

## Increased Involvement in Stock Ownership

As the stock mania grew, more families jumped into stock-buying. **Figure 2** documents the percent of all U.S. families invested in the stock market. In 1989, either directly or indirectly, 31.6% of families owned stock. By 1998, this had risen to 48.8%.

During this period, two separate, but closely connected processes were going on simultaneously. First, the percent of all U.S. *families* owning stock, increased; second, the percent of all *financial assets* held by families that are invested in stocks, increased.

U.S. family stock ownership has reached an unprecedented level, and cannot be sustained. Built up with several layers of highly geared leverage, the stock market is inflated to a level at least five times its real value. It intersects a world financial system with \$300 trillion of unpayable financial obligations. Those paper values will soon cease to part of the landscape.

U.S. families, which built up their stock portfolios under the delusion that they were making themselves rich for decades to come, will find that trillions of dollars of stock values will evaporate. The dream of easy, eternal wealth will be shattered, replaced by the reality that the crash will have wiped out their financial and other assets.

## ‘Chile-Model’ Crazyes Besiege Moscow

by Rachel Douglas

Vladimir Putin, the newly elected President of Russia, will listen to all kinds of advice but take his own decisions. Putin has plenty of options to make an improvement in economic policy, which would require his *not* paying attention to the recommendations of the hordes of neo-liberal economists, both foreign and Russian, now swarming into Moscow. The imposition on Russia, during the 1990s, of the radical liberalism of the Chicago School of economics, of Friedrich von Hayek, Milton Friedman, and the Mont Pelerin Society, has already devastated Russia’s physical economy and its population, but the chief international purveyors of that destructive philosophy are at it again. The last week of April saw the arrival in the Russian capital of:

- a group of five agitators for the “Chilean model,” led by University of California Prof. Arnold Harberger, the Chicago School’s senior case officer for Chile;
- José Pinera, the organizer of Chile’s privatized pension funds, which lost billions in the 1997-98 stock market crash;
- Sir Roger Douglas, who, as Finance Minister in the Labour government of New Zealand, launched infrastructure takedown and privatization reforms there in 1984, which became infamous as “Rogernomics” as they ravaged the agriculture, industrial employment, health care, and social fabric of that Pacific nation.

The U.S. Agency for International Development funded the Harberger delegation on its trip to Moscow, according to a report in the Russian publication *Vedomosti*, monitored and reported by RFE/RL Newline on April 27. Shocking, insofar as that is the same USAID, which footed the bill for the infamous Harvard Institute for International Development operations in Moscow (wherein mutual funds were being run out of the back office of an outfit, advising the Russian government on how to organize Russian markets to permit such speculative investment entities), but not surprising! The State Department’s USAID and its predecessor, the International Cooperation Administration (ICA), have been funding free-trade dogmas since the 1950s.

In 1956, the ICA co-launched the “Chile Project” with the University of Chicago and Chile’s Catholic University. Harberger was involved from near the outset. Cynthia Rush reported in her review of *Pinochet’s Economists: The Chicago School in Chile*, by Juan Gabriel Valdés (*EIR*, Feb. 9, 1996), that the project gained complete control over the Catholic University’s economics department, in the name of Aus-

# So, You Wish To Learn All About Economics?

by Lyndon H. LaRouche, Jr.

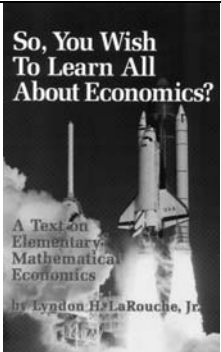
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trian or Chicago School theories, by 1964, and by 1970 had trained more than 100 Ibero-American economists in methods for dismembering the nation-state in the name of economic freedom.

Harberger was on the ground in Chile, during this period of training. After the 1973 coup against the Salvador Allende government, he was a frequent visitor to Chile, where he appeared on state-run television and in numerous public forums, promoting the policies of von Hayek, Ludwig von Mises, and the Mont Pelerin Society.

## Models for Disaster

Every country victimized as a Mont Pelerin Society laboratory, has experienced an explosion of the national debt and the demolition of plant and equipment, labor power, and social services. The economic disasters, documented in *EIR*'s case-study files of neo-liberal economic destruction, are paraded in Moscow and elsewhere by the ideologues of privatization and deregulation, as success stories!

