Are you going to allow support groups infesting your schoolroom? You're not going to allow support groups anywhere near a schoolroom. You're going to keep child molesters and support groups away from schools; and people who pass out Ritalin, and things like that. Because you're going to think in terms of these values. You're going to think about *more;* you're going to think about increasing the productive powers of labor. You're going to try to think about how you get these funny people, who seem to have very strange behaviors, to see themselves as human, to shape society so the guy in the street, who's acting like an animal, if he can be rescued, can be rescued, to recognize himself as human.

So, you have to think in these terms that I've discussed here, just outlined, because this is a matter which could take weeks and months of discussion. But you've got to think in these terms.

My job is to try to get the President of the United States to recognize he has to take some advice along this line, take some counsel on what kind of decision he's going to make. He doesn't need somebody to make a proposal which he will reject or accept; he has to have somebody tell him what proposals he should reject and accept, including his own. If we don't—if we can't do that, I guarantee you, you won't save this civilization. And that's where we are.

I think we can do that miracle. I think that the fact that some of you are here today, who are here, means that you're concerned about this, and recognize that only a tiny minority of the total population is actually willing to take the lead in thinking about questions like this. Most people, they'll fall asleep on you, they'll drop off on you. They won't stay around to think that long.

But, what's going to happen very soon? And what is the one percent, or less, of the population that's willing to think, what are they able to do? What have they been able to do in all history, in times of crisis?

We are about to be hit. If you think things are scary now, come back in about four weeks, about four weeks from now, and then tell me how scary it's become. The American people are going to get down on their knees, in sheer terror, at what's about to hit them, what's about to threaten them. Everything they think is secure is going to suddenly become, obviously, very insecure. All the ideas that they thought they knew and were true, will be thrown into discredit. All mainstream thinking will become frightening, because it's disgusting and impotent. In such a time, the firm, quiet voice of someone among them who thinks, can be heard. And that's what we have to do.

I think that the very terror of events will give us, for a brief period of time, the opportunity to make a fundamental change in the way our nation thinks about itself and its role, and that we can move things to the point that even this funny President of the United States may be willing to take a little counsel on the kinds of decisions he has to make, and the kind he has to reject, including his own.

Thank you.

Documentation

Financial aggregates: the derivatives explosion

John Hoefle, of *EIR*'s economics staff, addressed the Schiller Institute conference on Jan. 18, on the topic, "The Bubble Is the Disease." When you talk about "economics," he said, most people have no idea what you're talking about. They think you're talking about money! Yet the hyperbolic growth of the derivatives market is one of the most dangerous indications that our economy today is very, very sick.

We reprint here a number of Hoefle's graphs, which illustrate the point.

Figure 1: The collapse of the U.S. real estate and junk bond markets in the second half of the 1980s, triggered record levels of bank and thrift failures, and threw the U.S. banking system as a whole into bankruptcy. The Federal Reserve responded by lowering interest rates to flood the banks with money, and arranging a series of mergers of major banks. But even more important was the decision to turn the banking system into a giant casino, through the rise of the derivatives market.

Figure 2: Today, *EIR* estimates that there are some $135 trillion in derivatives contracts outstanding worldwide, the bulk of which are held by U.S. and European banks. As of the end of 1996, the United States had some $33 trillion in

FIGURE 1
Bank and thrift failures versus derivatives

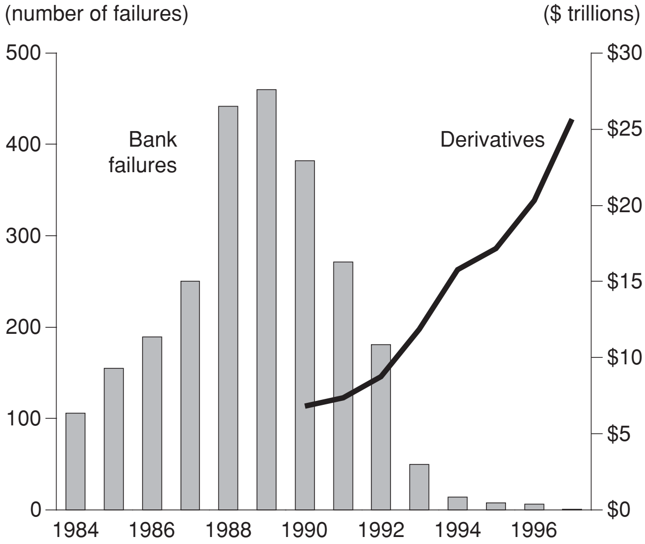


FIGURE 2
Derivatives in selected countries
(trillions $)

