

Goldman Sachs Debacle Raises Overdue Questions About BRIC

by Rachel Douglas and Dennis Small

April 23—Current revelations about lurid, but typical, fraud on the part of investment bank Goldman Sachs, which stands accused of betting against the very derivatives it had marketed, are beginning to have potentially healthy repercussions in Russia and other parts of the world.

On April 19, the Russian-language official site of the Shanghai Cooperation Organization (SCO; it groups China, Russia, and Central Asian nations, with other Eurasian countries having observer status), published an article titled “It was economists who thought up the BRIC, as their own quartet.” The “economists” involved were identified, in the body of the article, as officials of Goldman Sachs.

BRIC stands for Brazil-Russia-India-China, but Lyndon LaRouche has pressed the point: The “B” in BRIC is really for “British,” because the Brazilian banking system is dominated by the Spanish Banco Santander, which is fused with the Royal Bank of Scotland as an integral component of the Rothschild-created Inter-Alpha Group. The function of Brazil within BRIC has been to divert the agenda onto slight modifications of a global financial system which in reality is utterly bankrupt, while boosting its own prowess in the speculative “carry trade” as exemplary of so-called emerging market growth. Russian officials nurturing

fantasies about a huge pool of foreign capital just waiting to be invested in their country, such as those at the Moscow stock exchange who openly advertise Russia’s own attractiveness for players in the carry trade, are supposed to take this bait and emulate Brazil in becoming a hub of international financial operations, within a doomed system.

Thus, the BRIC runs counter to the potential of an alliance of the four great powers—Russia, the U.S.A., China, and India—to initiate the replacement of the bankrupt British financial empire with a sovereign nation-based credit system for real economic development, which LaRouche has proposed as the *sine qua non* for averting a Dark Age.

Indeed, journalist Olga Kharolets wrote on the SCO’s Infoshos.ru site, “For there to be a summit of the BRIC [in June 2009], all it took was for the airplane of the President of Brazil to land in Yekaterinburg.” There was already a summit taking place there among the leading Eurasian nations Russia, China, and India at that time. Brazil was tacked on, a result for which Goldman Sachs had been lobbying over several years.

Infoshos.ru said that the very appearance of the BRIC on the world scene resulted from “a curious intrigue,” for this was “the only alliance in the world, whose name emerged before the organization itself



José Cruz/ABr

The Second Summit of Heads of State and Government of the BRIC, Feb. 15, 2010. Left to right: Russian President Dmitri Medvedev, Brazilian President Luis Inácio Lula da Silva, Chinese President Hu Jintao, and Indian Prime Minister Manmohan Singh.

did.” Kharolets quoted Brazilian Foreign Minister Celso Amorim, who boasted that the BRIC “existed first in the minds of analysts, and then turned into practical reality.”

The Russian author then named the name: “It is believed that the father of the term ‘BRIC’ was Goldman Sachs analyst Jim O’Neill,” in 2001.

‘Markets,’ Not Nations

O’Neill’s role in promoting the creation of the BRIC, in fact, is no secret. Even Prime Minister of India Manmohan Singh, quoted by *The Hindu* during the mid-April BRIC summit in Brazil, noted that the project was an idea from Goldman Sachs, but “We are now trying to give it some shape, flesh it out.” In 2007, still before the BRIC had been officially constituted, O’Neill put out a 272-page book on the need for it to exist. Goldman Sachs devotes a page on its website to “the BRICs,” as it has dubbed these nations, featuring some 20 reports on the BRIC and videos in which O’Neill introduces himself, in his thick English accent: “I am Jim O’Neill. I am head of Global Economic Research for Goldman Sachs, and I am the creator of the acronym BRIC.”

O’Neill, who hails from Manchester, England, joined Goldman Sachs in 1995 after stints at Bank of America, Marine Midland, and Swiss Bank Corporation. He has also positioned himself on the board of the U.K.-Indian Business Council, where he sits alongside Sir Evelyn Rothschild and other City of London figures.

