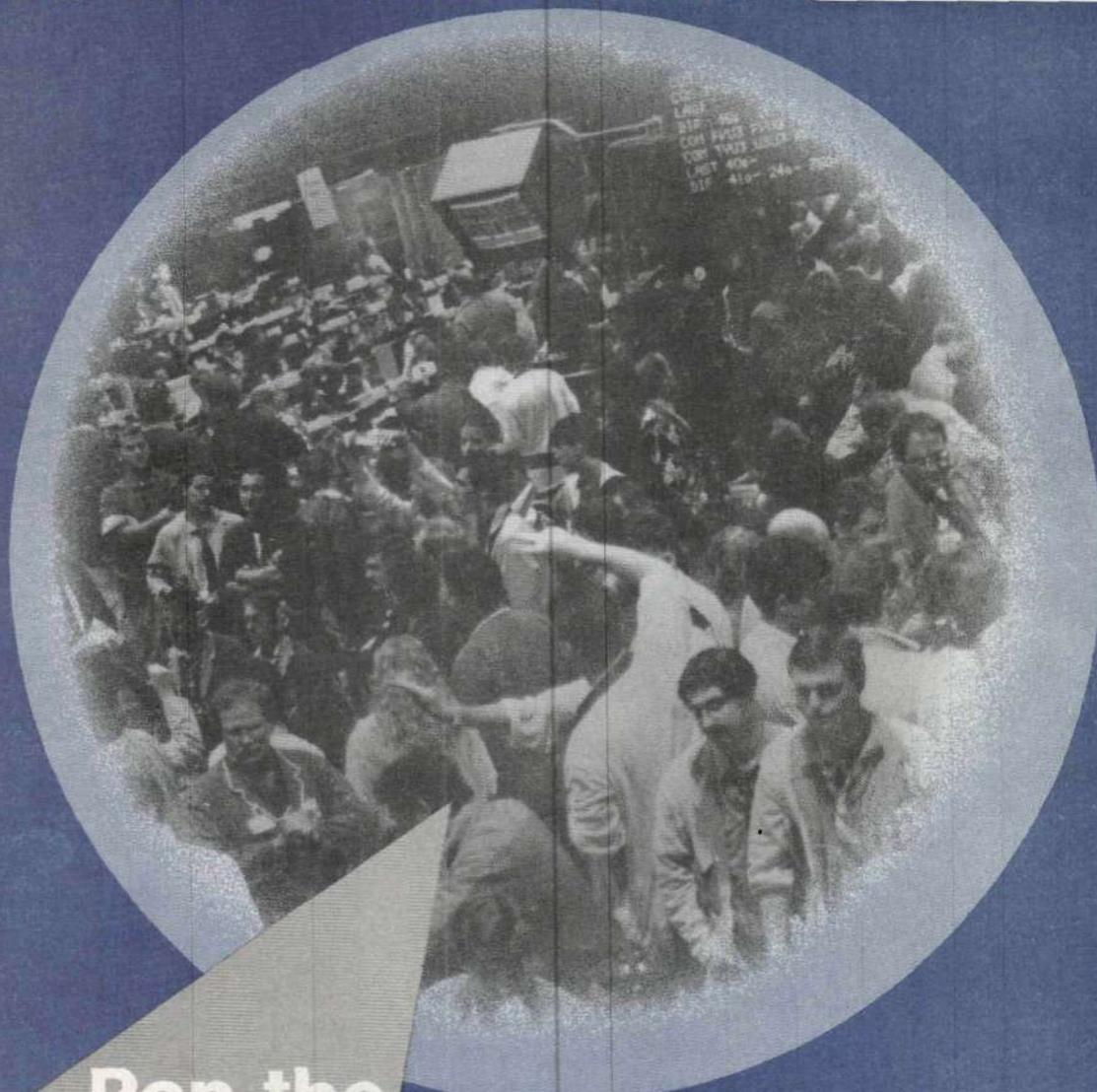


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**Pop the
Financial
Bubble,**

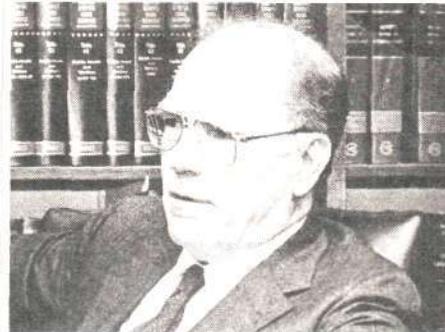
Rebuild the World Economy

THE NEW FEDERALIST

\$2

Introduction

by Lyndon H. LaRouche, Jr.



It were important at times to approach important political questions such as the issue of derivatives with a thought borrowed from Classical literature. I recommend for this purpose a reference to Scotland's famous poet, Bobby Burns, who, with his poem on the subject of "On Seeing a Louse On a Woman's Bonnet in Church" on Sunday, presumably, in which he says, at the end, after describing this woman in all her grandeur, spoiled by a louse, of which she's unsuspecting, "Oh, to see ourself as ithers see us!"

And so I recommend we consider derivatives.

Let us imagine visitors from a Solar System in a distant galaxy, coming to Earth on a trade mission, presumably, and ask oneself: Would they invest in the planet Earth at this time, after seeing the flurry of the market in derivatives? I propose they would pack up and leave immediately, writing Earth off as an investment for perhaps at least a century to come.

Why? What are derivatives? What kind of planet is it, that tolerates derivatives? Derivatives are an investment in something for which there is really no security, which takes wealth—money in the form of wealth—out of the productive and trading process, and never puts anything back in.

What we have, is the prospect of a derivatives bubble which grows like a cancer at the expense of its host, and shrinks its host, at the same time that its appetite is growing, while the means of satisfying that appetite are collapsing. Not a very sound investment.

But what of the people who would indulge in such an investment, who would indulge in derivatives, who would tolerate derivatives running loose on their planet? Well, derivatives are associated with a planet on which scientific and technological progress in production is collapsing.

Certainly, any visitors who had the technology sufficient to get from another galaxy to here on a trading mission, would not think much of the prospects of any planet which did not invest in science and technology.

New Federalist, July 1993.

On the cover: the Chicago Board of Trade. Photo EIRNS/
Tom Szymeczek
NFP 93-502

Then they would look at the labor force, and see if the labor force were the type that they, for example, would wish to employ. They would look, of course, at our leading universities, where the influence, through the Modern Language Association of the deconstructionist Jacques Derrida, of Paris, is great. They would see, proximate to Derrida's influence, "political correctness." They would see people coming out of kindergarten, elementary school, high schools, and universities, who are unfit to employ in the capacity of a sweeper in a corporate parking lot. Not much of a prospect with this labor force, they would say.

They would look at the policies of agriculture and distribution and they would see that it is a deliberate policy of the governments of Earth to reduce the food production of this planet below—way below—the food requirements of the population. Not a very intelligent set of governments; not a very intelligent human species, they would say.

They would see a similar situation in industry, and so forth and so on.

Then they would finally see the thing that would horrify them the most. As a result of the austerity measures featured in such forms as "shock therapy" economics in the nations of the former Soviet Union, as International Monetary Fund (IMF) economic austerity conditionalities in the developing sector, and so forth, they would see that the leadership of the human race as a whole, preoccupied with balancing budgets, is driving more and more of the human species into an immune-suppressed condition, such that at present, vast armies of viruses, bacteria, and so forth, are marching through the bodies of immune-suppressed masses, to become the epidemics and pandemics, both old and new varieties, which threaten to wipe out or sicken very greatly the population of planet Earth.

A planet Earth that would tolerate the free run of derivatives, is not a planet in which any sane investor would invest.

The time has come to consider what this insanity is: not merely the insanity of derivatives, but what kind of insanity has seized governments, financial markets and so forth, that they would foster these kinds of conditions?

Ah, "to see ourself as ithers see us."

June 13, 1993



EIRNS/Tom Szymecko

How to Bring the Cancerous Derivatives Markets Under Control

On March 9, American statesman and political prisoner Lyndon LaRouche intervened in the economic crisis to propose a plan that is as simple and direct, as it is potentially effective in its execution: a sales or transaction tax on the turnover of "financial derivative" securities or financial instruments. Each time such a security or instrument is traded, he said, it should be taxed at 0.1 percent of its face value, or, as it is called in the derivatives trade, its notional principal amount.

LaRouche's tax would have two purposes. First, it would help to bring under back under control markets which have careened off into outer space, by identifying the kinds of practices which have been swept under the regulators' rug for all too long. Second, the tax might raise between \$60 and \$80 billion in federal tax revenues in its first year of application. That would be a very handsome sum for the U.S. government, even if it is going to be a self-liquidating kind of tax.

Talk to most people about "derivatives" and you pretty soon discover that they have no idea what they are. Still less do they have any comprehension that the financial practices which have developed,

since especially 1981-82, represent one of the most serious threats to the very existence of their country and the human species.

That isn't because they don't know about, or understand derivatives; it is because they don't know anything about economics, and because they don't consider that they might have the power to do anything about such things if they were to get themselves educated. That kind of ignorance is what poses the threat to the very existence of the human race, never mind the existence of a nation whose form of government, a republic, is supposed to be based on citizens' self-government.

It is the kind of moral swinishness which asserts that the spread of starvation and disease in the Southern Hemisphere of the world, among peoples of darker complexion, even diseases that are new, and presently incurable, is of no concern. That considers the developing economic breakdown of mainland China and the territories of the former Soviet Union as irrelevant to more pressing every day concerns. That wants to hide from the consequences of collapsing employment, cities and social services in the United States by retreating into the psychotic

Hierarchy of financial transactions

Currencies	Bonds	Stocks	Commodities
CASH			
Interest rate	Exchange rate	Interest	Principal
		Dividends	Price appreciation or depreciation
FUTURES			
OPTIONS			
OPTIONS INDEXES			
FUTURES OPTIONS			
FUTURES OPTIONS INDEXES			
SWAPS			

Distance from real physical economy increases ↓

As one proceeds downward in the chart, transactions have increasingly less bearing on processes in the real physical economy.

fantasy world of TV soap opera, sports events, and lotteries.

Time to Study Economics

Anyone who wants to do anything effective about all, or even any of those kinds of problems, each of which on its own sets a short term to the existence of the human race as we know it, has to take on the question of financial derivatives. To take on the question of derivatives, they have to get themselves educated in economics. To get educated in economics they have to go back to the founding documents of this republic, the Declaration of Independence and the Constitution itself, and make the ideas on which those documents were based their own. It isn't the dangers that you know of which kill you, they can be avoided. It is the ones you don't know about which all too often prove to be fatal.

The ideas involved are as old as the recorded

history of Western Civilization and the conflict spawned from those ideas yet older. They involved two irreconcilably conflicted views of man, of government, and wealth. On the one side, that man, the living image of God the Creator, is thereby endowed with the divine potential to create, and that in consequence all human life is sacred; that governments were created among men to secure those rights which follow from the sacredness of all human life, that wealth is the fostering of those human potentials which are the living image of the Creator, on behalf of the improvement of mankind and all Creation. Against this stands the view that man is really no different than the lower beasts, that government is a mere administrative matter of ruling over those who cannot rule themselves, that wealth is money, or a title to something that can be turned into money.

Contrast the Declaration of Independence's defense of man's inalienable rights to life, liberty, and the pursuit of happiness with the deepening misery of what passes for economic life around the globe: two-thirds of the human population living at or below subsistence levels, unemployment in Western Europe and North America affecting between 50 and 60 million whose talents have never been more needed. Manufacturing employment in the U.S.A. has not been lower since the mid-1960s, and, as a direct consequence, hunger and unemployment have increased.

What is too often said about proposals to reverse such obscenities? "It costs too much, we can't afford it. In these days of budget deficits and all, we have to cut, not spend."

And people believe it.

That's where derivatives come in. While billions of people go hungry, and millions are out of work, the volume of trading in financial derivatives by some measures has grown eightfold since 1987; there was about \$12 trillion outstanding at the end of last year, on a turn-over estimated at between \$80-100 trillion per year. Some \$1 trillion, and more, is traded every day on currency exchanges around the world; half, at least, is accounted for by transactions in derivatives. Three hundred billion dollars of U.S. government debt is likewise traded every day, enough to turn over the entire "publicly held" portion of the debt every 12 trading days. Daily trading of derivatives inside the U.S.A. runs at approximately \$300 billion per day, roughly the same ballpark as the federal government admits its annual budget deficit to be.

Yet, hunger and unemployment cannot be effectively attacked because "it costs too much"; after

all, "we have to be realistic about the constraints we are operating under because of the budget deficit." But, inside the United States, no one objects to piddling away \$50 for every man, woman, and child living on the planet, every day, in pursuit of what the moral degenerates in the financial community call "risk adjusted return on capital."

Those who do know what derivatives are, will, if asked, for the most part regurgitate what the bankers and others have told them to say: that derivatives are a necessary part of what they call the "financial industry . . . they hedge risk, . . . they make the markets more efficient," and so forth. Derivatives embody the lessons that should have been learned from all the financial debacles of the 1980s, from the collapse of Third World debt in 1982, through the looting of the S&Ls, to the real estate bubble of the mid-years of the decade, the leveraged-buyout binge and the collapse of the S&Ls. It is all baloney.

The Point of No Return

The growth of derivatives went past the point of no return at the end of last summer, on Sept. 16, to be precise. That was the day when the European Monetary System was wrecked, the day for which people like George Soros, and Citibank, borrowed billions of dollars to blow out the currencies of Britain and Italy. They showed that day that the speculative cancer that had been unleashed had grown beyond the point that monetary authorities could control.

Farmers who have been ruined by short-sellers on commodities markets know what this is all about:

selling what you do not own in order to buy it back later for less. Last summer, it was whole countries that were put through a short-sellers' market play financed with borrowed funds, not just farmers.

That's what derivatives do. They are purely speculative highly leveraged instruments, designed to capture spreads, or pricing differences between different interest rates, currencies, or commodities. So-called rates of return on financial derivatives can vary from 10-15 percent, up to 2,000 percent, and even higher. Why do that? If you think it's to make money, you would be wrong. It isn't actually money anyway, just computer-generated increases in computer-generated accounts. These are instruments of financial warfare, deployed against nations and the populations in much the same way the commodity market short-seller has been deployed to bankrupt the farmer.