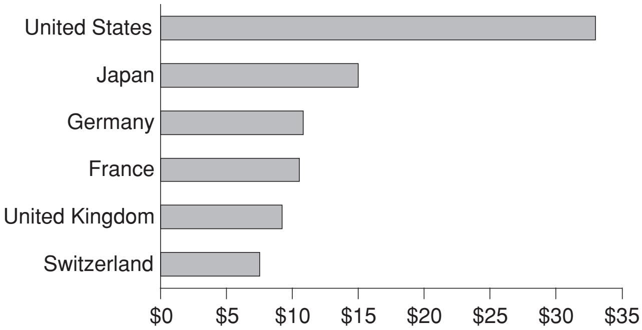


FIGURE 3
Derivatives for each dollar of assets of seven major U.S. banks

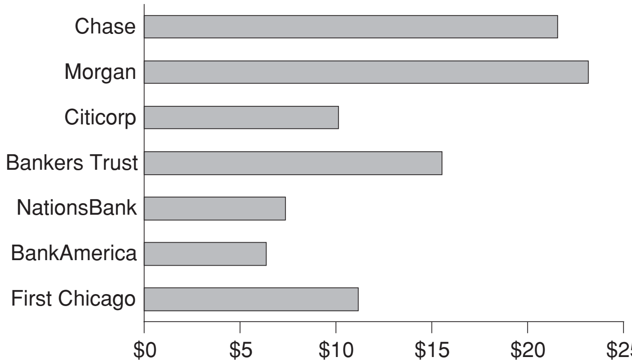
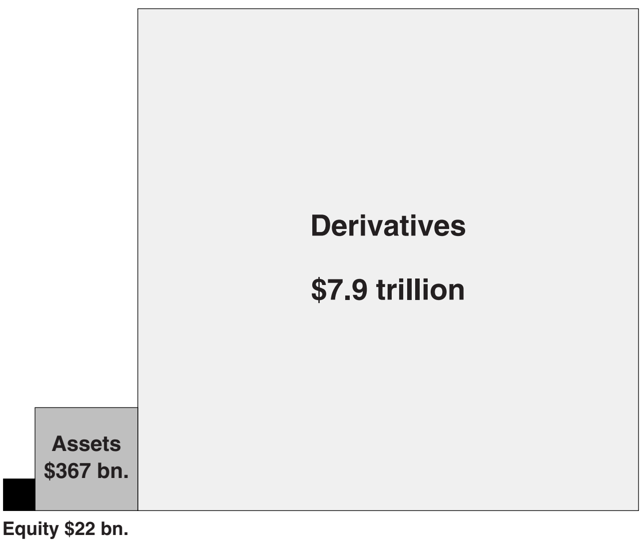


FIGURE 4
Chase Manhattan Corp.'s derivatives, assets, and equity compared
(as of Sept. 30, 1997)



derivatives, compared to $15 trillion for Japan, $11 trillion each for Germany and France, $9 trillion for England, and $8 trillion for Switzerland. These figures should be seen as the *minimum* amounts in these countries, rather than as absolute totals, since no agency reports national totals, and significant but unquantified amounts of derivatives are left out of surveys by the Bank for International Settlements and other agencies.

Figure 3: As of Sept. 30, 1997, U.S. banks held $25.7 trillion in what the Federal Deposit Insurance Corp. terms "off-balance-sheet derivatives," more than five times the banks' $4.9 trillion in assets, and more than 46 times the $55 billion the banks have set aside as reserves against losses. Roughly 94% of these derivatives were held by the seven banks listed above. Chase and Morgan each had more than $20 in derivatives for every dollar of assets on their balance sheets, while Bankers Trust, First Chicago, and Citicorp had more than $10. These seven banks have a total of $109 billion in equity, $1,690 billion in assets, and $24,051 billion in derivatives, against which they have set aside $19 billion in reserves against losses, giving them $1,264 in derivatives for every dollar in such reserves.

Figure 4: The extraordinary danger of the derivatives bubble can be seen in this volumetric comparison of the equity, assets, and derivatives at Chase Manhattan Corp. As of Sept. 30, 1997, Chase had $22 billion in equity capital, $367 billion in assets, and $7,897 billion in derivatives, or $364 of derivatives for every dollar of equity and $22 of derivatives for every dollar of assets. A loss equivalent of just 0.27% of the derivatives total would be sufficient to wipe out the entirety of the bank's equity capital.

