

rises, and you stay ahead.' I asked him, 'John, tell me then, what if *all* markets go down at the same time?' 'Mark, that never happens!' I replied, 'John, have you bothered to look at your Reuters financial screen today? It's not just Hongkong. It's New York, Tokyo, London, Frankfurt—every market is falling at once.' "

Thus, the reality of the financial breakdown is apparent, to at least sane people, even wicked ones. However, you will still hear commentary that, "the economic fundamentals are sound," and that, "the age of 'new era economics' means that no inflation and no crash need ever occur."

The debate between the "old" and "new" era economists, as Richard Freeman demonstrates in an accompanying article, is as phony as the talk about the "growth" of the economy and the "soundness of economic fundamentals." It's all a sideshow. The question on the table, is whether the governments of the world will exercise their sovereign powers to put the international bankers and their bankrupt financial system through the equivalent of bankruptcy proceedings, and launch an emergency campaign to rebuild the world's tattered productivity. The question is: Will the governments exercise their powers to save their populations from the looming horrors, or will they capitulate to the bankers and allow the world to sink into a new Dark Age?

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## Chronology

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# The countdown to Black October, 1997

### July 2

**Thailand:** After repeated speculative hits on the currency, the government de facto devalues the baht by instituting a managed "market float." There had been a strict exchange rate policy, since 1984. Within hours of the announcement, the currency sinks to 27-28 baht to the U.S. dollar, down from 24.25. Within 24 hours, the baht drops still further, by 20%. In May 1997, the Bank of Thailand lost an estimated \$4 billion, trying to defend the baht against speculative runs.

### July 11

**Philippines:** After repeated speculative runs against the currency, the government de facto devalues. Central Bank Governor Gabriel Singson, of the Bangko Sentral ng Pilipinas, releases a statement, mandating "the peso-dollar rate to move within a new wide range consistent with significantly changed market conditions." During the week of July 6-11, the Philippines spends \$1.5 billion of their \$11.5 billion foreign reserves attempting to defend the peso. The peso immediately collapses from an already low 26.4 to the dollar, down to 29.45. International Monetary Fund (IMF) Managing Director Michel Camdessus states that he "strongly commends the Philippine authorities for their timely and decisive action."

### Aug. 15

**New York:** Dow Jones Industrial Average drops 247 points, one of the now-typical wide swings marking the unstable end-phase of the financial system.

### Aug. 27

**Philippines:** Peso sinks to record low of 30.45 to the dollar.

### Aug. 28

**Philippines:** Stock market sees largest one-day loss in 10 years, down 9.28% for the day, to 2,071.97 points.

**Malaysia:** Ringgit has fallen to its lowest rate since being floated in 1973, down to 2.872 to the dollar. It loses 4% during the week, under heavy sell-off driven by large international speculator funds. The Kuala Lumpur stock index falls 5.66% in the morning trading, breaking a four-year low of 799.56; it

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ends slightly higher, for a 4.51% daily decline.

**Hongkong:** The Hang Seng index posted its fifth biggest point drop, falling below 15,000, for the first time since July 11. It ended down 4.2%, or 657.8 points, at 14,876, in the largest drop since March 1996.

### Sept. 1

**Southeast Asia:** The month of August saw virtual free-fall in most Asian stocks. From their highs earlier this year, the stock markets of Thailand and the Philippines each lost 42% of their nominal value. Malaysia's market lost 37%. Indonesia's market, 33%. Singapore's, 21%.

**Japan:** During August, the Tokyo Nikkei 225, the world's second-largest stock market, lost 13% in value, an ominous sign, given Japan's role as the major lender to most East Asian economies.

**Western Europe:** The French stock market has fallen by 10% from its peak in late July. The German DAX has fallen by 12%. The Swiss stock index by 13%.

### Sept. 2

**New York:** The Dow Jones posts the greatest single-day point gain in its history, with a rise of 257 points; nine of the ten greatest single-day point gains have occurred in 1997. During August, the Dow fell by more than 100 points on four separate occasions, after which it rose more than 100 points in three successive days.