That's what we *can* afford to do, and finance, while the world goes hungry, and jobless.

Taken as a whole, the financial derivatives market, orchestrated by financiers, operates with the vortical properties of a powerful hurricane. It is so huge and packs such a large momentum, that it sucks up the overwhelming majority of the capital and cash that enters or already exists in the economy. It makes a mockery of the idea that a nation exercises sovereign control over its credit policy. What good is a U.S. government policy to inject a few billion or even hundreds of billions of dollars of credit into the economy for jobs or other programs, when the financial derivatives market can overwhelm and counteract the effects?

One hundred billion dollars is but 1/1,000th the

TABLE 1
Derivatives markets exploded in late 1980s

(notional principal amount outstanding at year end, billions \$)

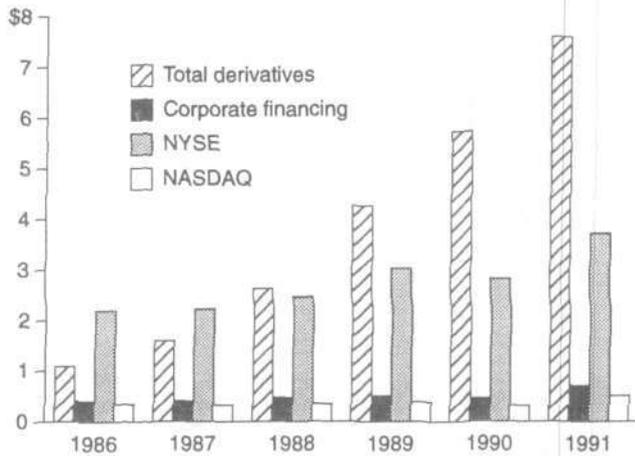
Instrument	1986	1987	1988	1989	1990	1991
Exchange-traded instruments	\$ 583	\$ 725	\$1,300	\$1,762	\$2,284	\$3,518
Interest rate futures	370	488	895	1,201	1,454	2,159
Interest rate options	146	122	279	387	600	1,072
Currency futures	10	14	12	16	16	18
Currency options	39	60	48	50	56	59
Stock market index futures	15	18	28	42	70	77
Options on stock market indexes	3	23	38	66	88	132
Over-the-counter instruments	500	867	1,330	2,402	3,451	4,080
Interest rate swaps	400	683	1,010	1,503	2,312	2,750
Currency and cross-currency interest rate swaps	100	184	320	449	578	807
Other derivative instruments	-	-	-	450	561	577
Total derivatives outstanding	1,083	1,592	2,630	4,264	5,735	7,598

Source: Bank for International Settlements, *Recent Developments in International Interbank Relations*, Basle, Switzerland, October 1992.

FIGURE 1

Derivatives compared to U.S. corporate financing and stock market capitalizations

(trillions \$)



Sources: Bank for International Settlements; Securities Industries Association.

size of the financial derivatives market. It is the financial derivatives market that organizes the overall geometry of, and thus significantly determines, how the U.S. credit system functions.

In his weekly "EIR Talks with Lyndon LaRouche" radio program on April 28, LaRouche told interviewer Mel Klenetsky: "This is *sucking the lifeblood*, in the same way that Michael Milken and his raiders were doing, who were stealing from people's pensions and so forth with junk bonds and these acquisitions. It's sucking the lifeblood out of industries, out of pensions, out of households—out of everything—out of our businesses, out of our farms. These people are thieves."

Expect a Meltdown

This vast market in the tens of trillions of dollars is international in scope, although 65 percent of financial derivatives trading occurs in the United States. But lawfully, this international market must melt down. It will follow the path of every bubble in history, since the tax-farming pyramiding schemes of the treasury of ancient Babylon and Imperial Rome up through A.D. 300, to the notorious John Law financial bubble in the seventeenth century. The violent effects of an explosion of the derivatives market bubble will far overshadow, the collapse of the leveraged buyout bubble combined with the October 1987 stock market crash, liquidating one-third the value of the market within weeks, and the \$350 billion expended since 1987 for the

bailout of the commercial banks and savings and loan institutions.

And, that collapse will not be too long in coming. The eightfold growth of these instruments since 1987 is not sustainable, against a backdrop of a world economy collapsing from depression into the nightmare of chaos. Those who have made their paper fortunes out of the speculative fit that has accompanied the growth of derivatives, like George Soros, are moving into tangible assets like gold and real estate. This bubble's days are numbered.

Hence, LaRouche proposed that America reassert sovereign control over its power of credit issuance through the transactions tax. The tax will also introduce transparency, and help show exactly what will have to be done to reconstruct the nation's rotten bankrupt banking system. Half of the \$12 trillion outstanding derivatives in the U.S.A. are carried on the books of the top ten banks, like Citibank, J.P. Morgan, and Bankers' Trust. Their paid-in capital is many times exceeded by what they have helped to let loose.

Such tax proposals have been made before (see article, p. 28). The financiers fiercely resisted them, and usually prevailed. But this time, the stakes are immensely greater than ever before in history.

What the LaRouche tax proposal would do, if enacted, is knock the usurious speculation out cold. That means his tax proposal would permit the properly constituted authorities, under Section 1, Article 8 of the Constitution, to recapture control of the issuance of money and the creation of credit. That is the precondition for any kind of job-creation program, or economic recovery and reconstruction program.

Here's how it would work.

Currently, the derivatives markets, and other financial markets, pay zero percent sales tax on trades. Most states apply a general sales tax of between 4.5 and 9.0¢ on the dollar; that is, a tax is assessed equal in value to between 4.5 and 9 percent of the value of the purchase (transaction) made at the store. Under the LaRouche tax proposal, each trade of a financial derivatives market instrument will be assessed a "sales" tax equaling just 0.1 percent of the value of the purchase, far less than the rate ordinary citizens pay every day. It is absurd and dangerous to continuously raise the tax on Social Security and to apply an energy tax, which will devastate every sector of the economy, while the transactions—as opposed to the realization of profit—of the financial derivatives market, which are harmful to the economy, go untaxed.

Let's take the case of the single most widely

traded futures contract in the world. It just happens to be the U.S. Treasury's Bond future and it is traded at the Chicago Board of Trade (CBOT). The government issues bonds to raise funds to finance its deficit, and refinance its outstanding debt. Such bonds are issued regularly, by auction, in a variety of different maturities. Interest rates on other obligations, such as fixed-rate mortgages, are effectively linked to the yield on longer term government bonds. Shorter term ones are tied to adjustable rate mortgages, and so forth, in the same way.

The worldwide trading in U.S. bond futures makes a mockery out of all the pious nonsense that is uttered about "cutting the deficit," and "getting the growth of the national debt under control."

In 1992, a whopping 71,099,955 contracts in this future were traded. That figure represents one-quarter of all contracts of all types traded on the CBOT, which is the world's largest exchange. The notional principal value of the underlying bond of the U.S. Treasury Bond contract is \$100,000. It is usually a bond of 15 years or longer maturity. The speculator buying this contract does not pay \$100,000, but only a fraction of that, which is called the "initial margin requirement." Margin requirements vary from contract to contract, but for this one, the initial margin required is \$2,025. The leverage in this contract is the notional principal amount, or \$100,000, divided by the margin bond requirement of \$2,025. Thus the leverage is a spectacular 49 to 1.

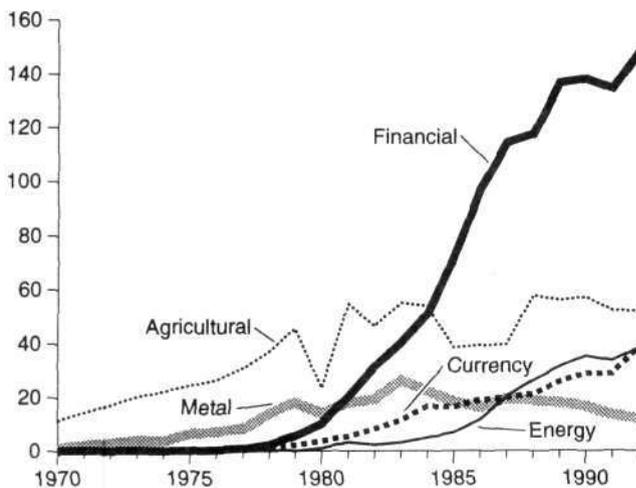
Assume, for a moment, that the bond underlying this contract is a 15-year bond bearing an initial yield of 8 percent. Assume further that, during the first hour of trading, the interest rate on 15-year Treasury bonds fell marginally to 7.995 percent. As bond yields are inverse to prices, that would push up the price of the bond to \$100,050. The speculator holding a U.S. Treasury Bond contract has made a \$50 profit (to realize it, he must either take physical delivery of the bond, or sell the contract to someone). That \$50 represents a rate of profit on the investor's original margin investment of \$2,205, of 2.47 percent.

The reader may think that \$50 is a very small return. Not at all.

First, speculators in these markets play with very large volumes. A speculator may buy 100 contract units of U.S. Treasury bond futures on the CBOT, meaning that the profit realized in one hour of trading (less commissions, etc.) is 50×100 , or \$5,000.

Second, the actual rate of return placed on a daily or yearly level is huge. For example, were the speculator to continue to realize this 2.47 percent hourly rate of profit for a week, his rate of return would

FIGURE 2
Number of futures contracts traded
(millions of contracts)



Sources: Commodities Futures Trading Commission; Futures Industries Association.

be above 85 percent. Who will invest in steel plants, which return about 5 percent per year, when spectacular rates of return can be made in the derivatives market in a week's worth of trading?

Now, if LaRouche's 0.1 percent transaction tax is levied against the \$100,000 notional principal amount of the U.S. Treasury Bond contract that has been purchased, the tax would yield \$100, and could be collected by the exchange. But, in this example, the tax is a necessary, unbridgeable hurdle: The speculator will pay more in tax (\$100) than his profit (\$50). The LaRouche tax makes the deal unprofitable.

Just to break even to cover the cost of the transaction tax, the speculator would have to make \$100 profit, which represents a rate of profit of 5 percent on this particular transaction. To go over break-even, the speculator would have to make \$150 or so, representing a 7.5 percent rate of profit on his investment. The chance that a Treasury bond will move up \$150 in an hour is slim, although hardly impossible, especially in a manipulated market. But markets can turn very suddenly, as speculators very well know. In markets, in which the time it takes to transact a trade is measured in fractions of a second, a speculator can be severely burned if he is constrained to wait in the market long enough for it to realize a full 5-7.5 percent rate of return. If it doesn't in that time frame, the market jolts the other way, he is doomed.

The threshold level for real or net profitability,

introduced by the 0.1 percent transaction tax, will, like a surgical tool, slash trading in this market instrument by at least one-fifth to one-quarter of its volume, puncturing this market, and beginning to dry it out: precisely as the tax is intended.

In this way the tax knocks the bottom out of the existing high turnover speculative market in U.S. government debt, which, at \$300 billion per day, is second only to foreign exchange markets in size. Bringing that monster under control is the prerequisite to stabilizing the financial side of the government's operations, and bringing interest rates and credit-generation back under control.

The Stock Index Future

The other example is the Major Market Index (MMI), which is also traded on the Chicago Board of Trade. The MMI is an average of a basket of 20 leading stocks, such as AT&T, Du Pont, or Mobil, and is the favorite of the program traders. By using the MMI in the Chicago futures market, they can send the Dow Jones Industrial Average gyrating up and down. The MMI was one of the chief culprits behind the October 1987 stock market crash. The notional principal of the underlying MMI contract is calculated by a formula, which is 500 times the MMI index's closing price. On May 13, the MMI index closed at \$356.40, so the notional principal amount of the MMI futures contract was \$178,200. The initial margin requirement that a speculator must commit to buy an MMI futures contract is only \$5,400. The leverage built into this contract is 32 times.

Assume that the MMI index trades upward for the day by 25¢, which, multiplied by 500, per the formula, makes a profit on the contract of \$125. However, the 0.1 percent transactions tax for the single trade in the Major Market Index will yield \$172. Thus, once again, the tax level is higher than the anticipated profit. A trader in the MMI contract would have to make more than 3.2 percent on his margin investment to go over breakeven. Again, the trading volume of the market in this destructive contract will shrink.

This is how the tax acts to exert reverse leverage. The higher the leverage of the transaction, as in the case of the U.S. Treasury Bond futures contract, the more bite the derivative tax takes, thereby shrinking the markets. In the case of stocks traded on the New York Stock Exchange, the effect is important, but less remarkable. The tax is applied in similar fashion to every section of financial derivatives markets, such as currency and interest-rate swaps held by the banks in the United States.

Human Physical Economy

What is involved here is not so complicated. When people think of the economy they generally jump first to the question of money, "how much will it cost? . . . how can we pay for it?" It is more useful to think of the economy in two ways. First the physical economy, the production and distribution of the goods and services which permit a population to reproduce itself, by bringing up a new generation of human beings, and qualifying that new generation with the conceptual skills to work productively with the successive levels of technology which will be in use over its coming productive life time.

Thus, unlike the lower beasts, man has progressed from a neo-Pleistocene potential of a few millions, to the approximately 6 billion humans who inhabit the Earth today. Science and technology, increasing the productive powers of human labor, have made this possible.

The financial side of things ought properly to be subservient to the advance of this process. Hence, the power to create money and credit was given to Congress by the drafters of the Constitution, not some self-chosen collection of financial wizards, or some assembly of private institutions. Credit issuance properly should subserve the "health and general welfare" provisions of the preamble to the Constitution, to ensure the intended "more perfect union," for ourselves and our posterity.

The increase of the productive powers of labor, through the beneficial effect of technology, cheapens the cost of producing what is necessary for life, as well as of producing new, more skilled labor.

Then we hear, as the financially orthodox tell us all the time, "We're in debt, we can no longer afford to do those things, we've got to cover the interest charges of servicing the debt, we've got to cut." And what gets cut? Employment and social welfare programs, like education and health. These are precisely the kinds of activities which, if encouraged, could reverse the crisis. If these activities are not encouraged, everything gets worse, starting with increasing debt.

The derivatives are the means employed over the last few years to bet on the looted transfer of wealth out of productive economic activity, and into the speculative excesses of what the monetary system has become.