Such functionaries of the London-centered financial oligarchy love to posture as visionaries of an era dominated by “emerging markets”: not developing nations, but expressly—“markets.” It is the old Venetian technique of making the victim think he is doing something bold and new, while in reality he is being manipulated and prevented from doing what would truly be in his own interest. Another notorious case is the hyperactive advocacy of “multiple reserve currencies” in state finances, on the part of Ashmore Investments, a London-based outfit which got its start in “emerging market debt trading” during the Mexico debt crisis on 1982. (“London Pushes Big Powers To Dump the Dollar,” *EIR*, June 9, 2009.)

Still, it is striking, what scant attention Russian observers have paid to the the scandalous Goldman Sachs origin of the BRIC configuration, which is promoted



Brazil's currency, the real: The basis for the looting of the later carry trade was established by the 1994 Real Plan of President Fernando Henrique Cardoso.

heavily within Russia as representing a way for its members to be independent of the U.S. and European economies and finance. After all, Goldman Sachs is not exactly unknown in Russia, especially in connection with the looting of the Russian economy under the Yegor Gaidar-Anatoli Chubais government during the 1990s.

In his 1998 book *Genocide* (English edition, *EIR*, 1999), Russian Academician Sergei Glazyev gave some details, referring to the crash of the pyramid of Russian short-term government bonds (GKO) in the Summer of 1998. "As soon as the first signs appeared of an irreversible approaching crash, the firm of Goldman Sachs, which is close to the U.S. Treasury, secured the assistance of Mr. Chubais in organizing the conversion of its clients' devalued GKO ... into dollar-denominated Russian government bonds worth approximately \$4 billion, which were subsequently exempted from the forced restructuring." At the time, the U.S. Treasury official dealing with Russia was Goldman Sachs man Larry Summers, who today heads Barack Obama's National Economic Council.

Chronology of Paternity

Not only did Goldman Sachs operatives create the term BRIC in 2001, but they fostered the establishment of the diplomatic grouping as such, and began to deploy it actively and heavily *in direct opposition to Lyndon LaRouche's early 2007 proposal for a Four Power alliance to bring the world out of the economic breakdown crisis, which exploded, as LaRouche forecast it would, in mid-2007.*

The contrast could not be clearer. LaRouche's designation of the Four Powers is based on their real stature. China and India have the largest populations and

among the oldest cultures on the planet, while Russia and the United States are transcontinental nations, each with a history of acting independently as a global power, amplified in the U.S. case by our unique republican tradition. Key to joint action by the Four Powers are a U.S. resumption of its historical orientation toward a community of principle among sovereign nations, and the emergence of cooperation among Russia, China, and India as what former Russian Prime Minister Yevgeni Privakov named a "strategic triangle" in Eurasia. What unites

the BRIC, on the other hand, is that Goldman Sachs identified its members as four markets where international speculators could make money.

Because of the thorough infection of the Brazilian economy by the Inter-Alpha Group, and its carry-trade fixation, the involvement of Brazil with the R-I-C strategic triangle countries is perfectly designed to disrupt the latter, and their potential joint action with the United States. At first, BRIC ministerial and summit meetings were held in conjunction with R-I-C meetings, but at the latest BRIC summit, this month, there was not even a separate triangular conference among the Eurasian powers.

Not only the acronym, but the entire concept and organization of the BRIC as a grouping came from Goldman Sachs and O'Neill, as did its policy direction, including the discussion of establishing regional currencies and/or replacing the dollar with a new international reserve currency. Its deeper policy origins go back to the 1971 creation of the Inter-Alpha Group by the British Empire's Rothschilds, including the establishment of the outrageously "profitable" Brazilian carry trade.

Consider the following brief chronology of the critical 2007-08 period:

March 7, 2007: LaRouche delivered an international webcast, in which he first publicly proposed the idea of a Four Power alliance of the United States, Russia, India, and China to destroy and replace the British Empire's dying system.