The Dow began August at 8,222 and ended at 7,622, down 7.3%. While that does not compare with the 23% drop (508 points) that took place on Black Monday, Oct. 19, 1987 (or the 25% drop of Oct. 29-30, 1929), the August instability is a harbinger.

In August, some \$730 billion in nominal value of stocks traded on the New York Stock Exchange was wiped out, leaving the value of all stocks traded on the New York exchange at about \$10 trillion.

Worldwide, more than \$1.5 trillion in stock values were wiped out this summer.

### Sept. 4

**Japan/Thailand:** Japanese firms have lost 1 trillion yen due to the baht currency devaluation, reports the Bangkok spokesman of the Japanese External Trade Organization (JETRO). Foreign exchange losses since the baht was floated on July 2 total between \$8.73 and \$9 billion. However, the JETRO spokesman says that Japan will still roll over foreign currency loans given to companies in Thailand, which Japanese loans account for about half of the total debt of the private sector. Private sector debt, in turn, equals 80%, or \$72 billion, of Thailand's total \$90 billion in foreign currency debt. In the next 12 months, \$37 billion of the private sector debt comes due. The spokesman says, however, that more conditions will be attached to any rollover.

### Sept. 15

**Malaysia:** Value of ringgit has dropped 20% since early July; share prices are down by 30% since that time.

**Thailand:** Baht has lost 30% of its value since July 1.

**Philippines:** Peso has lost 23% since it was devalued on July 11.

### Oct. 1

**Malaysia:** The ringgit falls 4.5%, hitting 3.408 to the dollar, and then recovers to 3.36, a 3.5% drop. This represents a 25.5% decline in the value of the currency since early July; and, a 40% collapse in the value of the stock market since the beginning of the year.

**Indonesia:** The rupiah falls 6.5% to a low of 3,445 to the dollar, then recovers to 3,370 (5% down). The drop continues the pattern of hitting new lows every day of trading since Sept. 23; the rupiah is down 40% against the dollar, since the beginning of 1997.

**Philippines:** The peso drops 2.2%, to 35.61 against the dollar—a 25.8% decline since the July 11 devaluation.

### Oct. 13-14

**Thailand:** New financial restructuring measures are released, which relax conditions imposed on the 58 financial companies whose operations were suspended earlier in the summer. The companies can take eight years, not three years, to repay loans to the Bank of Thailand (estimated at \$11.9 billion, or 430 million baht); majority foreign ownership in these companies can continue for ten years, not the previously stated five years; and other measures. The firms have until Oct. 30 to present restructuring plans.

Senior finance officials release the outline of their plan for restructuring the finance sector. Finance Minister Thanong Bidaya outlines five proposals, worked out jointly with the IMF and World Bank, which will be submitted to the cabinet for approval on Oct. 17.

**Vietnam:** Measures are announced to de facto devalue the currency, the dong, by 4.55%; the government widens the trading band in the dong, to 10% in either direction, from the previous 5% variation. The IMF praises the adjustment, as reflecting "the new exchange rate alignment that has emerged in the region in the last few months." The government has foreign reserves equivalent to only 6-8 weeks of imports, so it is in no position to intervene to support the currency. A devalued dong means sharply higher costs for imports, especially petroleum products. The devaluations of other currencies in the region, especially the Thai baht, have adversely affected Vietnam's trade revenues, especially from rice.

### Oct. 15

**New York:** Dow Jones index drops 38 points.

**Pakistan:** Government devalues the rupee by 8% against the dollar, prompted in part by the effects of currency devalua-

tions in Southeast Asia. The rupee is devalued to 44.05 to the dollar, from 40.52. Government spokesmen indicate, unofficially, that the devaluation was a condition for the IMF to grant Pakistan a loan (\$1.6 billion for three years). The Pakistani devaluation now puts pressure on the Indian rupee; a year ago, the two currencies were on a near par.