A generation or so ago, the matter of what derivatives are might have been adequately summarized by contrasting the difference between investment, on the one hand, and gambling or speculation, on

the other.

The instruments which "underlie" derivatives—stocks, bonds, commodities, money—represent a claim, usually through ownership—on wealth produced in the economy. Such claims can be bought and sold. Thus, shares in a company can be bought, as can bonds issued by governments or corporations, or hard commodities produced by agriculture, forest industries, or minerals extractors and refiners.

The instrument so purchased provides a means by which the wealth produced may be turned into money. In the case of stock, this may take the form of the company's dividend payment, the part of *after-tax profits distributed to shareholders*, or it might take the form of capital gains realized through the appreciation of the stock's value.

A generation ago, such monetization, or potential for monetization, would have been more or less directly related to the economic performance of the company, in contributing to an increasing overall rate of wealth generation through productivity-enhancing increases in the powers of labor. So too are bonds directly related to economic activity, though where stocks represent equity ownership, bonds represent indebtedness. The interest paid corresponds, more or less, to the dividend yield of a stock. And like stocks, bonds can provide capital appreciation.

A generation ago, such financial instruments were the means for transforming economic surplus into monetized net profit.

"Hard" commodities are very different than these paper claims on the monetary form of society's wealth producing powers. Such commodities are part of the materials-flow needed to sustain production and consumption—and ought to be bought and sold so that production and consumption might proceed—outputs of production on the one side, are also the inputs for the next level of productive transformation on the other: Wheat becomes flour, flour becomes bread; iron ore becomes steel, steel becomes machinery, buildings, automobiles, and household appliances. Such activities used to contribute to generation of surplus, but their monetization is not part of after-tax profits.

Purchases of stocks and bonds would once have been seen as investment for the long haul. Trade in commodities would have been seen not as investment, but as purchases and sales.

With what are now called derivatives, we move from investment, and purchases and sales of hard commodities, to speculating on the future price or yield performance of what were once investments,

and relatively simple, economically necessary transactions. It would be like going to the horse races to bet, not on the race, but on the size of the pot. Who would care about what's involved with getting the runners to the starting gate?

The futures market has exploded, largely through the introduction of trading in financial derivatives. All through the 1950s and 1960s, up until 1970, the volume of yearly trading of futures rarely exceeded 10 million contracts. By 1992, however, annual trading volume had climbed to 289 million, 29 times the annual level of 1970. The futures market, valued at roughly \$25 to \$30 trillion, comprises the largest share of the dollar value of the entire U.S. derivatives market.

All derivatives are actually variations on futures trading, and, much as some insist to the contrary, all futures trading is inherently speculation or gambling. That's what the financiers are talking about when they say derivatives help with "risk management." How big a kitty must you maintain to back up the chips that have been staked.

Futures and Options

Thus, until late in 1989, all futures trading, of any sort, was outlawed in Germany, under the country's gambling laws. Such activities were not treated as a legitimate part of business activity. And, who will contend against the observation that Germany did quite well without them?

There are two types of futures trading; each can be applied to each of the instruments, like stocks and bonds, which, bought directly for cash, monetize what used to be after-tax profits. The first type is, as it were, a second step removed from economic activity as such. This is futures trading per se: contracting to buy or sell at a future date, at a previously negotiated price. Here the presumption used to hold, that commodities, for example, would actually change hands for money, as the agreed-on contracts fell due.

The other kind of futures contract, called an option, moves another step further away from economic activity as such. Now what is bought or sold is the right, but not the obligation, to buy or sell a commodity, stock, bond, or money, at a future price on an agreed-on date.

Where the futures contract speculates on what the price that would have to be paid against delivery will be, the option simply speculates on the price. And then, a futures option, buying the right to buy or sell at a futures contract at a future date and predetermined price.

At yet another remove from economic activity

per se is an index. An index is not the right to buy a commodity or stock in the future which is traded, but the future movement of an index based on a basket of stocks, commodities, bonds, or whatever.

All of these depend on leverage, that a relatively small sum staked, can be turned into more, faster, than by actually buying the underlying instrument itself. In futures trading the leverage is called the margin.

In futures trading, the "notional principal amount" refers to the value of the underlying assets in a futures contract. For example, in a corn futures contract to take future delivery of 5,000 bushels three months hence, the notional principal amount of the contract would be the price of a bushel of corn times 5,000. If the price of corn were, for example, \$2.00, the notional principal value of the corn futures contract would be \$10,000. But the actual price of the contract, however, is the *margin* set by the exchange; the CBOT, for example, requires \$270 be paid to purchase a futures contract that on May 15 had a notional value of \$11,637.50.

Since financial deregulation in the 1970s, futures contracts have been developed for things that are not assets or commodities. The first move was the introduction of futures contracts on foreign exchange rates. In May 1972, the International Monetary Market of the Chicago Mercantile Exchange (CME) began trading in the first financial futures: futures contracts on the British pound, Canadian dollar, German mark, Dutch guilder, Japanese yen, Mexican peso, and Swiss franc.

In October 1975, the CBOT introduced trading in the first futures on interest rates, on the Government National Mortgage Association's (GNMA) mortgage-backed certificates. In January 1976, the CME began futures trading in 90-day U.S. Treasury Bills. Trading in futures contracts on 15-year U.S. Treasury Bonds began on the CBOT in August 1977. Trading in such interest rate futures, as they are called, quickly grew to become the most heavily traded futures contracts in the world. On the CBOT, trading in Treasury bond futures and options has risen from 28.3 percent of total volume in 1981, to 64.4 percent of total volume in 1991.

In February 1982, futures contracts for *indexes* of asset values began trading, with the introduction of futures contracts based on the Value Line Average Stock Index, on the Kansas City Board of Trade. Two months later, the CME began trading in the Standard and Poor's 500 Stock Price Index, which is now one of the most heavily traded futures contracts at the CME. Trading in this contract is considered so important, that the CME set up a special

room in a different building to allow continued trading in the S&P 500, when the CME was forced out of its building by the flooding waters of the Chicago River in May 1992, closing trading in all other futures contracts. Not coincidentally, the S&P 500 Stock Price Index futures contracts is one of the instruments the U.S. Federal Reserve has reportedly used since October 1987 to reverse collapses on the New York Stock Exchange.

These markets have mushroomed as the economy has been shut down. The benchmark years identified, 1971, 1977, 1982, are bench marks of the accelerating economic disintegration of the U.S. and world economy, as resources were shifted out of productive activity and into increasingly fantastic and degenerate forms of parasitical speculation.

Other Derivatives

And now, since the great stock market crash of 1987, we've gotten into the most degenerate of these forms. These are the so-called "over-the-counter" instruments, traded between and among the world's largest banks. "Swaps" are among them, and are designed to transform a nominally long- or medium-term contract into a succession of shorter-term maturities, now using a purely synthetic instrument, for example, a hypothetical bond which exists only in someone's computer, whose behavior models what a real bond would do if it existed.

The so-called Over-The-Counter instruments account for about half of the total derivatives outstanding in the U.S.A., And they are almost exclusively issued by the large money center banks. Of roughly \$6 trillion at the end of 1991, Citibank, accounted for 25 percent of the total, and J.P. Morgan and Bankers' Trust the next largest chunk. That is \$1.5 trillion for Citibank alone.

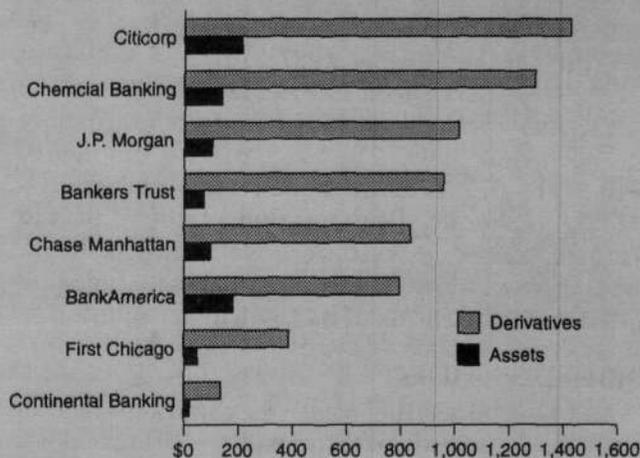
The banks insist that this is not only safe, it is a socially useful and valuable service which they are providing to their clients. "Why, you must be naive if you do not know that. Let me tell you all about it." That is the approach which they adopt.

The amounts involved dwarf the paid-up capital of the banks. But don't worry, they insist, that is only the notional capital amount, and the notional capital amount, as anyone who knows anything will inform you, doesn't mean anything. What's important is the replacement cost, which can be anywhere from one-thirtieth to one-one hundredth of the notional amount. But, hey—wait a minute. It is not only the notional amount which swamps their paid-in capital. The replacement cost would too, if there ever came up a problem which required it to be called on.

FIGURE 3

Derivatives activities compared to balance sheet assets at big U.S. banks

(billions \$)



Source: Salomon Brothers.

They claim these agreements only affect them and their clients. Yet to put such agreements into effect involves going into the financial markets to buy, and sell the derivatives which conform to the parameters of the swap agreements.

For example, swapping a floating-rate Swiss franc-denominated obligation for a fixed-rate dollar instrument between banks, involves the Euromarket, the currency markets, the swap market, and also the interest rate futures and/or options markets. The intrepid might want to try to calculate how far we now have moved from the first level of cash purchases of stocks and bonds.

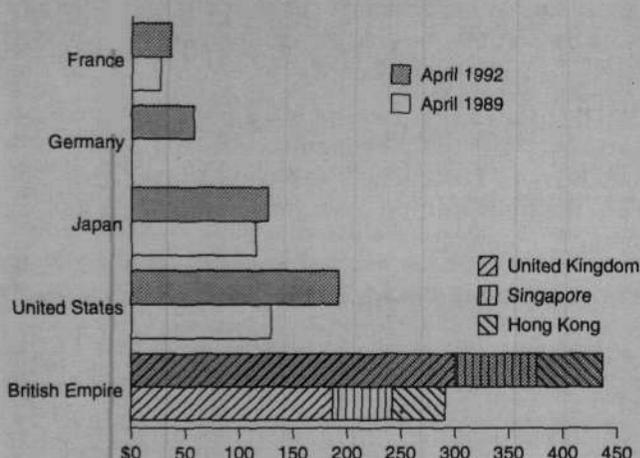
In the Roaring Twenties, the names might have been different. But the effect was just what it will be again. It all ended up with Roosevelt's bank holiday of 1933, and with the passage of laws which were designed to make sure that such a disaster could never happen again, laws like the Glass-Steagall Act, which barred banks from the securities business, and the Commodities Exchange Act, under which options trading was made illegal and futures could not be traded outside the exchanges.

But now, you see, derivatives, and especially swaps, are not securities, nothing is traded; and therefore they can't possibly be in violation of Glass-Steagall. Nor are they futures. And therefore, they are not covered by the provisions of the Commodities Exchange Act. And, just to be on the safe side, Congress was induced to empower the head of the Commodity Futures Trading Commission to grant

FIGURE 4

The City of London dominates world currency trading

(daily currency market trading in billions \$)



Source: Bank for International Settlements.

waivers from the law to that effect. All those laws have been circumvented by such typical lawyers' tricks. But the end result of such practices cannot be circumvented in that way.

Interest rate swaps and currency swaps are among the largest outstandings. Derivatives on currencies have become the weapon of choice in the war of these speculative practices against the world-wide productive economy. More than \$60 billion was deployed into the onslaught against the European currencies last fall. Most of it was borrowed money.

How Big Is It?

If one adds up the value of the annual transactions in all the diverse segments of the financial derivatives market—the many and varied derivatives in currencies, stocks, bonds, interest-rate futures, commodities, etc.—the sum of the notional principal value traded is between \$80 and \$100 trillion on a yearly basis.

Compare this to the size of the Gross Domestic Product, the official indicator of economic activity. GDP is around \$6 trillion, one-thirteenth the size of the smaller range. GDP is not a measure of economic activity, however. It purports to be the net money value of all purchases and sales transactions. Less than one-fifth of such transactions pertain to the reproductive functions of the physical economy. The rest are swallowed up in administrative and sales overhead, around 80 percent of employment,

and in transactions which are immoral and also criminal. Now we are down to a ratio of about one dollar in economic activity for every \$40-\$50 nominally tied up with derivatives.

If derivatives were to continue to increase at the eightfold rate of the last six years, and the economy to continue to decline, that ratio would continue to shift in favor of derivatives, but faster. But, the declining \$1 is all there is to provide the loot for the growing \$40-50.

The total of \$80-100 trillion annual volume is an estimate. The actual magnitude of the problem is not known. LaRouche's tax would bring that out into the light, so that everyone could take a look at what is involved.

Unreported Activities

This estimate does not include substantial categories of unreported activities. There is no reporting of derivative exposure by any bank in the U.S.A., which includes derivatives instruments with maturities of 14 days or less; yet the purpose of bank swap arrangements, for example, is to transform nominal medium- and long-term maturity instruments into short-term instruments, such that daily trading subserves a contract which is renegotiated every three months.

No consolidated accounting exists of activities by bank holding companies and all their subsidiaries, or by so-called non-bank financial companies—e.g., GE Capital Corp. and General Motors Acceptance Corp (GMAC). Volume estimates are based either on particular banks' activities, or on activities of holding companies as such. The reports for both cover different time frames. They are neither complete, nor are they compatible. Non-deposit-taking lending institutions (non-bank banks in the present parlance) are not covered at all, because they are not regulated. Yet GE Capital and GMAC (and they are only two) are as large as the largest of the bank banks.

LaRouche's transaction tax on derivatives would compel such outfits to account for all their activities in this respect, whether they be regular banks, or nonregular banks, and no matter what the maturity of the instrument might happen to be. The tax would, as we have seen, eliminate the leverage which makes the instruments what they are.

The broader purpose of such a cleanup is straightforward:

So long as present methods of organizing credit flows within the economy and financial system are continued, there will be no prospect of economic recovery, nor a feasible job-creation program, nor any capital- and technology-intensive renewal of the economy. That applies to the world economy

as a whole, not just the United States.

Derivative markets—options, futures options, options indexes, swaps, strips—whether on or off exchange, given the rate of growth in their international volume and turnover, especially in currencies and bonds, have become key in setting financially "acceptable" rates of return, thus interest rates, and thus overall credit flows. The result has been the strangulation of useful economic activity, as represented by the expansion of productive employment, in favor of the most degenerate forms of speculation.

