Parmalat and LTCM: Pricking The Big, Big, Big Bubble

by Lyndon H. LaRouche, Jr.

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At this juncture, a word of caution is needed about what the possible—and probably rather immediate—global implications of the Parmalat blow-out might be. I deliver a specific warning, somewhat beyond the scope of the specific kind of assessments already circulating from among my own associates, and others, from around the world.

The signs are piling up virtually by the day, that the collapse of the Parmalat bubble may not be a relatively minor, Enron-style debacle; but, a larger version of that type of crisis, of the Long Term Capital Management (LTC or LTCM) hedge fund, which already shook the foundations and rafters of the world monetary-financial system during August-September 1998. That 1998 crisis already put the U.S. Federal Reserve System itself on the torture rack, during Sept. 23-29 that year. The leading evidence today is, that what is happening now, as echoed by the explosive Parmalat case, is, most probably, the surfacing of a much greater, more deadly form of the same crisis which shook the foundations and rafters during 1998—a resurfacing of the same global crisis as LTCM, but now burst through to the surface on a much bigger scale, and far less controllable than 1998.

There are strong, evidentiary reasons for following through with leading emphasis on an investigation along the lines of that highly probable hypothesis.

I explain the premises for that warning, explaining the situation as simply as the nature of the problem allows. Forgive me for any quips I may include in the course of this brief report; but, neither I, nor you, must lose our sense of humor in reporting what I have to say, here and now. In crises such as these, an active sense of humor, with more than slightly Rabelaisian touches, is a prerequisite for maintaining cool-headed analytical precision in judgment, especially in times of the relatively worst crises.

Do not concentrate on the smaller part of the present scandal, the financial interior of the Parmalat entity itself. Parmalat is only a point of reference for a vastly greater problem, located in the world's now gigantic financial derivatives bubble itself. The point had come, with the continued, recent fall of the Bush Administration's U.S. dollar on the gold and euro markets, that the pin would prick the world-wide dollar bubble at some point. The pin chose to prick Parmalat. This prick could be just the proverbial "horseshoe nail" for which the kingdom was lost, the present form of the IMF kingdom.

The evidence in support of that estimate is large enough in itself, that we must take the precautionary posture of assuming that that might be the case for the very near future. The evidence pointing toward such short-term outcomes is so strong, and accumulating at such a rate, that it would be reckless not to look closely at the mounting evidence, of a systemic nature, tending to demand such a working investigatory assumption as a guide for action.

As has often been the case in the terminal phase of comparable bubbles of modern European history's past—such as the John Law and South Sea Island bubbles of the 18th Century, the Ponzi Schemes, the 1949 "Pyramid Club" swindle, or the June-November end-phase of the 1923 Germany Reichsmark bubble—the Parmalat case happened to erupt as it has, at the point at which the sudden phase-shift happened; the prick of the over-inflated balloon. It was a collapse already more than overripe to have happened. The possibility that this is an isolated, or isolable case, is absolutely zero; whatever it is not, the Parmalat case is in itself a systemic crisis of the global monetary-financial structure.

Therefore, firstly, the case of the Parmalat entity itself is apparently only a part of a larger bubble, an uncounted vast amount of what are, combined as often smaller, but similar, and interconnected, credit-derivative and credit-derivative-like cases. Since the financial derivatives swindle of any one large financial operation of this type presently overlaps and interacts, systemically, with a vast, international epidemic of such behavior built up within the financial derivatives sector since the October 1987 Wall Street crash, the Parmalat "Ponzi Scheme" can not be treated as an isolated type of case.

Secondly, therefore, relative to the danger which the unwinding of the Parmalat case might unleash on a world scale, the size of the U.S. dollar-centered Parmalat scandal, as measured only on the basis of its own accounting records, is a relatively minor part of the problem. On the latter account, the serious question is, how big, how complex is the spread of the cancerous-like financial balloon of fraud, of which Parmalat itself is only part, but which the Parmalat failure could bring down as the detonator of a financial chain-reaction. This poses the question, whether it were possible, that some of the international bankers behind the build-up of the Parmalat derivatives bubble, perhaps someone of a rank comparable to Citicorp's Sandy Weill, decided he had wearied of keeping his finger in the dike.

