . . . A meltdown is inevitable."

Will Hutton, "From .com to .bomb," London *Observer,* March 12:

"For the first time, our generation is witnessing a real, over-the-top, unstoppable speculative bubble that can and will end in tears." We are in "the grip of a collective madness," as the "lust for dot.com companies reached a new pitch." You've heard of the tulip mania of the 1630s, of the South Sea Bubble. Well, "something just as silly is happening now. . . . The mismatch of prices between companies in the new and old economies . . . will have to be corrected."

The domination of stock indices by these Internet stocks, is forcing the so-called "dinosaurs," such as electric power companies, breweries, and water companies, off the index. This has three effects. It means that the big insurance companies and pension funds automatically sell their stocks, because the latter only buy stocks that are on the index. This forces these companies to rationalize, lay off workers, relocate, etc., in order to make quick profits. Third, it opens them up to hostile takeover, asset-stripping, etc.

The crash is "inevitable. . . . The gigantic correction, when it comes, will so puncture the financial system's balance sheet that it will be unable for a period to finance even normal levels of business activity.

"And it is now clear what the source of the correction will be. The trebling of oil price represents a fourth postwar oil shock that will slow down the economy and lower profits worldwide. Professional investors will soon realize the music has stopped playing, and rush to occupy safe chairs by holding cash; the greater fool will be holding the overvalued shares.

"The way the system is structured, that fool will be the great pension funds and insurance companies—in other words you and me, over whose savings they act as custodian. It is people's jobs and savings that are at risk in this game of investment musical chairs."

London *Guardian,* "High Anxiety: Larry Elliott on the Coming Crash," March 13:

Noting the frenzy to invest in stocks of some of the "dot.com" new issuances, Elliott comments that "the world is going share crazy." All sorts of "experts" and "analysts" are denying that the signs of a crash, of a type that we've seen before, are now there, proclaiming, like a mantra: "This time it's different." But this time is *not* different from previous speculation manias, like the 17th-century "tulip mania." There is now "wild speculation in companies unheard of six months ago," all likely to "end in a spectacular crash. If—or rather when—it happens, it will happen suddenly. And the impact will be savage."

What is Treasury's Lawrence Summers?

by William Engdahl

Willy Sutton, the most notorious bank robber during the 1930s Great Depression in the United States, was asked by police, on being captured, "Willy, why do you keep robbing banks?" Sutton allegedly replied, " 'Cuz, that's where they keep the money."

In a similar way, we might ask, why does U.S. Treasury Secretary Lawrence H. Summers always take his policy cues from Wall Street and major international banks? This orientation describes, more accurately than any textbook economic theory, the policies of the man who, on July 2, 1999, replaced Robert Rubin, to become the Clinton administration's Secretary of the Treasury, the second most powerful single position in the world of finance and monetary policy after Federal Reserve Board Chairman Alan Greenspan—or, according to some, the most powerful.

Investigation of Summers's public career, his tenure since 1993 in the Clinton Treasury Department, and his own comments, confirms that it has been Summers, more than any other person within the Clinton administration, who has been responsible for the missed opportunity to realize President Clinton's expressed will to create a New Bretton Woods structure in the wake of the 1997-99 collapse of Asian economies.

It has been Summers, together with his hand-picked man at the International Monetary Fund (IMF), Deputy Director, now Acting Director Stanley Fischer, who have enforced the present IMF policy of slash-and-burn conditionalities which has been responsible for turning an Asian currency crisis into an out-of-control social and economic collapse. The point of this report is to bring to light the policies and actions of one of the most opaque and secretive of Washington leading figures today.

Summers's 'march through the institutions'

Summers, a 44-year-old former Harvard Professor of Economics, was the youngest person in Harvard history, at 28 years of age, to become a full professor. Despite the fact that his two uncles, Paul Samuelson and Kenneth Arrow, are both Nobel Prize economists, that both parents were academic economists, and given his heavy academic credentials, Summers is surprisingly non-doctrinaire. In 1989, he authored a proposal for introduction of a tax on financial transactions, as a way to dampen financial speculation. Yet, since the onset of the Asia crisis in 1997, Summers has championed holding firm to IMF monetary orthodoxy, and rejected any calls for

© 2000 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

Treasury Secretary Lawrence Summers, the point-man for International Monetary Fund austerity conditionalities in the Clinton administration.

curbing hedge funds, over-the-counter derivatives, or other speculative abuses.