Bush administration policy and Alan Greenspan's Federal Reserve commitments to avoid at all costs the spillover of the savings and loan banking crisis into the nation's commercial banks, by increasing spreads between bank lending and borrowing, made the problem much worse than it would otherwise have been. Returns from commercial and industrial loans cannot match the derivative-enhanced yield on the tax-free 4-5 percent spread the banks have been given in recent years.

Organizing a Recovery

To organize a recovery is to create *new wealth*. New wealth can only be created by putting the unemployed back to work in modern infrastructure construction projects, necessary to support expansion in employment and economic activity, and in technologically progressive capital goods industries, to increase productivity. In the U.S. alone, 8 million jobs could be created in the first year of this kind of approach, rebuilding water management and treatment systems, modernizing the nation's transportation system with the technology of magnetically levitated (maglev) high-speed trains, and expanding the power supply, through construction of nuclear electrical generation centers. This type of approach would increase the tax base without increasing tax rates. It would not only be wealth-creating, it would actually help to bring the deficit under control too. Every one million jobs created at \$50,000 per year gross income will add more than \$7 billion to the Treasury's personal taxation revenue stream directly, and will obviously have quite dramatic additional indirect effects.

It is no different worldwide. To put people back to work in jobs fit for human beings, to solve the food shortage, to begin to tackle the problems of disease, all require the same kind of approach. Nothing can be done in a world which continues to tolerate the practices associated with trading in derivatives.

Therefore, either derivatives and their users will submit to an exercise of national will, or the country will submit to the continued rule of those who employ derivatives.

Derivatives Create Mass Global Unemployment

Unemployment, which was already at high levels globally throughout the 1970s and 1980s, has exploded within the past six years, the very time that the derivatives market has risen within the United States from a few trillion to currently \$12 trillion outstanding, with a yearly trading volume of greater than \$125 trillion. The derivatives market is the leading edge of the global financial bubble, which has caused mass unemployment and underemployment of between one-half and three-quarters of a billion people around the globe. About 55 million are unemployed in the advanced sector, and above 500 million in the developing sector.

In the U.S.A., the official unemployment rate was 4.4 percent in the decade of the 1950s, 4.7 percent in the decade of the 1960s and 7 percent today. In the 12 nations that make up the European Community, the effect is even more dramatic; unemployment has risen from an official rate of 2.0 percent in 1965 to 11.8 percent today. If one adds the officially reported unemployment levels for the European Community of 12 nations to the levels of unemployed in Canada, Japan, and the United States, then the total level of unemployment in the West, with the addition of Japan, is a staggering 29 million people. But even that enormous official number is an understatement: *The unofficial, real unemployment level is somewhere between 50 and 55 million.* This represents a criminal waste of resources. The European Community reports that just a shade under one-half of the 17 million officially reported un-

employed European workers have been out of work for one year or more.

Terrified that they cannot think of how to put their own people back to work, at least two countries, France and the United States, have in the last month initiated discussion of immigration restriction laws.

As the table shows, in every nation but Japan, unemployment has skyrocketed since 1989. To some nations with a large labor force, Canada's officially reported level of unemployment of 1.6 million may not seem much; but consider that against Canada's working population of 13.9 million, this represents 11.4 percent of its work force. Six European Community members have an officially posted rate of greater than 10 percent. They are: Britain, 10.5 percent; Italy, 13.6 percent; France, 10.9 percent; Spain, 21 percent; Ireland 19 percent; and Denmark, 11.5 percent.

The most worrisome part of the explosion in unemployment since 1989 is the layoff of manufacturing workers. In 1989, the United States had 19.39 million manufacturing workers; today it has 17.82 million, a loss of 1.56 million. In 1989, according to the British Information Office, Britain had 5.1 million manufacturing workers. In January 1993, it had only 4.1 million—a loss of one-fifth in four years. Britain is truly the junk-heap of Europe. In the western portion of Germany, between 1989 and the present the number of manufacturing jobs declined from 7.203 million to 6.977 million, a loss of

TABLE 1
Spectacular growth of unemployment in the West
(in millions)

Year	Canada	EC-12	France	Germany	Italy	Japan	United Kingdom	United States
1989	1.0	11.6	2.3	2.0	2.6	1.4	1.8	6.5
1990	1.1	12.1	2.5	1.9	2.6	1.3	1.7	6.9
1991	1.4	13.0	2.7	1.7	2.7	1.4	2.3	6.4
1992	1.6	15.5	3.0	3.0*	2.7	1.4	2.8	9.4
1993**	1.6	17.0	3.1	3.3*	3.2	1.5	2.9	8.9

* The number of unemployed in Germany, for 1989-91, reflects solely West Germany. The number changes in 1992 and 1993 to reflect the number for unified Germany as a whole. According to the Bundesbank, the figures for the number of unemployed in the former Western portion of Germany, are 1.8 million in 1992, and 2.2 million thus far in 1993.

** The number of unemployed in 1993 is based on the reporting for either March, April, or May, depending on the country.

Source: Embassies of Canada, France, Germany, and Italy; Japanese External Trade Organization; British Information Service; U.S. Bureau of Labor Statistics, Department of Labor; Delegation of the Commission of the European Communities.

nearly a quarter million. An estimated 1 million manufacturing jobs may have been lost in the former East Germany during this same time frame.

And these are only the official figures. The United States, for example, reports 8.858 million unemployed, representing 6.9 percent of the labor force. But if one adds in 6.580 million workers who work part-time for economic reasons, and 6.378 million workers who are "not in the labor force," but who answer government surveys saying that "they want a job," the total number of unemployed and underemployed is 21.816 million. For a labor force of 128.3 million, that is 17.0 percent, not the official U.S. government figure of 6.9 percent.

If the real unemployed in the other nations under consideration are brought to light, the total unemployed in the West, with Japan, is between 50 and 55 million.

Unemployment in East Bloc and Developing Sector

The reader should recall that derivatives trading and IMF conditionalities operate in tandem and are just two sides of the same coin. Leading derivatives speculator, George Soros has helped implement the International Monetary Fund's shock therapy program, especially in former Yugoslavia, throughout the former East bloc.

Take the case of Poland, where IMF conditionalities and the speculative/derivatives market are raging at the same time. Just a few years ago, in this nation of 39 million people, with a labor force of 20 million, unemployment was less than half a million, though some of the jobs were of poor quality. Today, the official unemployment level is 2.3 million, and many believe it is two to three times that rate. 43 percent of all households can food only on the condition that other expenses are cut down to a minimum, or are not even paid, such as rents and electricity bills.

Mexico, where speculator George Soros has been a big player causing the gigantic speculative run-up in the Mexican stock market, is another exemplary case. In Mexico, today, the government reports an official unemployment rate of 2.9 percent. Nobody believes this. In 1980, Mexico had a labor force of 22 million and an official unemployment level of 3.5 million. Since that time, 10 million workers entered the work force, but the economy has stagnated. These 10 million workers are either unemployed or part of the burgeoning "informal economy," i.e., street vendors, criminals, etc. If one adds this 10 million, the unemployment and underemployment level is 13.5 million. There are 2 million additional uncounted workers in the agricultural sector who are unemployed or underemployed. The final result:

Mexico has 15.5 million unemployed or underemployed in a labor force of 32 million; nearly 50 percent unemployment. Such levels of unemployment, or only slightly lower, exist in many Ibero-American nations. With an Ibero-American workforce in 1990 of 174 million, assuming an unemployment rate of only 33 percent for Ibero-America, then the level of unemployed and underemployed on that continent is 58 million.

Finally, China and India are two other examples. Both countries are the victims of forced underdevelopment which is the flip side of the speculative derivatives markets. In 1990, together these two huge nations, had 1.987 billion people (37 percent of the world total), and a combined workforce of 1.003 billion (41 percent of the world total). In July 1993, the Chinese Ministry of Labor reported that China has already 170 million surplus agricultural laborers and the number will swell to 400 million by the year 2000. Between 100 to 150 million of these agricultural workers, swarm in mass migrations from city to city desperately looking for work and food. They are the human fodder that is fed into China's slave-labor special economic zones to keep workers' wages at 10 cents an hour: If a worker doesn't want to take a job at that level, an unemployed agricultural worker surely will. Moreover, while some of China's 92 million member industrial workforce is employed in special economic zones, the backbone of old smokestack industry is cracking, and large numbers of Chinese are being laid off there. Total unemployment and underemployment in China exceeds 250 million.

In India, the government admits an unemployment rate of 11 percent, which in a country with a 323 million workforce is 30 million. But in India, 70 percent of the farms are less than 1 acre, a very small area. This means that there is a good part of the year, when there is nothing for the Indian farmer to do on his small plot of land. About 65 percent of India's agricultural population is underutilized if not downright unemployed. Many of them look around desperately for other work. One could conservatively say that the level of unemployed and underemployment in India is 80 million.

In Africa, proportionally, the numbers are as large.

In each and every instance, the conditionalities of the IMF and the imposition of Anglo-American speculative markets, led by derivatives are the cause of this misery. The suffering is needless: shut down the derivatives markets and return to the Great Projects perspective of infrastructure building and technology transfer, and the world suddenly has the availability of one-half to three-quarters of a billion of human beings to rebuild it.

Billions Go Hungry, While Farmers Are Prevented From Producing

Report on World Food and Agriculture Crisis, July 1993

I. Worldwide Food Shortages

Measured in terms of kilograms per person per year of essential foodstuffs, there is not enough food being produced and distributed, to provide for the needs of the people on this planet. The decade of the 1990s, instead of ushering in an age in which people were well-fed the world over, marks the advent of malnutrition, disease, and starvation on the scale of global output breakdown and genocide.

The latest estimates project an absolute decline in 1993 world grain production compared to last year. The U.S. Department of Agriculture (USDA) estimates a drop of 2 percent. The International

World Wheat Council in London also projects a decline of that order. The Rome-based U.N. Food and Agriculture Organization (FAO) projects a drop of 1 percent.

Whatever the size of the decline in this year's overall grain harvest, its impact is deadly, because it comes on top of years of underproduction of grain, relative to needs. (See Figure 1.) Moreover, these projections don't take into account the huge losses that will result from the wet spring and summer floods in the U.S. grainbelt.

For good nutrition, the graph shows that there should be about 3 billion tons of grain of all types produced internationally every year. Instead, a harvest of 1.932 billions tons is expected this year, 1-

FIGURE 1
Annual global grain production is below level required, 1981-1991

All cereals (millions of tons)

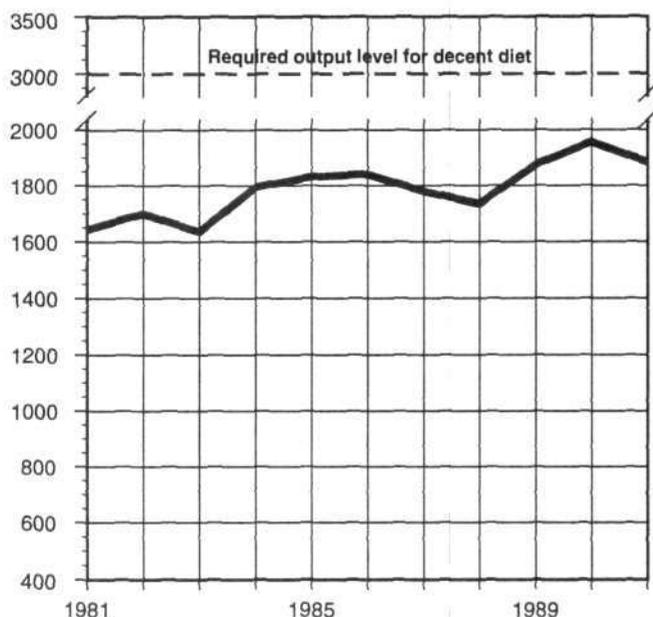
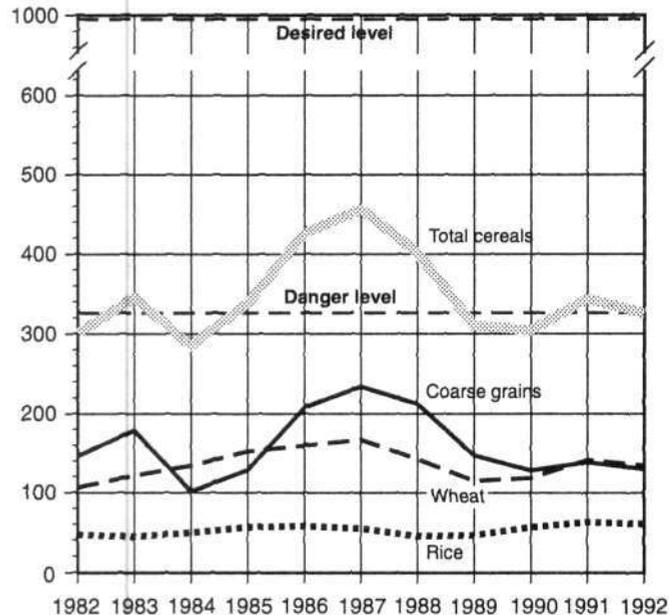
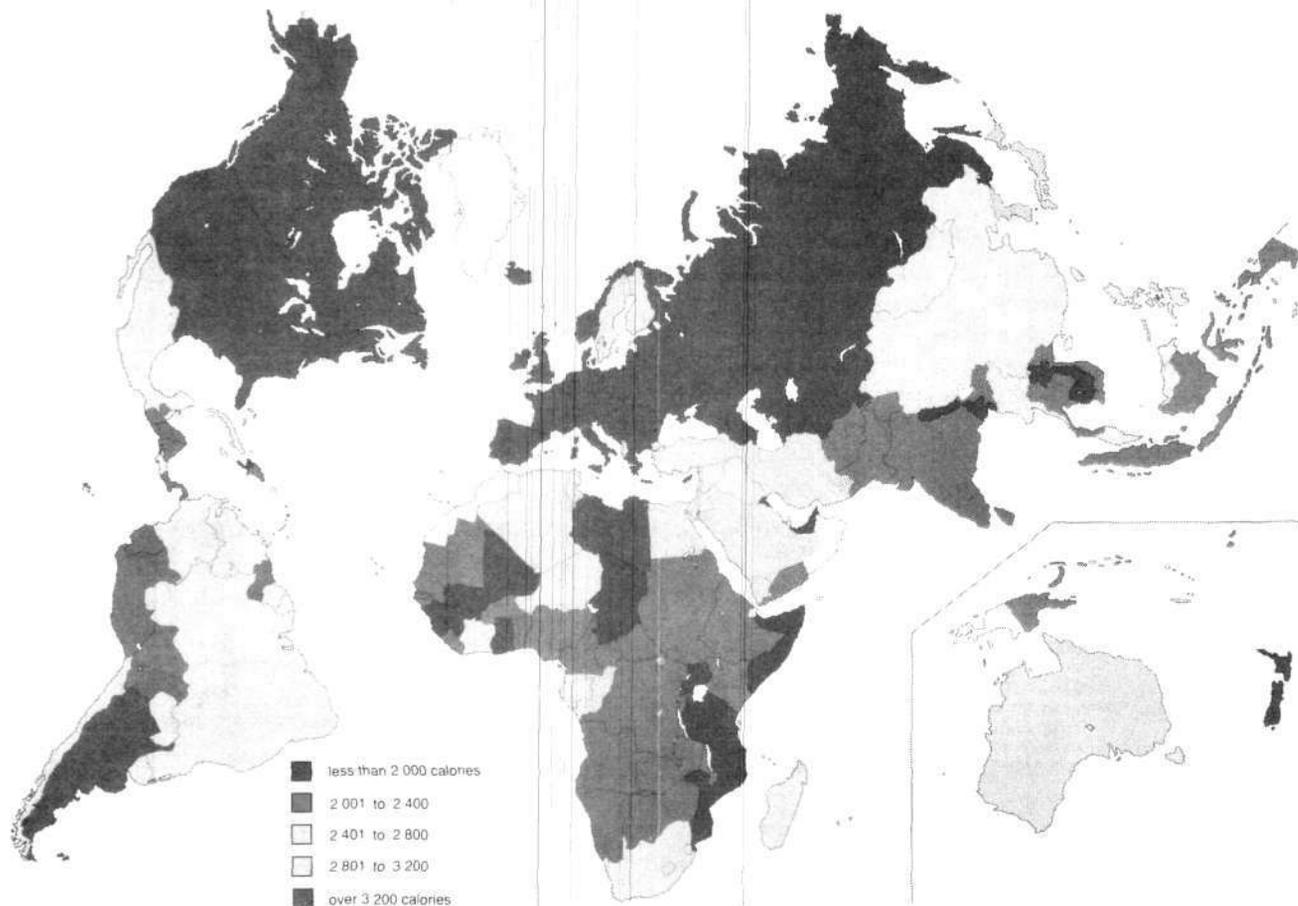