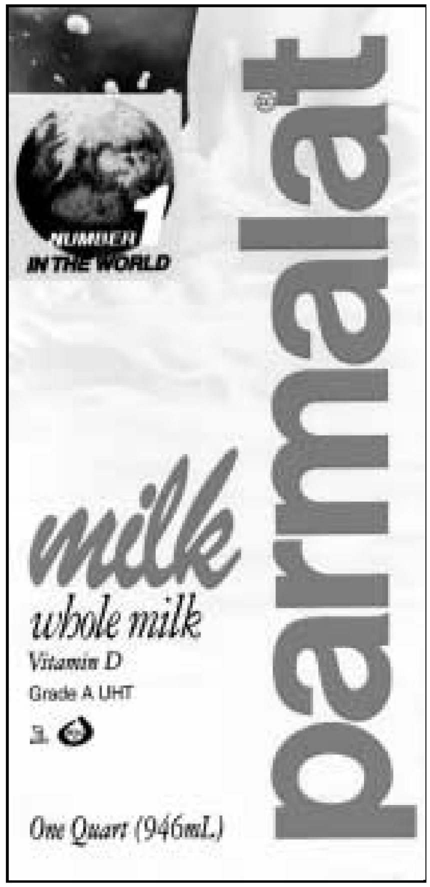
The Parmalat case goes hand-in-hand with that spiralling collapse of the U.S. Bush dollar since the euro began its movement from its relatively low price of about $0.83-84, to $1.25+ and rising today. This trend, which has been driven to a large degree by current Bush Administration policies, has pushed the U.S. economy into an approximation of virtual hyperinflation at home, and comparable deflation of the value of the U.S. economy on the world market. Admittedly, President Bush did not create the bubble, but, witting or not, his blunders did about as much as might be possible to inflate the bubble to its present proportions.

Obviously, the proper characterization of today's runaway Parmalat crisis, is that it is no longer primarily a crisis of a virtually, financially brain-dead Parmalat entity as such; it has exploded into being actively a leading reflection and part of a systemic world crisis of the U.S. dollar.

The question which any U.S. President, even a slightly intelligent one, would have been asking his advisers: "Cut the double-talk, tell me what the dollar is really worth, compared to the American citizen's average buying power, in the physical goods component of a household market-basket, back in 1972?"

At that turn in the conversation, some panicked idiot, probably a Ph.D. spin-doctor from Harvard University, a virtual Professor Rumpelstiltskin, would be tearing himself apart, in a screaming fit of denial, as a way of trying to drown out attention to the President's words. Amid the screaming denial that the soaring euro reflects a runaway inflation of the dollar, that professor would be repeatedly working in the phrase, "hedonic values."

Simply, the fictitious security for the value of the mass of debt in the international U.S. dollar-system, is largely composed of highly inflated financial valuations of things including stock-market prices, bloated mortgage values associated with the Fannie Mae mortgage-based securities bubble, and the like. For example, a collapse in the Fannie Mae-centered part of the bubble would threaten to set off a chain-reaction collapse in the value of the mortgages used to prop up the bubble, which would pull the rug from under that and related paper being counted as financial assets within the system generally: in other words, some approximation of the kind of financial chain-reaction collapse when a bubble pops.



Parmalat has branded itself the world's biggest dairy products firm, "number one in the world." Now the ominous question is, "the number-one WHAT?" The biggest bankrupt? The trigger that explodes the biggest debt bubble in world history?

What Next?

How should the Presidency of the U.S. prepare itself, immediately, now, to react to the threatened short-term consequences, such as those which are now threatening to be triggered, in the very near term, by the collapse of the Parmalat bubble itself?

To understand the deeper implications of that set of observations, we must examine the systemically fraudulent character of current Federal Reserve and related policies. We must look at the problem on three levels.

First, we must consider the emergency measures needed to put the Parmalat entity as a unified whole into receivership, for which the government of Italy must be supported, should it choose to take that course of action more or less immediately. If Parmalat is chopped into pieces in a bankers'-style, financial-bankruptcy butcher-shop, selling off chunks in settlements, the global systemic implications of the Parmalat case could not be efficiently controlled. The sickness has been caused by the evolution of the private financial system's overreaching control, and by suppression of the functions of defense of national interest which can be conducted only by sovereign powers of nation-states' governments. The present state of practice of the private international financial system, is the disease, of which Parmalat's collapse is a product and symptom. Do not send more of the disease as treatment for the sick patient, unless you really wish to bring on a global, mass-murderous, financial-economic chain-reaction catastrophe beyond the imagination of virtually any among you.

