States, and Japan.

Nov. 29, 1989: Alfred Herrhausen, head of the largest German bank, Deutsche Bank, is assassinated, allegedly by terrorists. In the weeks before his death, Herrhausen had strongly criticized the destructive policies of the IMF and called for the establishment of special development banks for eastern European countries, on the model of the German state bank, Kreditanstalt für Wiederaufbau, which financed that nation's postwar reconstruction.

Jan. 1, 1990: Yugoslavian government submits to IMF "shock therapy" policy as proposed by Jeffrey Sachs: the Yugoslav currency is made freely convertible, credit issuance to the economy is cut, and price controls are eliminated, while salaries are frozen at the levels of November 1989. The price for reducing inflation is a 30% collapse of industrial production and mass unemployment. This economic disaster helped create the preconditions for the outbreak of the Yugoslav war in summer 1991.

Early 1990: Wave of failures and bankruptcies among big American financial institutions and transport corporations. These include the real estate giant Campeau (official bankruptcy on Jan. 18, 1990); the investment house Drexel Burnham Lambert, which had pioneered the speculative leveraged buy-outs (bankrupt Feb. 13, 1990); closing down of Greyhound Bus Co., Continental Airlines, TWA, and Pan American Airlines; Citibank and six other big banks in United States are technically bankrupt, but are kept afloat by the Federal Reserve, which continues to pump masses of money into the banking system.

March 13, 1990: Mikhail Gorbachov is named President of the U.S.S.R.

July 1, 1990: Currency union of East and West Germany. Under the terms of the union, the debts of state enterprises under the East German socialist system, which had an artificial character, are converted unchanged into "true" debts, which are taken over by Western banks at a fraction of their value. This results in a completely unnecessary debt burden on East German local governments and enterprises, many of which are bankrupted in the following years.

Under massive pressure from the British and French, and the Bush administration in the United States, the German government under Chancellor Helmut Kohl embraces radical neo-liberal economic policies toward eastern Europe. This includes applying a form of "shock therapy" to eastern Germany itself, in which, instead of modernizing and expanding industry, most of the industry is simply shut down. Between 1990 and 1993, industrial employment in eastern Germany is reduced by two-thirds. By the end of 1997, the official

Why financial bubbles must collapse

Among government officials, economists, and other leading professionals around the world, there is little disagreement concerning the existence of a gigantic speculative bubble on the world financial markets. However, in countless discussions on this topic the author and his colleagues have often been asked: "Why are you so sure that the bubble will collapse the whole system? Why couldn't it *just keep growing,* despite momentary setbacks, as it seems to have done for so long? After all, some famous experts consider that the remarkable performance of the U.S. economy in recent years, including the spectacular rise of the New York stock market, means that a fundamentally new type of economy has been created, a 'new economy,' characterized by permanent growth of financial markets."

This type of question shows that many people, among them professional economists, have not fully grasped the inseparable connection between the hyperbolic growth of financial assets on world financial markets, and a systematic destruction of the physical, productive base of the world economy, illustrated by Lyndon LaRouche's "Triple Curve" (**Figure 6**). In order to help remedy this gap in understanding, the author invented the following simple pedagogical device, in the form of a paradox:

Everyone knows that food production occurs in cycles of planting and harvesting. In the planting season, farmers must purchase seeds and various other kinds of supplies and equipment, which require relatively large expenditures that are only recovered after the harvest. Now suppose that the stock market and other financial markets in the country are rapidly growing, due to an inflow of funds from the outside (from foreign speculators, for example, or as a result of flight capital coming in from other countries whose economies are collapsing). Investing into the stock market promises a much, much greater rate of return, than the farmer could ever hope to obtain from agricultural production. (In fact, due to the collapse of farm prices, farmers in many places are actually losing money.) So, the farmer takes the money he would normally have used to buy seeds and other necessary supplies in the planting season, and invests it into the stock market instead. Now suppose *all* farmers do that. The flood of investment pushes the stock market to unprecedented levels, as the whole population pours their resources into the bubble. Unprecedented wealth is created—on paper. Unfortunately, when the harvest season comes, there is no food. Soon, nobody is alive to enjoy their stock market gains.

—*Jonathan Tennenbaum*