

Helga Zepp-LaRouche: Given the fact that I'm a German citizen, I just want to add, why it is in the fundamental self-interest of Germany to cooperate, not only with Russia, but with all the countries of the Eurasian Land-Bridge. The situation of the German economy and financial system, is not less dramatic than that described by Mr. Glazyev for Russia, or by Mr. LaRouche for the whole world. The de facto bankruptcy of the capital of Berlin, and the bankruptcy of Berliner Bankgesellschaft and the five banks involved, is actually the condition of every German bank. Right now, the inflation rate in Germany is 3.6%, according to the Federal Constitutional Court. For the euro transition, inflation can only be 3%.

So, we may see, very soon, constitutional actions to prevent the euro from coming into being. Especially because, there is, behind the scenes, panic in government and financial circles, about the fact that there are about 200 billion d-marks in cash, in addition to the several hundred billion d-marks in the central banks, which expectedly leads to total chaos in the transformation. So, Germany will be hit in the second, third, and fourth quarter of this year, with a combination of an increasing tendency of hyperinflation, depression, and chaos in the euro transition.

So, in this chaos, the euro may not come into being, which for the survival of Germany and Western Europe would be the best thing to occur. To maintain sovereign national currencies, in the context of economic cooperation of the Eurasian Land-Bridge, this serves the best interests not only of Germany, but of every European country.

Germany is dependent economically, on expanding export markets to ever-richer customers. Globalization has destroyed the traditional export markets of Germany: Africa is dying; Latin America is about to go the way of Africa; and many areas of the world are plunging into catastrophe. In the German interest, the collaboration of Germany with Eurasia, with the development of the Eurasian Land-Bridge, is an economic self-interest.

On a deeper level, it is in the security interest of Germany, because we in Germany remember very well, the connection between depression and war. If the existing plans in 1931 to overcome the depression, which existed in Germany around Dr. Walter Lautenbach and the Friedrich List Society, would have been implemented, the coming to power of the National Socialists could have been prevented.

Today, the danger of war exists in many places, in the Middle East, in Africa, in many other regions of the world, and I think it requires, today, the vision of all the countries of Eurasia, together, to determine a peaceful order, or future, and not the degeneration into war.

So, I'm preparing every positive force in Germany, and other European countries, to become part of such an alliance for a new financial system, and the Eurasian Land-Bridge, as the cornerstone for a global reconstruction program, in the next months to come. Thank you.

Another Greenspan Rate Cut, Another Disaster

by Richard Freeman

The Federal Reserve Board of Governors' June 27 quarter-point drop of the Federal funds and discount interest rates, to 3.75% and 3.25% respectively—the sixth cut this year—continued Chairman Alan Greenspan's mad flight forward to maintain the valuations of financial assets, by flooding the speculative financial bubble with money. The discount rate is now at a seven-year low.

Yet, the reaction to the rate cut, both from financial commentators from policy-makers, and from the real world, shows that Greenspan's circus-like image as the wizard of the markets, or the maestro who orchestrates the ascension of the economy, is shattered.

On June 26, Martin Mayer, author of several books on banking, wrote a piece on the *Wall Street Journal's* editorial page entitled "The Fed's Faded Glory." Mayer's conclusion: "Looking at monetary policy and what it does, Mr. Greenspan must now consider whether the benefit of pushing the stock market up a little [through cutting interest rates] is worth the growing risk that this time the Fed will be fueling inflation." On the day after the Federal Open Market Committee rate cut, a commentator in the Swiss financial daily *Neue Zürcher Zeitung* wrote that, since the previous rate cuts have had absolutely no effect, Greenspan now risks widening the huge imbalances in the U.S. economy.

Up until the second quarter of 2000, the Fed and Greenspan would only have to make some adjustment with interest rates, and the economy and financial markets would seem to spring back to life (although on a deeper level, the fundamental problems grew worse). But beginning Jan. 3 of this year, Greenspan has executed five rate cuts of half-a-percentage point each, and then came the June 27 cut: all in all, a 2.75% cut in interest rates in less than six months—a very strong dose of monetarist medicine indeed. And what has that accomplished? The economy is plunging downward, the Nasdaq stock market has collapsed, and the world monetary system has inched closer toward disintegration.

However, beyond that, as economist and 2004 Democratic Presidential pre-candidate Lyndon LaRouche points out, Greenspan's flooding the system with money to hold up the bloated mass of financial instruments, is generating a hyperinflation like that of 1923 Weimar Germany.

The legacy of the Greenspan policy is not just failure, but catastrophe. The collapse of the U.S. physical economy, from

machine tools and steel, to telecommunications and computer chips, continues. The derivatives-drunk U.S. financial system is on the edge.