FIGURE 2
World grain stocks far below minimum for food security

millions of tons





Average Daily Calorie Supply Per Day, 1979-1981

This map shows the difference between those countries in which people have essentially enough to eat, those in which the average daily calorie supply is lower, and those in which hunger and malnutrition are widespread. Colored in black are the most seriously affected countries as of 1981—those in which the average calorie supply is under 2,000 calories per person per day. Since 1981, famine conditions have spread to Peru, parts of Bolivia, Mexico, and Brazil; additional areas of Africa; parts of China; and war-torn regions of eastern Europe.

3 percent less than last year, 2 percent less than in 1990, and far less than required.

What 1.9 billions tons of grain means in terms of daily food, is that about 2.2 pounds of grain per capita per day is theoretically being produced worldwide—which is just enough to provide one pound of unmilled grain a day for each person, plus another pound per capita for the food chain—live-stock feed, reserve stocks, pipeline volume for food processing, a percent for spoilage, etc. However, the grain being produced today is not at all distributed through the food chain in this aliquot fashion. Millions of tons are under the control of a self-selected cartel of food companies (Cargill, Archer Daniels Midland/Toepfer, Bunge, Louis Dreyfus, Andre/Garnac, ConAgra, etc.).

Moreover, Figure 3 shows that global stocks of all grains are way below the danger level. Instead of having over a half a year's needs in storage and in the pipeline of the food chain (about 1 billion

tons), there are less than 340 million tons of grain "in stock"—less than 17 percent of present annual inadequate consumption levels, and below the level regarded by even the U.N. FAO as the "danger" mark.

The results are manifest in the genocidal hunger in Africa, the growing malnutrition in Ibero-America and throughout the former Soviet Bloc, and the terrible deprivation of hundreds of thousands of refugees in Europe and other points of need.

The immediate reasons for the declining grain harvests are the reduced area planted and lower yield per unit area, discussed in greater detail below. In general, the conditions leading to mass food shortages have been building for decades. As of the 1990s, we are not even providing the minimum staff of life for the world's people.

The map shows how widespread malnutrition now is around the globe. Over 500 millions of people are suffering from hunger, and millions more lack

essential nutrients. Look at the dramatic change over the past 10 years:

- **Ibero-America.** Here, the amount of food produced per capita annually went into absolute decline over the 1980s. In Mexico—a grain surplus exporter in the 1960s—during the 1980s, output of staples fell (corn, wheat, milk, meat) to the point that by 1990, one-third of the population of 83 millions had sunk to a state of official malnutrition.

- **Eurasia.** The food output of Russia, and other new nations has sunk at least 30 percent.

- **Africa.** Food shortages exist on the scale of genocide.

Cassava in Africa: British Potato Famine Policy

While food output and nutrition levels overall in Africa have been falling over the past 15 years, the output of cassava, the root vegetable (also called manioc), has been rising dramatically. Figure 3 shows that world cassava production in 1992 (concentrated in Africa, Asia, and Ibero-America) is estimated to have risen by about 7 percent to a record of 161 million tons in root equivalent. This mainly reflects a large increase in plantings and production in Africa. Last year, cassava production hit an estimated 81 million tons, 17 percent above the 1991 output of 69.3 million tons, and above the 1990s level of 67 million tons. Nigeria alone produced a record 32 million tons—55 percent over 1991.

Along with a variety of green vegetables, fish, meat, dairy, fruit, and nuts, cassava has a special place in the cuisine of West Africa and other regions of the world. However, the spectacular increase in cassava production in Africa over the recent years reflects not a dietary preference, but rather, a forced reliance on the root vegetable as a monoculture, heavy-bearing crop, on which people can subsist. On its own, the tuber is one of the least nutritious, though most filling, members of the plant kingdom.

Increased yields in Africa have been furthered by technical improvements devised at the cartel-backed International Institute for Tropical Agriculture. This institute has provided relatively pest-resistant high-yielding varieties. However, just as in the case of other much-touted green "revolutions" in crops, the issue is: Will fertilizers and other inputs be used, or not? Already, Nigeria anticipates a fall in production because of scarcity of fertilizer.

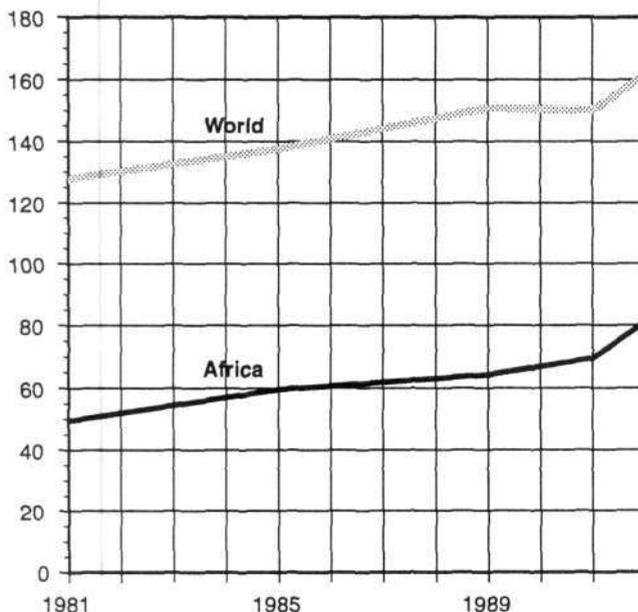
Moreover, the push for cassava in Africa has been part of the cartel scheme to use African-produced cassava pellets as cheap livestock feed in Europe. This has the effect of taking food out of Africa, and ruining European cattlefeed farmers at the same time.

What the cassava crop in Africa shows is the same

FIGURE 3

Africa forced onto diet of roots. Cassava output increases, 1981 to 1992

Production of cassava, millions of tons



imperial food policy enforced by England on Ireland in the nineteenth century. The Irish population was forced to grow and rely on the potato as its diet mainstay, to the exclusion of other crops and foods, because of the apparent cheapness of the potato. Then in the 1840s, blight devastated several successive potato harvests. Between 1841 and 1851, Ireland lost 1,622,739 persons outright from starvation and emigration, and they lost another 980,000 because of lack of natural increase. Now this policy is killing the continent of Africa.

Hunger in the United States

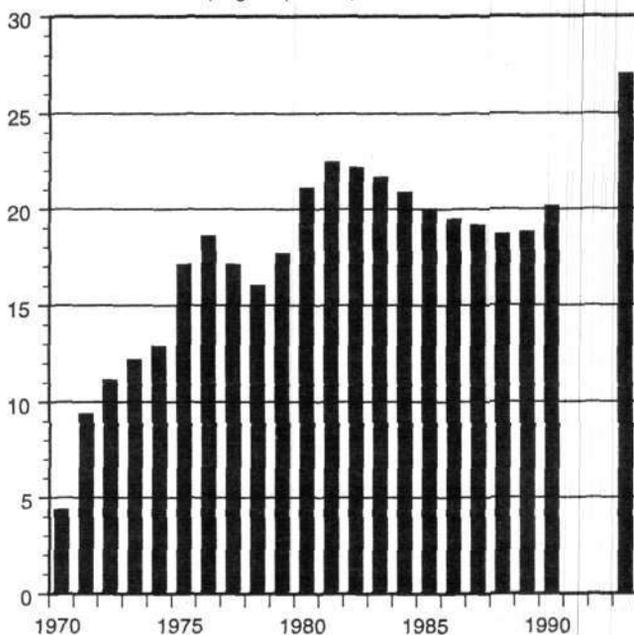
The inability of people in the United States to obtain daily food has also reached mass proportions. Figure 4 shows the rise in numbers of Americans getting food stamps—the form of food aid supplied domestically by the U.S. government. In 1971, there were 1.7 million recipients of food stamps. As of June 1993, this number had soared to 27.5 millions—a sevenfold increase. Even so, the food stamp figures do not reflect the equal rise in numbers of people showing up for donated food—at soup kitchens, grocery pantries, etc.—in the United States, which cannot obtain supplies fast enough to meet the demand of the hungry.

On June 17, U.S. Agriculture Secretary Mike Espy held a day-long "National Hunger Forum" in Washington, D.C.—the largest event of its kind since the 1960s, and 80 people gave testimony. Espy said, "One child in five lives in poverty. The number of

FIGURE 4

Rapid rise in number of U.S. citizens receiving food aid stamps

Number of individuals in program (millions)



people on food stamps is at an all-time high of 27.4 million! Twelve million American children are going hungry. How can we not be painfully aware that hunger is part of the daily lives of fellow Americans from Sacramento to Sioux City, from Sarasota to Cedar Falls." However, the forum focused only on "awareness," not on how to restore the agriculture economy.

One study from Tufts University reported that 18 percent of U.S. children now go hungry some of the time. The study says that about 12 million American children experience hunger, most pronounced in some southern states, where 25 percent or more of the children don't get enough nourishment. The state of Mississippi had the highest rate at 34 percent, but many other states, including New York, California and Michigan, were high in rank for child hunger. And the situation is worsening.

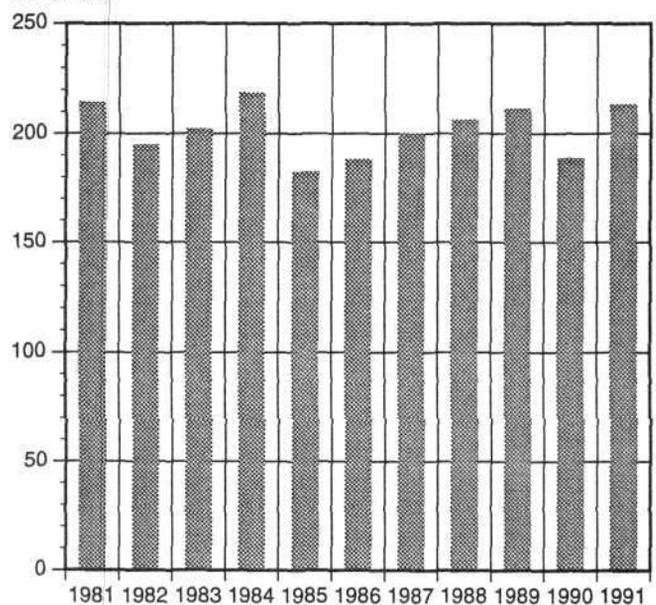
II. Food Control by Commodity Cartel Companies

All the while that the world food situation has worsened, you have heard the argument that the supply and demand forces of the invisible hand of the "global marketplace" are the cure for food shortages. This is the propaganda put forward by institutions such as the Geneva, Switzerland-based General Agreement on Tariffs and Trade of the U.N.

FIGURE 5

International commercial and aid shipments of grain have not increased to fill needs

millions tons



(GATT), on behalf of a select group of international food trade and processing companies—the food cartel—that acts to dominate what food is produced, and who gets it. Among the familiar cartel names are Cargill, Archer Daniels Midland (ADM), Continental, Louis Dreyfus, Bunge, Andre, Unilever, Nestle, Grand Metropolitan, and a few others.

The argument goes that nations can rely on free trade in the "world market" to import needed food items. But as Figure 5 shows, over the decade of the 1980s, when dozens of nations fell into grain shortages, there was no increase in the grain commercially exported onto the world market, nor any increase in cereals food aid. The free trade propaganda is a lie. People are left to go hungry and die.