During 1991-93, Summers served as Vice President of Development Economics and Chief Economist of the World Bank, where he sat on the Bank's Loan Committee, and played a key role in the design of country intervention strategies. He had overall responsibility for the Bank's research, statistics, and external training programs. While Summers served there, his unit produced the 389-page book *The East Asian Miracle* (published August 1993), which coined the term "Asian Tigers"—a phrase widely attributed to him. The "Asian Tigers" concept, using a fallacy of composition, grouped South Korea and Taiwan, which were real, machine-tool producing, Japan-style "full-set" economies, with the finance-driven Hong Kong and Singapore economies, and said that the economic boom in all four was based on the same principle of free market real estate speculation and growth in post-industrial financial services.

In 1993, Summers joined the team of Treasury Secretary Lloyd Bentsen, as Undersecretary for International Affairs, where he was responsible for dollar and international relations with other Group of Seven governments. His star began to rise in late 1994, when fellow Harvard alumnus Robert Rubin replaced Bentsen as Treasury Secretary. Rubin was impressed by Summers's apparent brilliance and sharp analysis of key policy questions.

Summers got his chance to prove himself under Rubin in January 1995, when the collapse of the Mexican peso threatened not only the entire Mexican financial and economic structure, but also tens of billions of dollars in investments and loans to Mexican banks made by the major U.S. banks and Wall Street firms.

Arguing that drastic action was urgently needed in order to stop a Mexican "contagion" crisis spreading across Ibero-America, Summers convinced Rubin, and, more importantly, the President of the United States, to use $12 billion of a total bailout package for Mexico of $50 billion, from a little-known Treasury emergency fund, the Currency Stabilization Fund, which required only Clinton's approval, not Congress's. Some within the U.S. Congress were strongly opposed to what was seen as a bailout of a drug-ridden Mexican financial system, and the Wall Street creditors behind it.

More than five years later, the Mexican government has poured more than $100 billion into an effort to keep an insolvent banking system afloat. One benefit of the Mexican bank rescue, is that it guaranteed billions of dollars in credits from U.S. financial institutions.

But the extraordinary size and swiftness of the Mexican rescue package engineered by Summers in 1995 created a Frankenstein's monster, which exploded two years later when foreign investors, including a group of hedge funds led by George Soros, took their money out of the Thai baht, triggering the onset of what came to be incorrectly called the "Asian crisis." But, by getting the Mexico package through, Summers showed that he was willing to do whatever was necessary to protect U.S. investments in high-risk emerging markets, giving the banks and investment funds a green light to move funds into Asia, where an obvious speculative bubble built up. Banks argued privately, "No worry, we are so big that the U.S. government will bail us out," which is precisely what happened.

When Thailand threatened default on billions in U.S. and other loans in May 1997, it was Summers who was in charge of engineering the strategy. This time, smarting from heavy Congressional criticism of his handling of the Mexican bailout, Summers seized on using IMF, rather than the U.S. Treasury funds—after all, only 18% of every IMF dollar comes from American taxpayers. By the end of 1998, the IMF had committed a staggering $180 billion for emergency actions in Thailand, Indonesia, South Korea, the Philippines, Russia, Ukraine, and, most recently, Brazil.

But, as was stated by expert economists during the months-long Congressional debate over whether to grant the IMF another $18 billion in U.S. taxpayer funds to allow it to continue such rescues, the IMF bailouts do not go to help the starving or unemployed citizens of victim countries. Rather, the money goes directly to secure the hundreds of billions of foreign capital at risk in these high-risk areas. As more than one Congressman critical of such bailouts pointed out, U.S. banks, not Thai or Russian economies were being bailed out

with the IMF money. Worse, the IMF attached conditionalities to its "help" which ensured that the countries were plunged into deep economic depression.

Summers was the administration point-man both for the IMF rescue of the banks, and he also led the fight to twist arms in Congress to approve the added $18 billion for the expansion of IMF actions. His man inside the IMF in this fight was a fellow economist from Boston and a close personal friend, Stanley Fischer, the number-two man under IMF Managing Director Michel Camdessus. Often, Summers and Fischer would travel together to crisis spots to deliver the IMF ultimatums. When the Japanese government, desperate over its own large bank loans to Asia, floated a proposal for an Asian Monetary Fund, independent of the IMF, to deal with future currency crises, it was Summers who flew to Tokyo to pressure the Japanese to be silent about such anti-IMF initiatives. The fund idea was suddenly dropped by Japan.