We must freeze the financial side of the bankruptcy now, keeping the firm itself intact as an integrated asset to be placed in the receivership of the assigned government agency, to preserve the entity's optimal value, by maintaining the functioning integrity of the essential assets, for the benefit of the public interest.

Second, although many governments are themselves in a condition of near- or active bankruptcy, the source of the present crisis is not the institution of the nation-state, but the privately controlled institutions of the deregulated, post-1971-72 world monetary-financial system. Under an international crisis such as the present one, any effort to define, or deal with the crisis from an essentially monetary-financial standpoint, will assuredly lead to a worsening of the global catastrophe now fully under way. We must look at the causes and remedies for the crisis from the primary standpoint of physical-economic, rather than monetary-financial statistics. Only a general reform of the present world monetary-system could prevent a careening, out of control, general collapse of that system as a whole.

Thirdly, while short-term emergency measures are being crafted and deployed, to bring the present financial fire-storm of the sinking U.S. dollar under control, we must craft a new international monetary-financial system, returning from the doomed, deregulated, floating-exchange-rate system, to a fixed-exchange-rate system buttressed by regulatory measures, supported by a set of nested long-term treaty agreements whose aggregate maturities will lie between one and two generations, between 25 and 50 years.

For example: Objectively, the physical condition of the U.S. domestic economy is far worse today, than the state of affairs which Franklin Roosevelt inherited from the disastrous policies of Presidents Coolidge and Hoover. The rotted-out state of U.S. basic economic infrastructure is the simplest factual demonstration of that relative state of affairs. Europe is in a similar fix. Western Europe, especially the United

New Year Deepens Dollar Crisis

At the middle of the ninth week of consecutive losses against all other leading currencies, on Jan. 5 the U.S. dollar tumbled to a new historic low against the euro ($1.277), having fallen through the $1.25 level without stopping or looking around. Statements by American currency "experts" and by Treasury Secretary John Snow, that the dollar fall is being slowed and will not go below $1.35, look panicky. The dollar also reached new multi-year lows to the yen, the British pound, and the Swiss franc. For the full year 2003, the dollar decline in respect to the euro amounted to 17%, the U.S. currency's biggest annual decline since the euro was established in 1999.

All of this evidence of the crumbling floating-exchange-rate monetary system, happened amidst the permanent issuance of "super-optimistic" reports concerning the American economy, claiming that U.S. manufacturing, construction activity, and other indicators are currently rising at their greatest speed in 20 years.

Strong Inflation Pressure

The fall of the dollar is also triggering strong inflationary pressures among key commodities in recent months. While the gold price exceeded $422 on Jan. 5—its highest level in 14 years—the silver price also hit a new 5-year high. The prices of some of the industrial metals are rising even faster than those of the precious metals. At the end of 2003, the price of nickel had increased by 120% for the year, lead by 55%, copper by 40%, tin by 40%, and zinc by 30%. In the United States the prices of gasoline and heating oil also began to jump in early January; that of natural gas had already soared in the last six months of 2003.

Federal Reserve Chairman Alan Greenspan had to make a special presentation on Jan. 5, on the Fed's policy not to use interest rates to restrain financial bubbles, in order to emphasize that the Fed was not planning any interest rate increase, so that the U.S. "stock market recovery" could keep going a bit longer.

As the new year starts, central banks in Europe and Asia are preparing for further dramatic declines by the

Kingdom, is in a physical condition either approaching—or, as in the case of the U.K., already worse—than that of the United States. France, Germany, and Italy, among the larger western European economies which are virtually bankrupt at present levels of physical output, nonetheless have greater relative potential, given an expansion of high-tech export markets, than the U.S.A.

With a sweeping change in current U.S. policy, toward a fixed-exchange-rate system, and cooperation with long-term physical development of the Eurasian infrastructure, the collapse phase of the present world economic crisis could be halted through aid of concerted action by sovereign governments, and an accelerating rate of long-term net physical growth set into motion.