The amount of grain in international trade is only about 200 millions of tons a year, over 90 percent handled by the cartel companies, and much of it traded on terms of huge subsidies by the U.S. government to the grain cartel companies. The swindle is called the Export Enhancement Program (EEP). And the amount of cereals food aid shipments is only about 13 millions of tons a year. That much alone is needed for relief in Africa, but it is spread around globally, based on food control decisions connected to the U.N. and "NGOs"—non-governmental organizations, such as Bread for the World, many of which are tied to the food cartel. Besides grain, other staples in short supply, for example, milk powder, show the same pattern: food is *not* going from places of apparent surplus to places of

need.

These paltry international food flows do not fill the world grain gap of close to 900 millions of tons of cereals needed, and instead reflect the tight grip of the food cartel companies over food distribution and farm policy, from field to table. Look at just a few of the aspects of cartel food control power each step of the way:

● **Inputs.** The control of agriculture chemicals, seed stocks, machinery, and other necessities for high-productivity farming are concentrated in a very few companies controlled mostly by Anglo-American chemical and financial interests. Take seed stocks, for example.

Iowa-based Pioneer Hi-Bred International Inc., the largest seed company, boasts that it possesses the largest single proprietary pool of germ plasm in the world from which to develop new hybrid corn seeds. Founded by 1930s Secretary of Agriculture Henry A. Wallace, Pioneer today controls about 40 percent of the U.S. market, and dominates many markets abroad. For example, it controls 32 to 58 percent of the market in Spain, Austria, and Italy. In France, Pioneer controls about 32 percent of the seed corn market. In Hungary and Egypt, it has 90 percent of the market and has aggressive efforts in Brazil and Thailand and other Third World countries. Its most aggressive initiatives have been largely in Ukraine and Hungary. Sitting on the board of directors is Herman H.F. Wijffels, chairman of the board of Netherlands-based Rabobank, the world's largest agriculture bank. Pioneer's next closest U.S. competitor has 9 percent of the U.S. market.

During the 1980s, two London-based multinational giants, British Petroleum (BP) and Imperial Chemical Inc. (ICI) went on a buying spree, and working together, they consolidated some of the largest seed companies in the U.S.

ICI purchased Iowa-based Garst Seed Company in October 1985 and then went on to consolidate an additional four major U.S. seedstock companies under the Garst name.

BP acquired Edward J. Funk & Sons seed corn company in December 1986. By October 1989, BP had consolidated five other major U.S. seed companies under the Funk banner.

Then, in October of 1990, BP sold the Edward J. Funk & Sons to ICI's Garst Seed Co. Thus, in less than five years time, eleven of the largest U.S. seed companies were consolidated into one that is owned lock, stock, and barrel by the London mega-company, ICI.

The boards of directors of BP and ICI include overlapping membership from the boards of directors of such well-known international institutions as Bank of England, Deutsche Bank AG, S.G. War-

burg Co., Barings Bank, the European food giants, Nestle S.A. and Unilever, to name a few, and also the former head of the U.S. Federal Reserve, P.A. Volcker.

● **Farm commodities marketing.** The food cartel companies cited above dominate over 90 percent of farm commodities in international trade, and domestic trade in many major markets, such as the United States, Argentina, Australia, etc. In the U.S.A., farmers are systematically underpaid by the cartel by at least 50 percent of what they should receive to cover costs and capitalize for future output.

● **Food processing.** A few large companies operating multinationally, now dominate all types of food processing in countries on all continents, H.J. Heinz, and Nestles, for example. Within the U.S.A., three companies dominate meat slaughtering—IBP, ConAgra, and Cargill.

● **Grocery marketing.** A few companies now control large parts of the food distribution chain—from wholesale facilities (warehouses, shipping terminals, etc.) down to local grocery outlets, in many countries on all continents. For example, in the United States, 20 years ago 80 percent of grocery stores were independently owned, and 20 percent consolidated into chain-store ownership by a few large companies. Today, the percentages are reversed and ownership is dominated by Anglo-American cartel interests, such as the London-based Grand Metropolitan.

● **Diet.** Cartel food-control companies are promoting vegetarian and various other food habits in line with their positioning to dominate the food chain. For example, in the United States, all the while that Cargill, IBP, and a few other cartel companies maneuvered to drive out of business independent slaughtering houses, they also backed non-meat and low-meat diets. They monopolize the production of vegetable-based meat substitutes. Likewise, while Nestle, Kraft, and a few other companies maneuvered to knock out local, independent dairies, the public was fed scare campaigns about overeating dairy foods. Meantime, the cartel corn and soybean oil processors, ADM and Cargill, maneuvered to dominate meat and dairy substitutes so that they gained the profits when U.S. dietary habits changed from consuming, for example, 90 percent butter and 10 percent butter substitutes after World War II, to 90 percent butter substitutes and 10 percent butter today. Most recently, ADM has launched its meat substitute campaign: "Harvest Burgers" from extruded vegetable product.

The Power of the Cartels

How did the cartel companies come to this position of power? The origins of the individual food-

control companies are explicable only in terms of the history of financial and commodities manipulations by oligarchical powers opposed to business activity beneficial to nation-states. Take a relatively recent example: ADM. This company was started in the 1950s in the U.S. Midwest by Dwayne Andreas, after he did a stint for seven years as a top executive at Minnesota-based Cargill, Inc. Over the past four decades, while Cargill has come to dominate world wheat, corn, and other grain trade, its cohort ADM now is the world's largest soybean processor and broker. In the 1980s, a former Cargill top executive, Daniel Amstutz, served outright as a top USDA official, to further cartel interests.

In the postwar years, the cartels intervened to make the economies of the Anglo-American bloc of nations—Australia, Canada, the United States—into granary nations for controlled grain exports, instead of leaders of capital goods exports for global industrial development. In recent years, the food companies have served the interests of Anglo-American power plays against perceived threats from potential European independent economic and agricultural development.

When in the late 1970s Western Europe regained its self-sufficiency in food output following its collapse during World War II, and became a food exporter in the 1980s, the cartels moved against this by demanding "free trade" rights to override national sovereignty, through the Uruguay Round of the GATT, begun in 1986. GATT membership went up from fewer than 60 nations, to 110 member nations today, as the cartel and cohorts in the IMF, World Bank, and Washington and London, coerced all nations to join and acquiesce to their demands.

A worldwide GATT agriculture free trade treaty has not yet been ratified, after seven years, but the cartel is pushing for free trade control with or without a treaty. The same powers are demanding a North American free trade bloc, and similar anti-nation rights in other parts of the world. In particular, under the GATT "intellectual property rights" section of the proposed treaty, the cartel would have the right to control seed stocks anywhere in the world, over and above the interests of local farmers and national governments.

III.

Declining Potential to Produce Food

Food output depends on the area or volume cultivated, and the intensity of inputs. By these fundamental measures, the world's farmland regions—whatever their relative state of productivity, are at present all in the process of disintegration.

Look at the harvest picture of some of the major

farming regions around the globe:

- **Europe.** Total cereal production last year dropped dramatically from the two previous years, to a level of 258.9 million metric tons (1992), down from 307.2 million metric tons in 1991, and under 284.9 million in 1990. This is the combined output of the European Community, plus Austria, Bulgaria, Hungary, Poland, Romania, and Sweden.

- **Southern Africa.** Total cereals production in this corn belt fell from 20.5 million metric tons (1990) to 19.7 million (1991) to 9.6 million metric tons in 1992—the year of the "drought of the century."

- **All Africa.** Total cereals output ranged from 88.5 million metric tons in 1990, up the next year to 99.2 million, then down to 82.2 million metric tons in 1992.

- **Community of Independent States.** A dramatic fall in cereals output went from 209.1 million metric tons (1990) to 149.3 million (1991), and down to 183.3 million (1992).

- **Canada.** Cereals output has gone from 57.1 million metric tons in 1990, to 53.8 million metric tons the next year, and 50.8 million last year, in this grain exporter.

- **United States.** Cereals output ranged from 312.5 million metric tons in 1990, to 279.8 million in 1991, and 353 million metric tons last year—all of which bounty is being used by a tight cartel of food companies (Cargill and others) to take advantage of nations desperate for food.

The above patterns do not apply only to grain. The picture is similar for other food staples. In addition, the following crises are present throughout the world's farm regions: 1) land area in use is decreasing; 2) energy intensity of inputs is declining; 3) independent farmers are being dispossessed; 4) the physical environment is deteriorating.

Farm land area declining. Overall land area cultivated has declined worldwide from 730 million hectares in 1981, down to 697.8 million hectares in 1991, for a decline of 32.2 million hectares (79.5 million acres) with close to half of that being acreage in the United States that was taken out of food production by deliberate action of federal government to "set aside" acreage for purposes of "conservation."

Increase in low-input farming. On average, the intensiveness of inputs per unit area is decreasing in almost all parts of the globe. Farm machinery output and availability is falling, which cuts down on timely planting, tilling, harvesting, drying, transport, and other farm functions. Soil improvements are not being done. Financially strapped farmers do not have the means to apply fertilizers to maintain soil fertility, nor to build and maintain

the drainage and other systems needed to stop erosion and build soils. Likewise, farmers are unable to afford animal husbandry practices (veterinary medicines, buildings, breeding stock, etc.) to build healthy herds.

Dispossession of farmers. Independent family farmers are being dispossessed en masse in North America (Canada, United States, and Mexico), throughout Central and South America, in Australia and New Zealand, in Europe, and in other parts of the world's key foodbelts. The specifics of farm debt, farm trade swindles, and dispossession vary from place to place, but the result is the same: Family farms are being supplanted by neofeudal "factory farms" or wastelands. Two examples make the point.

Over the 1980s in the United States, the Farm Credit System (FCS—the decades-old national farm lending agency) has reduced its volume of lending to agriculture from \$90 billion to \$50 billion (\$11 billion of the \$50 billion is to cooperatives). The FCS has decided that it is more profitable for them to liquidate than to reamortize their older borrowers. What is happening is that the FCS is making record profits on a 4 percent spread between their borrowing and lending costs. They are using this to repay their high-priced debt of the 1980s and to speculate in U.S. government debt and the derivatives market. In 1992, the FCS invested \$11 billion in interest rate swaps. In reality they are foreclosing on farmers so they can speculate in the derivatives market. Farmers who fight dispossession are being jailed, as in the famous case of Joe and Margaret Nelson in Nebraska, June 1993.

Under pressure to stop the ruination of farmers, U.S. Agriculture Secretary Mike Espy, after only six weeks in office, had to announce in March a token action to stay farm foreclosures—pending investigation, in the cases of farmers who directly borrowed from the FmHA. Nonetheless, the FCS and FmHA are continuing their actions against farmers.

In the nations of the former Soviet bloc, especially in the former East Germany, thousands of acres of collectives have likewise been turned into neofeudal "factory farms," instead of being dismantled and the land returned to individual family farms. Since 1990, cartel companies moved into the farm regions, offering long-term sweetheart contracts to collectives if they would not disassemble, and instead produce on contract for the cartel to dump onto other markets. Under the conditions of austerity and "shock therapy," many collectives took this option.

Deteriorating environment. Antiscience-based campaigns are rampant, that deny farmers the means to maintain and improve the resource and

capital bases for agriculture throughout the world. Essential farm chemicals, water management projects, and all manner of other improvements are being outlawed in a frenzy of fear over "saving the environment." The most dramatic example is in the Netherlands, where dikes are being punctured to flood farmland claimed from the sea in the seventeenth century, in order to "re-create" salt marshes.

Another damaging practice that is falsely portrayed as "environmentally friendly" is the use of biomass for fuel. There are now "fuel fields" in Europe producing rapeseed for conversion to ethanol for automobiles. For example, in Freiburg, Germany, a fleet of taxicabs is running on vegetable fuel. In Heideck, Bavaria, an energy plant is running on vegetable oil. In the U.S.A. there are many ethanol plants, making fuel from corn. The cartel group ADM/Cargill is the largest recipient of billions of dollars of direct subsidy for ethanol production. In Europe, Canada, and the U.S., there are also soybean fuel ("SoyDiesel" or methyl soyate) plants. Mercedes Benz warrants its vehicles for BioDiesel.

While the environmentalist argument is made that vegetable-matter fuels are "renewable," the truth is that biofuels—such as old-fashioned wood-burning—are retrograde to an economy, because the density of heat produced is so low relative to fossil fuels or nuclear power. Returning to biofuels simply loots more nutrients out of the soils, and loots more potential food out of the food chain. Look at the terrible denudation of biomass—trees, shrubs, etc., that is occurring in impoverished regions of Africa, India, Ibero-America, and all those places denied the means to electricity from modern sources—hydro, nuclear, fossil, etc. The "renewable" claim is an ad agency-type hoax.

The impoverishment and breakdown of pre-existing farming systems, plus the absence of new economic infrastructure (water and sanitation systems, transport systems, etc.) has resulted in widespread ecological degradation. One prime example is the Aral Sea Basin, where the cancellation of previously planned water systems, calling for the diversion southward of flows from the Ob and Irtysh basins, has led to extensive salination of farmland, and shrinking of the sea by two-thirds. There are examples on every continent.

In North America, the vast food output potential of California is now being rolled back because of the obstruction of new water supply systems—such as nuclear-powered desalination of seawater, and NAWAPA (North American Water and Power Alliance) which would divert MacKenzie River basin waters southward that are now emptying unused into the Arctic.

IV. Emergency Measures— Who Will Feed the Hungry?

Despite austerity and political crisis, the research and technology exists which, if applied, could easily provide a healthy diet for double the world's population. The essentials include energy and water inputs, constantly improving the know-how of farmers, and providing direct and indirect agriculture infrastructure—water supplies, machinery, chemicals, transportation, pumps, housings, and other equipment for all manner of protected agriculture—hydroponics, aeroponics, etc.

For example, Table 1. shows the dramatic increase in yields possible for lettuce in Denmark—a cool poleward latitude, by simply applying successively increased inputs per square meter. Per year, per square meter, you can grow anywhere from 40 heads to 1,260 heads, depending on how your cultivation system is organized, and the intensiveness of inputs, including water and light. This kind of potential yields spectrum applies for all foodstuffs.

What is required are emergency financial measures to stop the dispossession of independent farmers, and restore the family farm—the most produc-

tive and civically valuable form of agriculture; extension of emergency, low-interest credit to spur a rapid increase in production; dismantling of the food-control cartel companies; emergency relief for all in need; government mandating of parity, or fair prices to the farmer for all commodities; and an economy-building infrastructure development program to expand water, power, transport, health, and all other necessary systems for permanent economic growth.