Thus, Russian neo-liberal economist Andrei Illarionov, now titled as Presidential adviser on economics, crooned over Sir Roger Douglas in an April 28 interview with *gazeta.ru*, "Social economists consider their programs [in New Zealand] to be exemplary in the history of reform. Their experience is of great value to us and we're taking heed." Illarionov, who in

1998 collaborated with former Finance Minister of Argentina Domingo Cavallo in an attempt to get Russia to surrender its sovereignty to a foreign-run currency board, now plays host to Piñera, the Chilean pension-fund privatizer.

Compare the *EIR* case studies. On July 21, 1995, we published "An Obituary for London's Chilean Economic Model," by Dennis Small and Cynthia Rush, which contrasted the ballooning of Chile's foreign debt by 600% between 1973 and 1993, with the stagnation and decline of its capabilities to produce. In the June 13, 1997 issue, *EIR* presented "The 'New Zealand Model': How Free Markets Destroy a Nation," the highlights of a study of Rogernomics carried out by the Citizens' Electoral Councils of Australia. It detailed Douglas's career as a privatizer, including his personal enrichment as a shareholder in Aetna Health, which raised health insurance premiums by 20% in the period when public health-care funding was being slashed in the reforms.

## Looting Pensions

"We have to dispel the myth that our children will always do better than us," Harberger was quoted in the Sept. 12, 1996 *Wall Street Journal*.

One of the Chicago School's favorite *new* myths, is the success rate of privatized pension funds. With Harberger in Moscow in April were Richard Wedder and James Carter, two economists formerly with the Joint Economic Committee of the U.S. Congress, as well as Carlos Bologna, Finance Minister of Peru during 1991-93. Bologna promoted the privatization of the Peruvian social security system, then turned around and opened up his own private pension fund (AFP), to soak up the pension money.

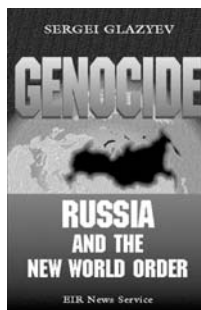
*Vedomosti* reported that this USAID-funded group met with officials at the Russian Central Bank, before Putin received them on April 21.

On April 27, they were followed by Piñera, whom Illarionov introduced at a press conference in Moscow as "the father of Chilean pension reform." *Polit.ru* reported that Piñera was "sharing his experience" at a seminar with officials of the Pension Fund of Russia, the Central Bank, and the Presidential Staff, touting the system of individual pension accounts, under privatized, but "government-regulated" management, as having "proven itself, and done very well in several other Latin American countries." Illarionov billed the invitation to Piñera as "a first step" toward finding a team, prepared to implement such a reform in Russia.

A short note in the April 24 *Business Week*, titled "Crunch Time in Russia," purports to summarize two variants of the policy papers, being presented to Putin by a team of liberal economists under German Gref. According to the report, there are "two different plans for rolling back government interference in the economy and eliminating barter. . . . The most radical approach envisions slashing state social spending by 50% within 10 years or less. That could involve privatizing everything from the pension system to medical care. . . . A

# GENOCIDE RUSSIA AND THE NEW WORLD ORDER

**Russia in the 1990s:** "The rate of annual population loss has been more than double the rate of loss during the period of Stalinist repression and mass famine in the first half of the 1930s . . . There has been nothing like this in the thousand-year history of Russia." —Sergei Glazyev



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**Economist Dr. Sergei Glazyev** was Minister of Foreign Economic Relations in Boris Yeltsin's first cabinet, and was the only member of the government to resign in protest of the abolition of Parliament in 1993.

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second, more moderate plan involves slashing social spending by 25%, says a source close to the economic team.”

*EIR* has documented time and again, since a major exposé published at the end of 1995, how the privatization of the pension system in Chile was used to loot the country and its workers, even before the funds lost billions during the market turmoil of 1997-98. As of mid-1998, one-third of the \$33 billion in pension funds privatized in Chile was invested in the stock market, which had lost nearly 20% of its face value in the first half of that year. (The system’s supporters in the financial sector proposed to “protect” the pension money — by allowing it to be invested in *foreign* markets.) Meanwhile, 2 million working-age Chileans had come to have to pension provisions at all.

