led to a rapid rise in prices of the 30-year bonds, which will be even scarcer in the future. As a result, the yield which the government has to offer buyers of these bonds, fell. But the price yield of 30-year U.S. Treasury bonds is a benchmark, including outside the United States, for the general level of interest rates. Computer programs at large banks and funds use the price of the 30-year bonds to decide whether the purchase of a stock might not be more profitable. The lower the benchmark, or the profit which can be reaped without any risk, the larger the move into the stock market becomes. And, to be sure, the Treasury Secretary had his sights on supporting the fragile stock markets when he made his announcement, since his aim is to prevent a stock market crash from occurring prior to the U.S. Presidential elections.

The move boomeranged. The bond market went out of control. Panic-buying of 30-year Treasury bonds set in, the strongest since the October crash of 1987. The yields on 30-year bonds dropped to 6.18% (mid-January 6.75%), although the margins for two-year bonds held at 6.71%—a rather unusual reversal of normal conditions on the bond market, where margins usually increase with the length of term of the bond. Some large banks and hedge funds became desperate. With their financial bets on interest-rate derivatives, they stood to suffer losses in the billions. One rumor chased the other. Deutsche Bank claimed that Goldman Sachs and Merrill Lynch had big problems. Crédit Suisse claimed that Deutsche Bank had suffered heavy losses. Rumors flew that some hedge fund was on the brink of collapse. It was claimed that the U.S. Federal Reserve had called an emergency meeting of the heads of the largest central banks, just as it had done in September 1998.

Ultimately, Summers had to appear in public to retract his announcement of Feb. 3. The government would indeed buy back bonds, he claimed, but there was to be no restriction to 30-year bonds. The bond markets remain nervous, nevertheless. The auction of government bonds on Feb. 10 met with the "lowest demand of all time," according to observers.

Flight into equity

A number of raw materials, especially precious metals and oil, have gone through spectacular price rises in the past weeks. Each of these raw materials has its own history, which could explain why the price rises have occurred. But there is no doubt that there is a common factor, which is responsible for the dramatic shifts in prices: the expectation of a rise in inflation and the flight into investments which would still be worth something following the implosion of the financial bubble.

On Feb. 3, South African Goldfields Ltd. announced that it would no longer sell its gold production in advance on the futures markets. One day later, the second-largest gold producer, Canada's Placer Dome, announced a similar deci-

Milan is urged to back New Bretton Woods

On Feb. 14, Milan City Councilman Aldo Brandirali and nine other members of the City Council belonging to the Forza Italia party, introduced a motion which would commit the city to help create a New Bretton Woods global financial system. Forza Italia is the majority political party in the Milan City Council, and Mayor Gabriele Albertini also belongs to Forza Italia. Milan is the industrial and financial capital of Italy.

The motion, entitled "Instability of Financial Markets," states:

"The Milan City Council, considering, that the beginning of the year 2000 was marked by total instability of the world stock exchanges, including the Mibtel Index in Milan which registered gigantic variations; that the present process of financial globalization is characterized by deregulation of the markets, particularly in the most aggressive and speculative sectors, such as derivatives. . . .

"Considering further that this situation can only be faced by convoking a conference of heads of state and government like the one held in Bretton Woods in 1944, with the aim of creating a new international monetary system and taking all necessary measures to eliminate the speculative bubble, including:

"Introduction of measures such as the Tobin Tax, aimed at limiting speculative short-term operations such as derivatives; creating new credits explicitly aimed at investments in the real economy; defining great infrastructural projects on a continental level;

"Commits the Mayor and the City Council to take all necessary measures to circulate information on the urgency of a new Bretton Woods, and to solicit the Italian government to promote this initiative at the European and international level."

Councilman Brandirali was among the speakers at the conference on a New Bretton Woods held by the Italian Solidarity Movement at the Milan Catholic University on Dec. 15, 1999, and subsequently endorsed Lyndon LaRouche's Presidential campaign with a statement connecting LaRouche's initiative for a New Bretton Woods system to the initiative of Pope John Paul II for debt remission in the Jubilee Year 2000. The endorsement was reported in the daily *Il Giorno* on Jan. 14, in an article entitled "Brandirali Endorses LaRouche," and in the Jan. 28 issue of *EIR*.