Hyperinflation in Weimar Germany

Richard Freeman, of *EIR*'s economics staff, addressed the Schiller Institute conference on Jan. 18, on the topic, "Hyperinflation Is No Solution." We summarize here a few of the ideas presented, with a selection of his graphics.

In 1919, at the Versailles peace conference, draconian financial obligations were imposed upon Germany's Weimar

FIGURE 1

Versailles reparations collapsed Germany's exports and imports

(billions of marks)

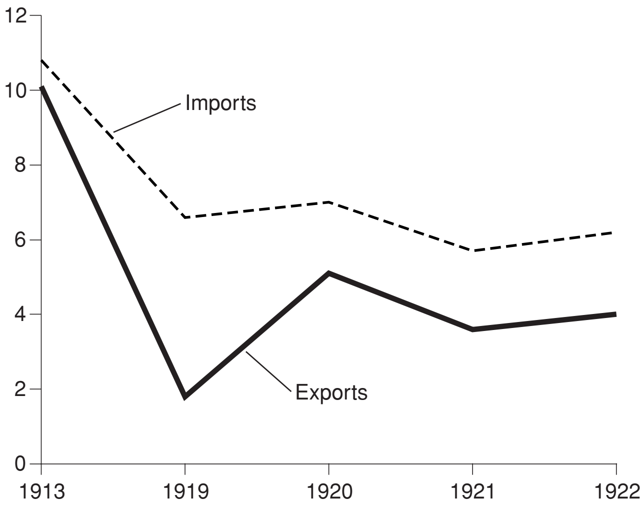


TABLE 1

German hyperinflation, 1921-23

(total issue of German mark paper currency, in billions of marks)

Year	Month	Amount
1919	December	50
1920	June	68
	December	81
1921	June	85
	December	123
1922	June	180
	July	203
	August	252
	September	332
	October	485
	November	770
	December	1,296
1923	January	2,000
	February	3,536
	March	5,543
	April	6,581
	May	8,610
	June	17,341
	July	43,814
	August	668,703
	September	28,244,406
	October	2,504,995,700
	November	400,338,326,400
	December	496,585,345,900

Source: *Zahlen zur Geldentwertung in Deutschland 1914 bis 1923.*

Republic, while its physical economy was gouged by "conditionalities." Combined, these produced the Weimar hyperinflation of 1921-23. But, having not learned the lessons of that experience, there are financiers and governments today, which are determined to repeat the same policy prescriptions, and are governed by the same axioms of thinking, as generated the hyperinflation.

The process started with the Versailles Treaty of 1919, where British Privy Council operatives, Lord Lothian, Viscount Robert Cecil, and Lord Cunliffe of the Bank of England, were the key people who wrote the demands imposed upon defeated Germany. Germany was forced to give up large chunks of its national territory, which represented 10% of its pre-war population, 15% of its arable land, 12% of its livestock, 63% of its zinc ore, 74% of its iron ore, 26% of its coal, and 40% of its iron and steel blast furnaces. Germany also had to give up 90% of its merchant marine; 8,000 locomotives and 225,000 rail cars, i.e., virtually all of its rolling stock; half its gold supply; and its former colonies.

Then, in April 1921 the Versailles Reparations Commission, controlled by the British financier oligarchy, announced that Germany had to pay reparations of 132 billion gold marks, or $33 billion. In today's dollars, this would be an obligation of approximately $350 billion.

The British and French dictated to Germany the prescription of increasing taxes—gouging the population—while simultaneously cutting imports and increasing exports (this would allegedly increase Germany's earning of foreign exchange). This is a prescription recommended by the International Monetary Fund for Southeast Asia and other regions today. Germany required raw materials and semi-finished product imports in order to produce manufactured goods exports. **Figure 1** shows that as a result of the Versailles policy, Germany's exports and imports both fell—exports fell by 60%, compared to 1913 levels.

Meanwhile, though Germany raised taxes under Finance Minister Wirth, this proved not enough to pay reparations. By 1921-22, the cost of reparations equalled 80% of all unborrowed reserves of the German government; by 1922-23, they exceeded 100% of unborrowed reserves.

Finally, in an attempt to pay the reparations and keep the economy supplied with liquidity, Germany resorted to printing money, cranking up the printing presses full throttle. Prices and the amount of currency in circulation spiralled upward in a self-feeding process. **Table 1** shows that between June 1920 and December 1923, Germany's currency in circulation rose from 68.1 billion gold marks to 496.6 quintillion gold marks, an increase of more than 100,000-fold in three years. Most of the increase occurred in the 18-month period between mid-1922 and the end of 1923, especially after the invasion of the Ruhr by French and Belgian troops in January 1923.