### Insanity on Display

Illarionov took time out from his duties as host for foreign lobbyists, to participate on April 25 in a domestic enterprise: a press conference on the publication of Russian-born anti-nation-state crusader Ayn Rand’s works in Russian. The publishers and translators, Dmitri Kostygin and Yaroslav Remenchuk, announced a campaign to get the Ministry of Education to make Rand compulsory reading in Russian schools.

Rand, who followed Nietzsche in her hatred of St. Paul’s agapic Christianity and who advocated smashing the nation-state, supposedly in the name of individual freedom, is the heroine of the U.S. Federal Reserve’s Alan Greenspan—as Illarionov advertised in his own peculiar way. According to the *Moscow Times*, Illarionov cited opinion polls in the United States as placing Rand’s *Atlas Shrugged* as the second-most influential book after the Bible, and singled out her influence on Greenspan. “Greenspan has been acclaimed many times over as the genius behind America’s ‘New Economics’ and the economic boom of the ‘90s. He was a personal friend of Rand,” Illarionov said. “If people here are likewise influenced by her work, then I will be very glad.”

Illarionov raved on, “Every import tariff and every limit on foreign-exchange transactions is a blow to our consciousness. Every tax acts against our freedom.” The *Moscow Times* reported, “Illarionov called for hauling back state interference in the economy and said it was a myth to claim that liberal reforms had taken place in Russia over the last eight years.” He said, “If we really want fast economic growth, then sooner or later we have to cut down state spending to no more than 20% of GDP and cut back the tax base to the same level.”

Illarionov also took this occasion to pump up the so-called Chilean model, once again, as he “cited Chile’s economic plan under the dictatorship of Gen. Augusto Pinochet as an ideal example of good economic programming. He also criticized Putin’s economic think-tank for planning to write a 300-page economic program. ‘It’s better for programs to be short. One of the best examples is the program produced by Chile. It was 15 pages long and simply laid out principles

and the basis for the state’s relationship with society,’ he said. ‘1975 to 1990 was the golden period of Chilean economic reform, during which time Chile overtook the rest of Latin America.’ ”

## Sapir Offers Plan To Reconstruct Europe

by Christine Bierre

Jacques Sapir, the leading French expert on Russia, and Director of Studies at the School of Advanced Studies in the Social Sciences, put forward an excellent proposal, in the tradition of Grand Designs, for the reconstruction of eastern and western European economies, in the Paris daily *Le Monde* on April 18.

Before elaborating an economic plan which would allow the nations of the Commonwealth of Independent States (CIS) and those of the Black Sea basin to reconstruct their economies in conjunction with the European Union (EU), Sapir attacks the Council of Europe for imposing sanctions on Russia and Ukraine, the former because of the war in Chechnya, the latter because of a referendum which could threaten parliamentary democracy in that country.

Despite the fact that the sanctions will have no effect whatsoever, “in order to condemn, you need a different moral stance than that of the European countries,” says Sapir, who points out that “the West more than tolerated the first Chechnya war (1994-96), . . . applauded the use of force and violence against the Russian Parliament in 1993,” and “covered up for the massive fraud committed during the 1993 constitutional referendum and the 1996 legislative elections.” Not only are sanctions a political mistake, he says, but to impose them without offering any alternative is “one of those mistakes which is worse than a crime.”

Behind this sudden indignation against Russia, Sapir sees “the work of a group of people who are delighted to rediscover an ‘evil empire’ to denounce.” This attitude is all the more convenient, he continues, because it allows such people to push into the background, “the legitimate and necessary debate concerning Western responsibility for the present evolution of those countries.” The policies imposed by the West on those countries result today in actions “which provoke our horror; we should have thought about it beforehand!”

### Create a Payments Union

If we want to change the situation, “the evil must be attacked at its roots,” Sapir says. He proposes a well-thought-out economic plan to pull those countries out of crisis. “The economic depression is largely linked to the collapse of internal trade, following the dissolution of the U.S.S.R.,” he says.