Farm initiatives in support of this approach have recently come about in a number of locations. In April, 1993, the Rural Producers Forum was formed in Ciudad Obregon, representing farmers from Jalisco, Sonora, Sinaloa, Baja California, and other states, and issuing a 900-word manifesto calling for debt moratoria and infrastructure development. Similar actions are under way in Colombia and Venezuela.

A new farm and food organization also formed in Europe this spring, called the European Country Union, is fighting for the sovereign right to national food production. One of its first acts was to issue a statement June 15, attacking the European Community's capitulation to Washington's demand that European nations must limit their oilseeds production—now already 35 percent less than Europe consumes, and instead buy from the U.S.A.—meaning the cartel companies Cargill and ADM.

The new organization came into existence at a meeting in Paris on May 28, called by the independent French farm organization Coordination Rurale, and attended by representatives from agricultural organizations from Belgium, The Netherlands, Denmark, Germany, and France. Its founding purpose is to fight the destruction of food production in Europe and worldwide. Representatives stated that it was necessary to form a new organization, because decisions detrimental to agriculture were being made without the consent of the population by the bureaucrats of the European Commission. An estimated 85 percent of EC farmers opposed the U.S. oilseeds pact, but the EC officials signed it anyway. The European Country Union headquarters are at: H. Consiensestraat 53 1, 8800 Roeselare, Belgium, Tel: 051/224240; Fax: 051/242539.

In Australia, efforts are under way to force passage of emergency federal legislation for a farm debt moratorium; a national development bank; and for parity farm prices.

However, the issue of freedom from hunger is no "farmer issue," but rather, it is an inalienable right that must be protected by the actions of all citizens. Who will feed the hungry? Those who will act to kill derivatives speculation, and save the economy.

Yield Comparisons of Lettuce Production, Denmark, 1988

(Total production per square meter per year)

Production Method	Number of Lettuce Heads	Fresh weight of Lettuce Heads (kg*)
Soil, outdoors	40 heads	8 kg
Soil, greenhouse, no heating	80	12
Soil, greenhouse, with heat	120	18
Hydroponic, greenhouse	150	22
"System," 1-dimens. spacing	360	54
"System," 2-dimens. spacing	500	74
Maximum spacing & artific. light 2,500 hours	900	135
Maximum spacing & artific. light 5,000 hours	1200	180
Phytotron experiments have shown even high production under sterile conditions	1260	300

*Three weights per head of lettuce are used to figure the total weight of lettuce produced:

- 1) 200 g+ per head of outdoor production;
- 2) 150 g+ per head for all others, except,
- 3) 240 g+ per head for the phytotron experimental head of lettuce.

Source: *Journal of the International Society of Soilless Cultivation*, 1988

World Health Breakdown Enters Stage of Biological Holocaust

As of the 1990s, the world picture of incidence of diseases shows a dramatic comeback of once-conquered microbes, as well as the spread of the deadly AIDS—acquired immune deficiency syndrome—to the point that whole populations are being decimated across Africa, and in other locations on all continents around the globe.

There are two parts to this overall picture: the advance of AIDS itself, whose appearance was first recorded during the past 30 years; and secondly, the reappearance of old killer illnesses, often in deadlier mutations, because of the health crisis occurring as a result of the breakdown of the global physical economy.

The quickest way to summarize the health breakdown process is to briefly survey the extent of AIDS, and the extent of the comeback of such poverty-related diseases as cholera, tuberculosis, and diphtheria, and the resurgence of malaria—what was once an entirely preventable killer illness. Reports on these diseases appear below, followed by a summary picture of the sharp decline in water and sanitation facilities worldwide.

AIDS On a worldwide basis, 14 million people are thought to be infected with HIV—the AIDS virus, according to the World Health Organization. African countries are hit very badly. In some cities in central and east Africa, every third adult is infected. In south and east Asia, AIDS is spreading nearly as fast as in Africa. In the year 2000, 30 to 40 million people will have become infected, according to WHO estimates.

Cholera In spring 1993, a new form of cholera bacteria was discovered in India. It is so rapid-spreading and virulent that it could result in the worse cholera epidemic of this century. The new strain had caused at least 6,000 deaths in India as of June 1993, and was spreading at a rate that would reach the Mediterranean nations quickly via the Near East and through Africa.

Dr. Balkrish Nair, the head of the Indian Institute for Cholera, and a toxicologist, identified the new variant of the cholera bacteria as *Vibrio cholerae*, and warned, "This germ, which is extremely toxic, and more resistant than all other cholera bacteria, is spreading rapidly. The chance that all these characteristics would be found in one cholera organism was 1 trillion to one. But exactly that has happened.

This germ will have reached its greatest effectiveness in two to three years. It will spread extremely rapidly."

In early May, the World Health Organization warned the south Asian states about the new strain. In five months, the germ had already reached Nepal and Bangladesh and caused thousands of deaths. Single cases have already been registered in Malaysia and Japan. WHO talks now about the possibility that the germ could hit southern Europe in the course of the next three years. "None of the known vaccines is working," WHO officials say.

Because this germ is spreading densely in the Ganges delta area, scientists are calling it the "Bengal cholera." During May 1993, the Calcutta hospital for infectious diseases registered 22,000 cases. The six cholera epidemics that the world has seen in this century all began in the Ganges delta area. Scientists fear that the number of deaths from the new cholera germ could increase tenfold in two years.

In the Western Hemisphere, where, as of 25 years ago, cholera had been confined to limited locations and few outbreaks, the disease broke out of bounds in early 1990 in Lima, Peru, and by June 1991, it had spread across the entire continent up through Central America, and arrived in the Rio Grande River Basin on the U.S.-Mexican border.

Since then, the disease has persisted, and caused much suffering and death, despite the low-key coverage in the media. Since June 1991, more than a dozen states throughout Mexico, from Tabasco and Chiapas in the south to the Texas border, have recorded "outbreaks of near epidemic degree," according to a recent survey report by *Houston Chronicle* Mexico City correspondent Dudley Althaus. Official Mexican government figures show that more than 12,000 Mexicans have contracted cholera, with 100 dead from the disease. This places Mexico fourteenth in Ibero-America in the number of cases, which total 800,000. Peru tops the list with 300,000 cases.

The latest outbreak of cholera occurred in mid-April 1993, in the working-class neighborhood of Ahuehuetes on the northern edge of Mexico City, when cholera struck during Easter week. At the time, Mexican Health Secretary Jesus Kumate reported with cynicism that, "At present, cholera is

no more dangerous than the common diarrheas that caused 17,000 Mexican deaths last year. There are millions of (cases of) diarrhea in a year."

As of May 6, the World Health Organization *Epidemiological Record* listed the following nations reporting cholera: Africa: Angola, Benin, Burkina Faso, Burundi, Cameroon, Chad, Côte d'Ivoire, Ghana, Guinea, Kenya, Liberia, Malawi, Mali, Mauritania, Mozambique, Niger, Nigeria, Rwanda, São Tomé and Príncipe, Swaziland, Tanzania, Togo, Uganda, Zaire, Zimbabwe

America: Argentina, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, French Guinea, Guatemala, Guyana, Honduras, Mexico, Nicaragua, Panama, Peru, Suriname, Venezuela

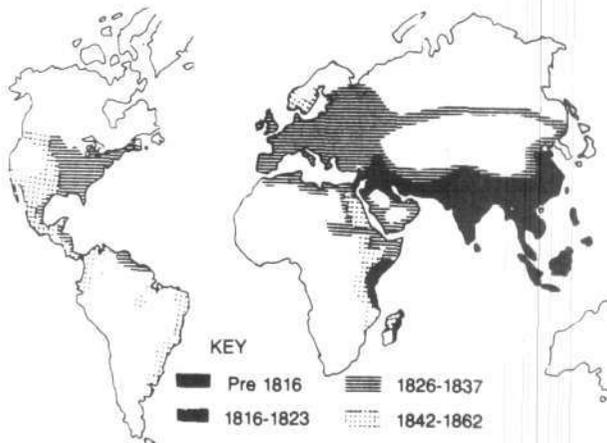
Asia: Bhutan, Cambodia, China, India, Indonesia, Iraq, Malaysia, Nepal, Vietnam

Europe: Ukraine

Oceania: Tukulavau

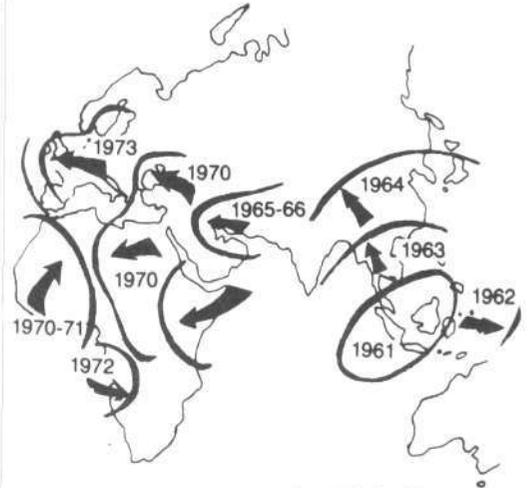
Tuberculosis The estimate of the World Health Organization as of June 1993, was that 30 million

Highlights of 1974 EIR Study on Biological Holocaust



Spread of Cholera in the 19th Century

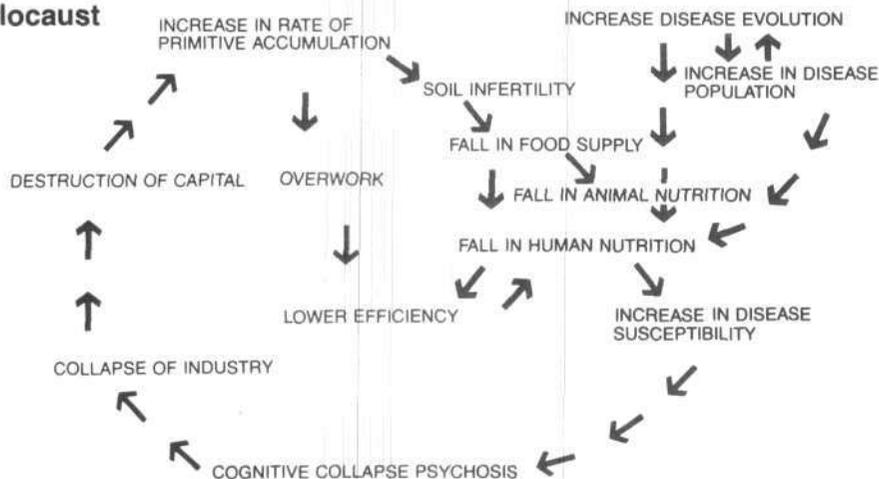
Originating in India, cholera spread rapidly to Southeast Asia, Japan, the Mideast, the north and east coasts of Africa, Western Europe, and from there to the Americas.



Spread of Cholera in the 20th Century

This map traces the route of the El Tor cholera pandemic, which originated in Southeast Asia. The geographical progress of the two pandemics is noticeably similar: In the 1970s pandemic, however, Africa (especially the famine-stricken Sahel) is hard hit, unlike the earlier one, during which the relatively unexplored African continent was touched only peripherally. Of course, during the 1980s and early 1990s, cholera spread to the Americas as well.

The Process of Biological Holocaust



These diagrams are reproduced from 1974 and 1975 studies by a task force, commissioned in 1973 by Lyndon LaRouche, whose analysis forewarned of biological holocaust if economic austerity were enforced against the developing sector.

people will die of tuberculosis over the next ten years. This projection is based on the fact that tuberculosis is rapidly spreading all over the world, because the bacteria has become immune to many of the routinely used medicines. Most cases today are in Asia, Africa, and Latin America, but the disease is also spreading very rapidly in the United States, with the number of cases having increased by 12 percent since 1986. Overall, it is estimated that one-third of the world's population is infected with the tuberculosis bacterium now.

A gauge of the worldwide spread of TB, is how rapidly the disease has made a comeback in the United States. At the turn of the century, the disease was a major cause of death for adults, accounting for as much as one-third of deaths for those from 20 to 45 years old. By mid-century, cases of the disease had dropped to 85,000 in 1953; then by 1985, down to 22,000. Since then, the numbers turned upward, at an increasing rate.

According to the statistics of the Atlanta-based Centers for Disease Control, which routinely under-states morbidity in the U.S.A., in 1990, there were 25,701 new cases of active TB recorded in the country. In 1991, there were 26,283 recorded active cases. In 1992, the number of new TB cases was 26,772, for a rate of 10.5 cases per 100,000 population. This nationwide figure masks the even higher rate of transmission in concentrations of poor people under unhealthy conditions, mostly in the major cities, e.g. New York, Chicago, Houston, etc.

In the Houston, Texas area (Harris County) the rate of new cases of TB was 26 cases per 100,000 people in 1992, and 14.2 per 100,000 new cases for all of Texas that year. Since then, the rates are escalating. For the period January through May this year, the number of TB cases in Harris County is 160 percent greater than the same period the year

before.

The highest rate of TB in the United States is found in New York City, with a current rate of at least 3,700 active cases diagnosed annually.

In March 1993, Dr. Margaret Hamburg, the city health commissioner, and her colleagues on the Board of Health, announced a program of more severe control regulations, because the numbers of sick who were not carrying out their treatment had themselves become "a significant threat to the public health." The city had already been enacting a policy of confining uncooperative patients for two to three weeks, until they become no longer contagious. Proper treatment requires the patient to take his medicine for six to 12 months in order for it to be completely effective. But more than 20 percent of tuberculosis patients were failing to complete therapy. With a simple cough, they can pass the drug-resistant microbe on to a perfectly healthy person. New York officials planned to begin long-term detention of recalcitrant patients in spring, 1993; and bed spaces on Roosevelt Island, a former quarantine zone, are under construction.