In summary: We must think in terms of the indicated three steps to be taken, as emergency changes in the direction of policy-thinking and practice. First, recognize the virtual insanity of the current policies leading into what the Parmalat affair symptomizes. Second, we must commit ourselves to rebuild our shattered national economies on the basis of subordinating rule by finance, to rule by what amounts to physical-economic common-sense approaches to defense of the general welfare. Third, make immediate emergency reforms and follow-through reforms of the international monetary-financial system, which are intended to be honored in practice, for a period of not less than one to two generations yet to come.

Physical Economy

What tends to blind the public to the reality of the presently ongoing general collapse of the world's present financial-monetary system, is the kind of systematic lying of all leading monthly, quarterly, and annual reports on the subject of inflation, by the government and Federal Reserve System of the U.S.A., and other relevant institutions inside and outside the U.S.A. itself.

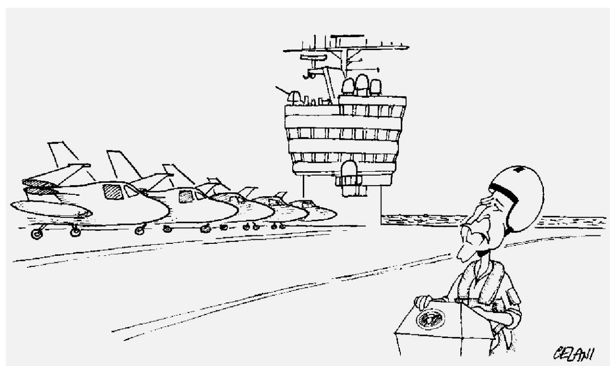
The principal means by which that intentional fraud by the Fed and U.S. government agencies have massively faked the figures on inflation, has been a swindle sometimes called "the Quality Adjustment" or "hedonic" factor. The most direct way of exposing the fact of the intentional fraud in those reports, is by comparing the costs of essential physical elements of a family household's consumption, including heathcare, with the average income of each among assorted, middle and lower family-income brackets. In other words, take accounts such as food, cost of maintaining a place of residence, education, and so on, with the class of total income of the relevant class of income group. In other words, what is the quality of family consumption in 1966, or 1972, and what does the price, then, of that quality of consumption represent as a percentile of family income then, and now?

For example: What percentile of the annual income of the leading wage-earner of a family household must be allotted to the cost of maintaining possession and occupancy of a

U.S. dollar. Unnamed European Central Bank officials indicated in press interviews, that some form of action may be required once the euro breaks the $1.30 mark. After the Japanese authorities had spent $188 billion for currency interventions during 2003, to prevent the yen from rising too fast against the dollar, the Japanese government has now received a $93 billion credit from the Bank of Japan specifically to keep up this superheated pace of currency interventions, until the doubling of the government's borrowing limit for such activities goes into effect.

The China Business Post reported on Dec. 22 that the Chinese central bank has been studying a plan to peg the renminbi to a basket of 10 currencies instead of its current peg to the dollar. The basket of currencies is supposed to reflect the country's foreign trade and investment volumes and, in particular, to avoid short-term foreign exchange rate fluctuations. A timetable for this possible change was not mentioned.

In Russia, the central bank reported cash exchanges during October 2003 at a level not seen since the 1998 crisis: Russian citizens exchanged over $5.5 billion of foreign currency. In its monthly review of the currency market, the Russian central bank noted: "The decline of the ruble-dollar exchange rate in September, combined with the rise of [the] euro, greatly increased the interest in the euro among Russian individual depositors. The demand for euro[s] increased by 42% in October. The structure of currency demand has abruptly changed in favor of the euro, while the demand for the U.S. dollar fell by 11%." Russian President Vladimir Putin, speaking at a meeting with the government leadership on Dec. 29, emphasized Russia's vast amount of gold reserves, which are among the highest in the world.



- "I declare major economic problems over!"

reasonable place of residence? Compare this figure for 1960, 1970, 1980, 1990, and today.

For example: Look at the rise in cost of grocery-store food prices now, as compared to a point six months ago, a year ago, two years ago. Or, also go into an area in which a great mushroom, like Wal-Mart, has pushed local competitors out of existence. Compare the quality of what you could buy today in that community's stores, with what you could buy five or 10 years ago.