**Thailand:** Government increases the excise tax on gasoline and diesel fuel, raising pump prices 1.21 baht (\$0.034) per liter. Gasoline prices have risen nearly 50% since the July

2 de facto devaluation of the baht. Public utility rates have increased, as well as excise taxes on luxury goods. The consumer price index increased 7% in September, up from the average 5% increase per month since the beginning of the year.

## Oct. 16

**New York:** Dow Jones index drops 119 points.

**Thailand:** Prime Minister Chavalit Yongchaiyudh re-

## New vs. old monetarism: a tale of two diseases

A fight is raging between the “New Age” and the “Old Age” schools of monetarism. The “New Agers” insist upon an “information society,” a New Era economy of growth, where crises never occur and people are “wired” together by computers. The “Old Agers,” whose most notable political force is Federal Reserve Board Chairman Alan Greenspan, aver that people and governments will have to suffer greatly in order to keep the world financial bubble afloat, although they concede that there may be some problems in the financial markets. The Oct. 11 *Washington Post*, in the lead article in its business section, “Debating Myth or Miracle Behind a ‘New Economy,’ ” presents this as the leading economics debate of this century. In fact, this is a dispute between two diseases, sharing the same etiology. The informed person, seeking mental and physical health, will stay away from both schools.

The “New Agers,” like Alvin and Heidi Toffler, hold that the ages of agriculture and of manufacturing represented the first and second waves of society, respectively, but that both agriculture and manufacturing have become obsolete. Now, society will embark on the “third wave,” which will have hardly any factories and farms. This is the shimmering world of “the information age,” bedecked with computers, audio head sets, and virtual reality machines.

### New Ager: Peter Schwartz

Peter Schwartz is a leading “New Age” spokesman. In a Sept. 15 paper which he co-authored, entitled, “The Long Boom: A History of the Future, 1980-2020,” which serves as a “New Age” economics manifesto, Schwartz stated that “we are watching the beginnings of a global economic boom on a scale never experienced before,” which he said, is due to the employment of 60 million personal computers, computers in offices, and globalization.

By globalization, he means the removal of financial and other regulations; unrestricted free trade; zero population growth; and every variety of financial perversity. Schwartz writes: “Right around 1980, Margaret Thatcher . . . begins putting together the formula that eventually leads toward the new economy. At times it looks brutal: busting unions, selling off state-owned industries and dismantling the welfare state. [But] . . . the pain pays off.” Schwartz claims that the pain led to an economy of unending growth, which will not experience financial breakdown. Creative thought or hard work have no place in this techno-topia, where problems are solved as if by waving a magic wand, or swallowing peyote.

Schwartz comes from a nest of “futurologists,” which explains where the New Age economics came from. During 1982-86, he headed scenario planning for the Royal Dutch/Shell company in London. In 1988, the Global Business Network (GBN) was founded, to push the New Age economics. Schwartz is a leader of GBN. Two of the network’s cofounders, Napier Collyns and Steward Brand, were also leaders of the Royal Dutch/Shell planning department. Royal Dutch/Shell, jointly controlled by the Dutch and British monarchies, is a key part of the British Commonwealth’s current plan for top-down control of the world’s energy and raw materials supplies. RD/Shell has had a 25-year project to rework the general corporation into a New Age entity, which Schwartz helped design.

Schwartz also served as a top official of the Stanford Research Institute (SRI), as did other leaders of the GBN. The SRI is the mother institution of the New Age. In 1966, the SRI’s Willis Harmon released his book *The Changing Image of Man*, which argued for what he called a “paradigm shift” away from optimism, science, and culture, toward the fascist gutter world of the counterculture. Other leading forces in the GBN include the *Whole Earth Catalogue*, the Club of Rome, and members of 1960s and 1970s counterculture rock bands. The economics “New Agers” have a broad array of support in the business and financial community, including among its proponents Ed Yardeni, chief economist at Deutsche Morgan Grenfell;

vokes the IMF-mandated oil price increase.

### Oct. 17

**New York:** Dow Jones index ends 91.85 points down, closing at 7,847, giving it a drop of 3.1% in total value over three trading days, and a drop for the week of 198.18 points. Leading the fall were technology stocks (which had high price-earnings ratios, were favored for speculation, and had helped pump up the overall stock market bubble).