May 15, 2007: Visiting Moscow as an honored foreign guest at the celebration of Prof. Stanislav Menshikov's 80th birthday, LaRouche addressed the economic division of the Russian Academy of Sciences. Noting

then-President Vladimir Putin's repeated invocation of the legacy of Franklin Roosevelt, LaRouche told them that the United States must approach Russia, India, and China with a Rooseveltian agenda for economic cooperation, subsequently bringing in smaller nations. LaRouche also set forth the Four Powers idea in Russian TV and Internet interviews.

July 25, 2007: LaRouche presented a webcast, forecasting the imminent explosion of the international financial crisis, which in fact followed only days later.

Nov. 23, 2007: Goldman Sachs's Jim O'Neill issued his book, *The BRICs and Beyond*.

March 10-11, 2008: BRIC held its first formal meeting as an organization, at the vice ministerial level, in Rio de Janeiro.

May 14, 2008: Yekaterinburg, Russia hosted a meeting of the foreign ministers of Russia, China, and India, which LaRouche welcomed as the emergence of what he had long anticipated—the strategic triangle as a Eurasian alliance, determined to defeat the attacks by the British Empire on its member nations. Tacked on was a separate meeting between these three representatives and their Brazilian counterpart.

July 9, 2008: BRIC heads of state and government met on the sidelines of the G-8 summit in Hokkaido, Japan.

September 2008: BRIC foreign ministers met in New York City.

Nov. 7, 2008: BRIC finance ministers met in São Paulo.

Over the course of 2008-09, as the battle over LaRouche's policy proposals was raging internationally, Goldman Sachs issued *five* additional studies on the BRIC, packed with their London-designed policy proposals, crafted to counter LaRouche's Four Powers plan.

To that same end, and in that time frame, two international conferences were held which prominently featured European and Brazilian renegades from the LaRouche movement, at which the BRIC policy-line was promoted, with special efforts to make it attractive to



Goldman Sachs

Jim O'Neill of Goldman Sachs came up with the BRIC acronym, which rightly should be known to stand for Britain (not Brazil)-Russia-India-China, the speculators' looting gimmick to counter Lyndon LaRouche's Four Powers alliance of sovereign nations for development.

Russian participants. The first of these was held in Modena, Italy in July 2008; the second in Parana, Brazil in December 2008.

Baiting the Hook

The Goldman Sachs contraband of trying to jam Brazil into an existing strategic Russia-India-China relationship has pivoted on one central issue: the creation of the Brazilian carry trade by the London-run Inter-Alpha group of banks, in particular through the activities of its Spanish-based asset, Banco Santander (see "The 'Banco Santander Syndrome': City of London's Sucker Game," *EIR*, Feb. 19, 2010; and "London's Brazil Carry Trade: Smoke, Mirrors—and Genocide," *EIR*, March 5, 2010).

Going back to the early 1990s, London and Wall Street made Brazil a destination of substantial international speculative capital flows, coming from

financial predators borrowing cheaply—first in Japan, today in the Eurozone and the U.S.—and placing those funds in highly lucrative Brazilian government treasury bonds, which pay the highest real interest rate in the world, and additionally offer the predators huge exchange-rate advantages. As Goldman Sachs put it in its December 2006 study, "The 'B' in BRICs: Unlocking Brazil's Growth Potential:"

"[Brazil] will be an important destination for fixed income and equity inflows, given the high carry trade, the embedded growth option for equities and the reassurance of stable macro policies and sound external credit fundamentals."

The platform for the later carry trade was established by the 1994 Real Plan of the incoming Fernando Henrique Cardoso government, which set up a one-to-one parity between the real, the Brazilian currency, and the U.S. dollar, and began to issue Brazilian treasury bonds denominated in dollars, the infamous NTN-D series, which had first appeared in 1991. These bonds then grew dramatically in the 2000-02 period of the Cardoso Administration, rising to constitute 45% of total public debt by 2002, the year Luis Inácio Lula da Silva took office as President. *EIR* warned about this at the time, writing in its Oct. 18, 2002 issue:

"Brazil, under pressure from the IMF and 'the mar-

kets,' began to issue domestic bonds denominated in dollars. This foolishness really took off over the last two years, in order to 'attract' foreign investors who were worried that a devaluation would catch them holding real-denominated bonds. So the proportion of Brazil's bonds that is dollarized has grown to over 45% today. That means that every time the real is devalued vis-à-vis the dollar, the government debt automatically rises—without borrowing a single additional penny...