These kinds of comparisons refer essentially to households' direct consumption of essential goods and services. They do not include medium- to long-term capital factors, such as the run-down condition, or closing of both essential employers' operations; or collapse of public and related investment in basic economic infrastructure, such as school systems, libraries, hospitals, systems of generation and distribution of power, and so on. Since approximately 1971, the U.S. has lost no less than $4 trillions' worth (at today's prices) of essential basic infrastructure. Genghis Khan's hordes, disguised as entities such as the American Enterprise Institute, have come and raped and looted the United States, all by the invitation of our government.

The citizen is largely to blame for allowing this to happen to us all. He or she either voted for the bums who allowed these swindles to continue over decades; or, they say, "Don't blame me. I never vote! Don't blame me for the accident my car caused; I didn't have my hands on the wheel at that time."

When will the citizen wake up? An interesting question, is it not?

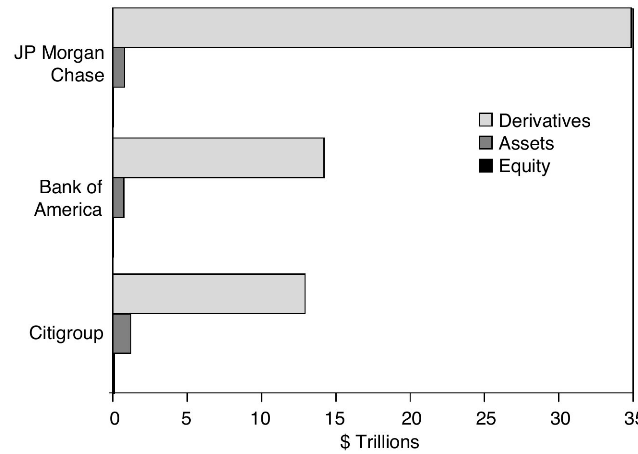
Pay Attention to That Man Behind the Curtain

by John Hoefle

Any good illusionist knows the trick: You provide a distraction for your audience, keeping their eyes away from that which you do not want them to see. Such is the case with the Parmalat investigation now playing out in the press, just as it was in the Enron, WorldCom, and other cases over the recent period. The trick is to pick an executive, or an activity within the collapsed company, and subject him or it to intense public scrutiny, while the banks and other real culprits fade into the shadows.

The Enron case is exemplary. From the day the Enron scandal broke publicly, the major financial press, led by the Wall Street Journal, focussed attention upon a handful of Enron's thousands of subsidiaries, affiliates, ventures, and entities. The coverage pointed to a handful of Enron executives, and featured the laments of Enron's bankers, that they had had no idea what Enron had been doing. After weeks of such nonsense, a special committee was formed, of one veteran and two new Enron directors, to conduct an investigation of Enron's fraud. This committee ran its investigation precisely along the lines identified by the press.

FIGURE 1
Derivatives Dominate at Top U.S. Banks
($ Trillions)



Source: Bank for International Settlements.

Only months later did the truth begin to emerge, in dribs and drabs. As it turned out, not only did the banks know what Enron was doing, but they had taught the company how to cook the books and play the derivatives market; and had helped set up and even invested in some of the company's scams. As EIR's own investigations showed, it was bankers who created Enron, as a vehicle for energy deregulation and speculation; and it was the bankers who really ran the show. The focus on the insiders, as guilty as they may have been, actually served to hide the role of Lazard and Rothschild in steering Enron, and the role of Bankers Trust, DLJ, Merrill Lynch, Citigroup, and J.P. Morgan Chase in setting up and funding illicit activities.

Now the illusionists have turned their attention to Parmalat.

Much remains unclear about what actually happened at Parmalat, but it's a pretty sure bet that it's another bankers operation, run by the usual suspects. To understand what the Parmalat affair actually is, one must put away one's magnifying glass and look at what the illusionists do not want you to see, the larger global financial crisis.

Derivatives

The dominant feature of the global financial system today is the huge casino known as the global derivatives market. In 2000, Lyndon LaRouche and EIR estimated that there were some $400 trillion in financial (debt) aggregates swirling