Bill Joy, co-founder of Sun Microsystems; and top persons in the editorial offices of *BusinessWeek* and the *Wall Street Journal*.

### Old Ager: Alan Greenspan

On the other side of the debate are the “Old Age” monetarists, led by Fed Chairman Greenspan. For a long while, Greenspan identified with the gobbledygook of the “New Agers.” He still professes some of their core premises. In an Oct. 14 address to the libertarian Cato Institute, Greenspan said that physical economic production plays a much less important role “in the creation of wealth,” than the combined weight of processing of information and financial services.

But Greenspan parts company with the New Agers’ flower-power view that the economy can continue on blithely without experiencing a crisis. In his clearer moments, Greenspan acknowledges that a crisis is just around the corner, which, in actuality, could end the current financial system. Greenspan believes that no level of austerity is too severe, gouging wealth out of the living standards of the population and out of manufacturing companies and farms, to transfer to the account of his banker friends, in order to save the system. Moreover, this austerity must be implemented now.

In testimony on Oct. 8 to the House Budget Committee, Greenspan made this point transparent. He called for cutting Social Security benefit payments to the elderly; adjusting downward the Consumer Price Index to further reduce Social Security benefits; making people work to an older age before they can retire and receive benefits; and privatizing Social Security, to put the money into propping up the bloated stock market. He also called for severe cuts in Medicare. These combined cuts will increase the elderly death rate. He also called for holding wages down, and no new spending for infrastructure.

Should someone try to convince you, dear reader, to choose sides between “New Age” and “Old Age” monetarists, tell him, “No thanks, but I think I can find you good psychiatric treatment.” —*Richard Freeman*

**Malaysia:** Government announces austerity measures.

### Oct. 19

**Thailand:** The entire 48-man cabinet resigns.

### Oct. 20

**Hongkong:** Hang Seng stock market index falls 5%.

**Thailand:** The baht falls to a record low of 38.65 to the dollar offshore, equal to a 33% fall in the currency since July 1. The stock market falls 3.1%.

**Indonesia:** The rupiah closes at 3,640, which is a 33.2% collapse since July 1.

**Taiwan:** Stock market falls 4%. Taiwan dollar hits the lowest level since October 1987.

**Malaysia:** Stock market falls 3.4%.

**Singapore:** Stock market falls nearly 2%.

**London:** The FTSE 100 index falls 2.3% on “Brown Monday,” as Gordon Brown, Chancellor of the Exchequer, inaugurates a new computerized trading system; the FTSE ends down 1.1% for the day, which wipes out over £10 billion of share values.

### Oct. 21

**Hongkong:** Hang Seng stock market index falls 4%.

**Malaysia:** The ringgit hit a low of 3.335 to the dollar this week, which amounts to a drop of 24.3% since July 1.

**New York:** Dow up 139 points; commentators gloat that Wall Street benefits by outflows from Asian stock markets.

### Oct. 22

**Hongkong:** Hang Seng stock market index falls 6%. Governor of Hongkong, speaking in London, releases a statement of commitment to defend the Hongkong dollar.

### Oct. 23

#### Asia-Pacific:

**Hongkong:** Hang Seng stock market index falls 10.41%.

**Japan:** Nikkei index falls 3.03%.

**Singapore:** Stock index down 4.72%.

**Indonesia:** Stock index down 2.2%.

**Malaysia:** Stock index down 3.38%.

**Philippines:** Stock index down 5%.

**Australia:** Stock index down 2.53%.

**New Zealand:** Stock index down 1%.

#### Europe:

**London:** Stock index down 3.06%.

**Germany:** Stock index down 3.6%.

**France:** Stock index down 3.42%.

#### Americas:

**New York:** Stock indices down—Dow, 2.33%; NASDAQ, 2.16%; S&P 500, 1.84%.

**Mexico:** Stock index down 4.54%.

**Brazil:** Stock index down 8.15% (São Paulo); 7% (Rio).