One of the sharpest critics during this period of IMF policy and, implicitly, of Summers's policy in dealing with the crisis, was World Bank Senior Vice President and Chief Economist Joseph Stiglitz. Stiglitz repeatedly publicly criticized the standard IMF demands that a recipient of IMF emergency funds must open its economy, raise interest rates in order to "stabilize" the currency, and slash government spending. "High interest rates," Stiglitz warned, "will also create financial strains, leading to bankruptcies, and thus increasing the expectations of default, making it less attractive to put money into the economy."

For Summers, Stiglitz's attacks on IMF policy were too much. Within weeks after taking over as Treasury Secretary when Rubin retired in July 1999, Summers began to escalate pressure to get Stiglitz out of the World Bank post, a position which gave Stiglitz's critique of the IMF extraordinary weight with developing countries and others. In December 1999, *New York Times* journalist Louis Uchitelle reported that Summers was the man behind the scenes who forced Stiglitz to announce early retirement. Ironically, Summers himself had held the same World Bank economic post as Stiglitz in the early 1990s, where he first came to know, and apparently came to dislike, a German World Bank official, Caio Koch-Weser, until recently the European Union nominee to replace Camdessus at the IMF, whom the Clinton administration has rejected.

Killing the New Bretton Woods

Summers was the most prominent Clinton administration figure supporting the disastrous IMF interventions into Asia, Russia, and other troubled crisis areas during 1997-99. In his public comments, he repeatedly praised the role of the IMF in Russia and the economies of eastern Europe. Summers is reported to have been one of the crucial Clinton administration figures urging support for the corrupt "reformers" around Russian Minister of Finance and Economy Anatoli Chubais, whom Summers referred to as "our dream team." Chubais, who was responsible for Russia's privatization program, cultivated an intimate contact with Summers in the mid-1990s, work that brought his mafia friends billions in Western credits, and allowed them to loot Russia to the bone.

Summers played the key role in getting his former Harvard colleague, "shock therapy" advocate Jeffrey Sachs, to be the liaison for aid to Chubais, via Sachs's Harvard Institute for International Development. Sachs's institute later was exposed for its role in a major corruption scandal, involving misuse of U.S. funds in Russia. Investigations by Congress were discouraged, presumably by Summers's persuasion that it would be destabilizing. Even more than Vice President Al Gore, Summers has played the key U.S. role mediating support for the corrupt Chubais "reforms," which have brought Russia to the brink of disintegration today.

Even when he was still Rubin's Deputy Secretary, Summers was playing a decisive role in policy determination. In the weekly breakfast meetings between Greenspan and Rubin, to discuss global developments, only one other person was always present—Lawrence H. Summers. When the President's Working Group on Financial Markets, a top-level administration group including the heads of the Federal Reserve, Treasury, and Securities and Exchange Commission, was given the job by President Clinton to come up with proposals to deal with over-the-counter derivatives, hedge funds, and their ties to large banks in the wake of the Long Term Capital Management (LTCM) hedge fund collapse of September 1998, it was not Rubin, but his deputy, Summers, who presented the group's final recommendations.

In his remarks on the report, which was released in February 1999, Summers praised the role of derivatives as "an important component of American capital markets." Not surprisingly, the Working Group recommended against controls on either hedge funds or derivatives.

In this context, it came as no surprise that, when President Clinton made one of the more promising policy proposals of his Presidency for fundamental reform of the global financial system—his speech on Sept. 14, 1998, during the LTCM crisis, to the New York Council on Foreign Relations, calling for a full, emergency meeting of finance ministers and central bankers within 30 days to discuss creation of a new global "financial architecture"—Summers was instrumental in killing the President's initiative.

Washington sources report that it was Summers who convinced both Rubin and others around the President to quietly drop any plans for organizing a new Bretton Woods conference, because that would undercut the role of the IMF. Summers was at the time aggressively arm-twisting members of Congress to grant the $18 billion IMF quota increase. A critical chance, perhaps the most critical one of the past 50 years, to fundamentally reorganize the bankrupt international monetary and financial system, was buried by the efforts of Summers and his allies on Wall Street and in major banks and hedge funds.