Machine-Tool and Steel Performance

Machine tools incorporate and transmit the most advanced scientific conceptions to the entire physical economy, and are indispensable for its survival and advancement. There can be no real capital formation without machine tools. During the first four months of 2001, U.S. industry consumed \$906.8 million worth of machine tools, versus \$1,361.3 million during the same period of 2000, a one-third drop. Machine-tool production, though not yet available, parallels consumption.

For the year to date through June 23, 2001, U.S. steel manufacturing plants produced 48.3 million net tons of raw steel, 13.4% below the 55.8 million net tons produced in the same period last year. For the respective comparable periods of this year and last, the steel industry's capacity utilization rate has fallen to 79.2%, from 89.8%. Currently, more than a dozen U.S. steel companies are in bankruptcy.

The "New Economy" was supposed to insulate against the "old" industrial economy's accelerating decline. But as the dot.coms earn their descent into oblivion, the physical component of the New Economy, represented by the telecommunications and computer-chip sectors, is being pulled down in the undertow. This pushes the overall U.S. physical economy downward.

The telecommunications sector overexpanded and overbuilt massively, based on meeting the fantasy of what the Internet would become. For example, about 39 million miles of fiber-optic cable has been stretched across the United States, but only 2.9% of that cable is actually in use. On June 27, JDS Uniphase, the world's largest supplier of fiber-optic components, announced that it is likely to increase the number of layoffs beyond the 8,000 firings it had already announced earlier in the year, which had brought its total employment down to 20,000 workers. The San Jose, California-based company makes tiny lasers to send signals across fiber-optic communications networks.

Also on June 27, Lucent Technologies announced it may fire 10,000 additional workers, on top of the 10,000 layoffs and 13,000 buy-out offers to mid-level managers that it had made earlier this year. Vancouver, Canada-based 360networks, Inc., which once thought it would ring the world with fiber optic cable, announced on June 28 that it would slash 800 jobs, representing 44% of its workforce. On June 15, 360networks failed to make a \$15 million interest payment to bondholders on \$2.5 billion in debt. On June 15, Nortel, the world's largest telecommunications equipment-making company, said it would fire another 10,000 workers, bringing the total combined layoffs for the year to 30,000, constituting one-third of Nortel's workforce.

As for the global chip sector, its crisis is the biggest in at

least 16 years. This has resulted from consumers and companies being reluctant to buy new computers or cell phones, and over-indebted telecom companies cancelling contracts with their suppliers. The Arizona-based research firm IC Insights predicted on June 18 that, compared to last year, global chip sales this year will fall 21%, and in the "worst case," even by 28%.

The most extreme case of the chip sector overall, is the memory-chip sector. The research firm Gartner Dataquest forecast that global memory-chip sales will plunge from \$31.5 billion in 2000, to about \$14 billion in 2001, a 56% decline. The price for a 64-megabit DRAM chip has collapsed from \$9 last summer, to a record low of \$1.10. It is selling at a price that is just one-third its cost of production.

The overall situation in the chip sector is highlighted by extremely ugly reports from individual producers in America and elsewhere. This included the announcement on June 21, by U.S.-based Micron Technology, that its sales will fall 47%, and thus, that quarterly profits will be sharply below Wall Street forecasts.

Derivatives-Laced Banking System

One of the key elements at the heart of the bubble which Greenspan is trying so foolishly to protect, and which is out of control, is the global, multi-hundred-trillion-dollar derivatives market. In late June, the U.S. Comptroller of the Currency released its report on the derivatives activities of U.S. commercial banks and bank holding companies. It showed that as of March 31, 2000, the top 25 U.S. derivatives-using bank holding companies, had a notional exposure of \$45.7 trillion, led by J.P. Morgan Chase and Co., which had \$24.8 trillion. According to *Swaps Monitor*, the top U.S. investment banks held another \$19.4 trillion in derivatives at the end of 2000, led by Goldman Sachs with \$6.0 trillion, and Merrill Lynch with \$4.1 trillion.

But added to these figures, is a totally new element: Derivatives use is also exploding among the energy companies, reflecting the extent to which these companies have become financial players, as opposed to merely energy providers. As of the end of 2000, according to *Swaps Monitor*, 13 major electricity and natural gas companies had an aggregate \$1.9 trillion in notional derivatives holdings. Leading the pack was El Paso Corp., with \$576 billion in derivatives, followed by Duke Energy with \$390 billion.

All told, just these three layers—commercial banks, investment banks, and "energy" companies—hold \$67.0 trillion in derivatives contracts. But this constitutes the tinder that can be ignited by any failure, large or small, in the world financial system. These derivatives function as a cancer, sucking the health from its underlying host—in this case, the real U.S. physical economy. Greenspan's insane hyperinflationary attempt to save these markets, will not—and cannot—succeed. The physical economy will just not respond to his actions.