"Speculators have also driven up the interest rate they are demanding the Brazilian government pay on its new bonds... Brazil must now pay 25% interest rates, or higher, on any new bonds it issues. But about 40% of its old bonds are also linked to market interest rates, which means that they too rise along with the 'country' risk and other usurious charlatany.

"In sum, 45% of Brazil's 700 billion real government debt is dollarized. Another 40% is interest-linked."

With such attractive looting conditions, Brazil became a prize destination of the international carry trade, and is prominently so today under Santander/Inter-Alpha group supervision.

The Goldman Sachs maneuvers in Russia in the Summer of 1998, involving the conversion of a portion of the GKO bonds into dollar-denominated instruments, took advantage of the Russian government's frantic fundraising efforts in the weeks before the Aug. 17, 1998 collapse of the GKO pyramid, when GKO yields were in triple digits. The scheme didn't have a chance to take hold at that time, only because the bubble popped, and the subsequent Primakov and Putin governments attempted to steer clear of such operations.

And then there is the classic case of the Mexico debt blowout of December 1994, triggered by the issuance of precisely such dollar-denominated public bonds—the first time that such a "globalization" measure was foisted on a developing country.

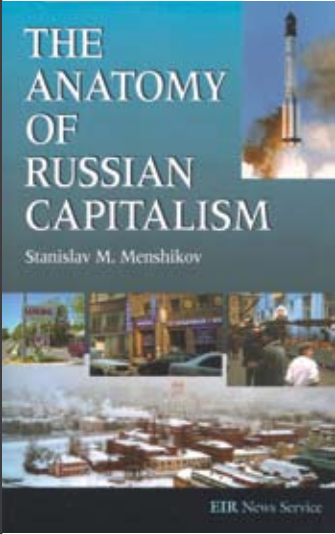
Under pressure of its international creditors—including the Fidelity Group and Goldman Sachs—the Mexican government of Carlos Salinas de Gortari carried out a gigantic switch out of peso-denominated Cetes bonds, and into dollar-denominated Tesobono bonds, beginning in April-May 2004. This "switcheroo," as it came to be known in Mexico, created some \$30 billion in additional foreign obligations within months. This led to the total blowout of the Mexican system in December, encouraged by a London and Wall Street-orchestrated run on the country.

Goldman Sachs played a leading role in this looting operation as well, first investing heavily in short-term dollar-denominated Mexican bonds during 1994; then participating in the organized run on the country; and finally ensuring that these bonds were fully repaid by the Mexican government, out of funds received from the 1995 "bailout" package arranged by the U.S. government and others.

At the time, *EIR's* Jan. 27 1995 issue covered the explosion of the Mexican debt bomb and how it would spread elsewhere, and even warned that Brazil had embarked on a similarly insane policy with its NTN-D's:

"So far, the Cardoso government has pledged its allegiance to maintaining the speculative cancer. And they have already worsened matters by meeting bankers' demands to issue what are effectively dollar-denominated treasury bills, known as NTN-Ds. This is exactly what Mexico did beginning in the Spring of 1994 with their Tesobonos, which have now blown up in their faces."

As more and more of Goldman Sachs's corrupt dealings are revealed, the question will naturally be asked in Russia, China, and India: Was the BRIC invented as a way to loot us ... again?



This English translation of the work of Russia's authoritative economist, Stanislav Menshikov presents a critical analysis of the complex economic processes in Russia over the last 15 years.

Available through *EIR*

Order by calling 1-800-278-3135, or at the *EIR* online store, at www.larouche.com.

\$30 plus \$4.00 for shipping and handling