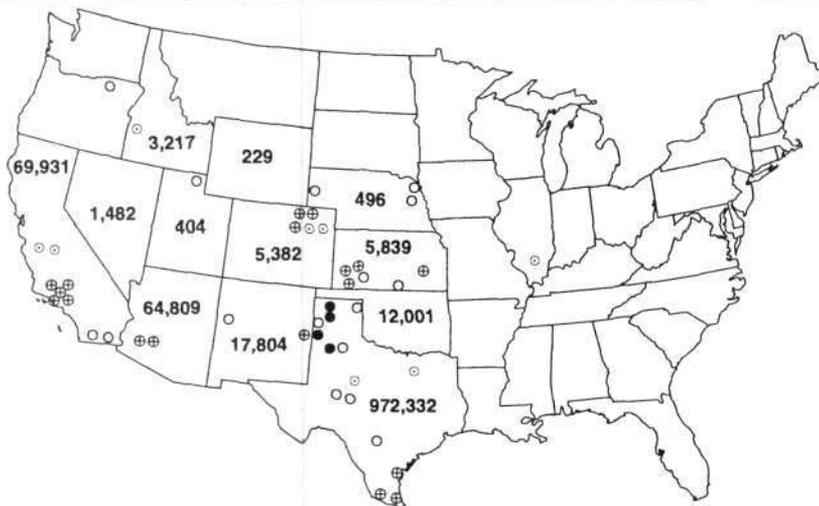
Bovine tuberculosis In addition to human suffering because of the economic breakdown process, disease is on the increase in livestock and animals, as a direct result of the economic depression and such insane policies as "free trade." One dramatic illustration is that of bovine TB in the United States.

Over the decade of the 1980s, bovine tuberculosis has staged a comeback in the United States (see map). The number of beef carcasses showing up with evidence of TB at U.S. slaughterhouses soared from a yearly average of 120 in the 1970s, to 266 in 1988, to 293 in 1991, and 613 in 1992.

TB-infected carcasses are being reported now at a higher rate of detection than ever found by the U.S. Department of Agriculture, since the founding

FIGURE 1
**Mexican Steer Imports 1991;
 Counties with *M. Bovis* in
 Steers at Slaughter, 1988-
 1992**

- 1
- ⊙ 2-10
- ⊕ 11-50
- ⊙ 51-100
- >100



of its slaughter surveillance program.

The hazard of the cattle disease includes its potential transmission to humans. People can contract the disease through the air, milk, or meat. Transmission is highly unlikely as long as milk is pasteurized, and meat is inspected and handled properly. However, the more the disease is prevalent in cattle herds, the more the possibility it can be spread to humans. Over the past year, there has been an alarming increase in incidence of TB among Midwestern slaughterhouse workers.

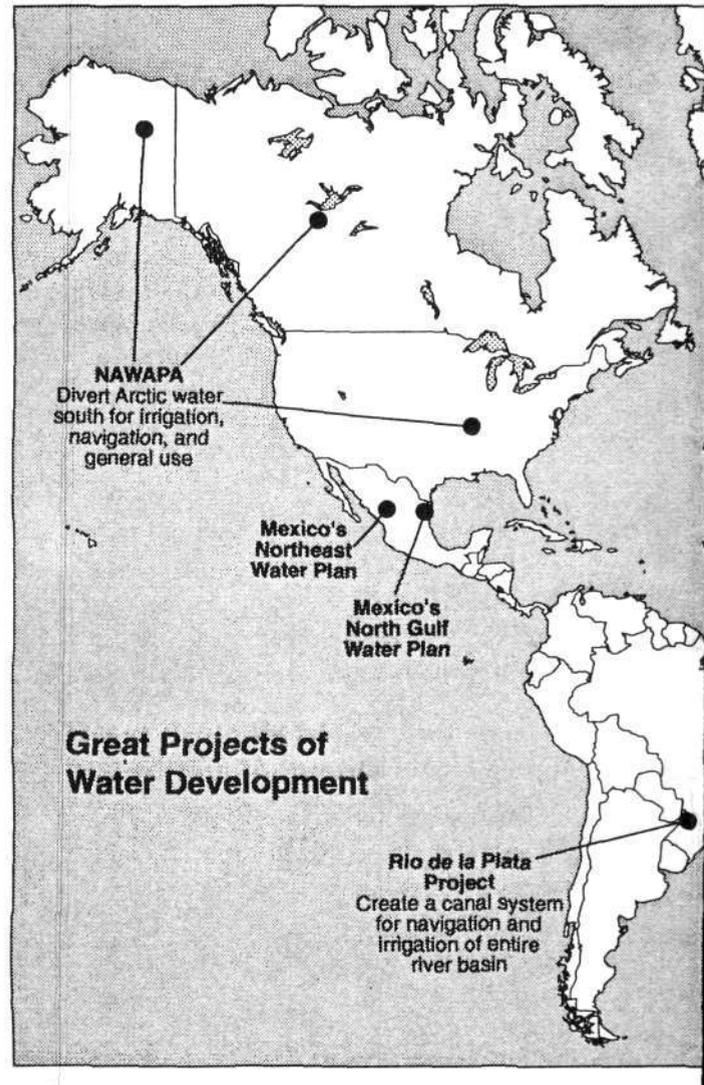
Bovine tuberculosis, the disease of cattle analogous to tuberculosis among humans, was all but wiped out in the United States as of the 1970s. The rate of infection declined from an estimated 5 percent of the national cattle inventory carrying the disease in 1917, when a federal surveillance and eradication program began, down to 0.5 percent of the cattle inventory affected as of the early 1980s. But now that is changing. Both *mycobacterium bovis* (cattle) and *mycobacterium tuberculosis* (human) are on the increase. In the past, typically 12 infected herds were identified nationwide per year, but now that number is rising alarmingly.

Recent outbreaks of the cattle disease have occurred in several states, but the concentration is in the Southwest, in the vicinity of the Mexican border.

Besides Texas, some other major states, including those previously listed as free of bovine tuberculosis, have now been reclassified by the U.S. Agriculture Department, because of new outbreaks of the disease. Prior to January 1992, there were 40 states listed as free of bovine TB, but last year New York and Pennsylvania, both leading dairy-producing states, lost that status.

Malaria Today, more than 2 billion people—40 percent of the world's population—live in countries where malaria is present, and they live in danger of infection from the disease vector—the *Anopheles* mosquito. An estimated 270 million of these people do already carry the infection, and there are now more than 100 million clinical cases each year (about 300,000 new cases per day). Malaria kills millions of people annually, more than any other tropical disease, and most of the victims are children. Africa is hardest hit, with nearly 85 percent of the world's cases. More than 30 percent of childhood deaths there are directly caused by malaria.

Yet this death toll need not take place. In the 1950s, the WHO, the United States, and cooperating countries launched a war on malaria, using the pesticide DDT to knock out mosquitoes, water control projects to reduce breeding grounds, and treatment for those already infected to attempt to reduce the presence of the parasitic malaria-causing *Plasmo-*

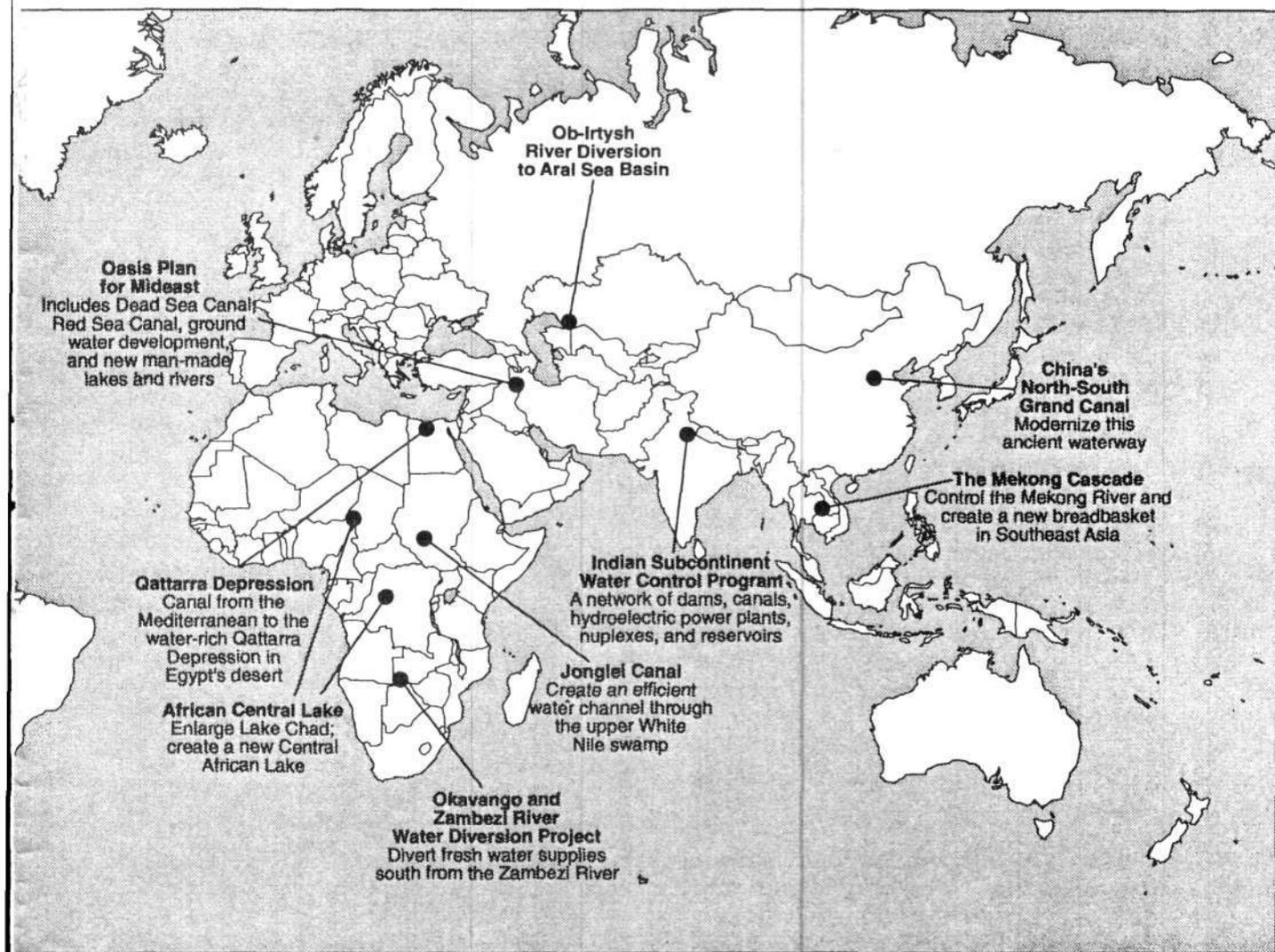


dium protozoans from human blood. By 1969, of 146 countries originally classed as malarious, eradication had been achieved in 36; 53 were engaged in eradication programs; and 27 were carrying out significant control programs. The results are illustrated by the fact that in Sri Lanka, for example, there were 3 million cases a year in the early 1950s, with more than 12,000 deaths, but by 1963, there were 17 cases, and no deaths.

However, all this progress was halted by the 1970s, on bogus charges that DDT and other chemicals "harmed" the environment, and also by the stated or tacit view that eradication was too expensive. In Sri Lanka, for example, as of 1970, millions of cases of malaria were again reported. The same situation occurred worldwide.

Other diseases Weekly epidemiological reports from the World Health Organization show a biological holocaust in the making, as new disease outbreaks are posted.

Diphtheria In May, the diphtheria outbreak in the Russian Federation had reached epidemic pro-



portions. The disease had spread to Ukraine, and the danger worsened that the epidemic was on its way to spread to various European countries. In 1992, cases had been reported in Belarus, Latvia, Lithuania, and Norway, which were epidemiologically linked with epidemics in the Russian Federation or Ukraine. In 1993, Poland reported two cases of diphtheria which also had links with the epidemic in Ukraine.

Plague The May 1993 *Epidemiological Report* by the WHO listed the following countries as reporting cases of the plague: Africa: Madagascar, Tanzania, Zaire; America: Bolivia, Brazil, Peru; Asia: Vietnam.

Yellow Fever The May *Epidemiological Report* by the WHO listed the following countries reporting yellow fever: Africa: Angola, Cameroon, Gambia, Guinea, Mali, Kenya, Nigeria, Sudan, Zaire; America: Bolivia, Brazil, Ecuador, Peru.

World Water Crisis

The most fundamental factor in lowering life ex-

pectancy is lack of adequate supplies of safe water. Yet on a global scale, approximately 3 billion of the world's 5.3 billion people do not have access to safe water supplies or sewage treatment. This, plus the lack of good nutrition, inevitably results in great suffering and loss of life. Diseases which might be resisted, or merely debilitating, to a fundamentally healthy person, become killers of the half-starved. As the density of infection of all kinds increases, which the above summaries document, we see an increased rate of transformation in bacteria and viruses to more virulent forms.

While as of July, the world was still watching dumbly, without intervening, as the people of Sarajevo were reduced to only 2 liters of water each a day, or nothing at all, it would be wrong to think this will have only tragic "local" consequences. The fact that more and more people are being denied their right to "daily bread and water" is creating the conditions that will doom the entire planet to biological holocaust of disease and death because of the immorality and stupidity of its societies.

The History of the Fight Against Derivatives

The fight to institute Lyndon LaRouche's proposal for a one-tenth of 1% tax on financial derivatives comes after intense warfare over this issue by many nations that were fighting to preserve their national sovereignty. In the United States, trading in options on agricultural commodities had been banned in 1936, and the ban was not officially lifted until 1983.

Farmers had opposed the highly destructive effect of options, one of the earliest forms of the derivative market, starting in the 1920s, long before they became as large as they are today; even then, farmers still exercised significant influence within the United States. In 1933, an attempt was made to manipulate the wheat futures market using options, which resulted in an opportunity for farmers to force the U.S. government to ban trading in these options. There were attempts to re-introduce trading in agricultural options during the 1970s, but the plan met with only limited success.

It was only in January 1983, when President Ronald Reagan signed the 1982 Futures Trading Act, that the ban was officially lifted. This was a major feature in the disastrous Reagan-era deregulation of the U.S. economy.

America had, for a short time, a small financial transaction tax, and the fight to impose a larger financial transaction tax was very intense in the late 1980s. Throughout the 1950s and early 1960s, the United States had a low-rate transaction tax—called a stamp tax—on the issuance and transfer of stocks and debt. The tax was repealed in 1965.

Rumblings from Congress

However, in the late 1980s, the

fight broke out more intensely for a transaction tax of a greater size. In 1987, Speaker of the House Jim Wright of Texas called for a transaction tax on the financial markets. Wright's proposal called for a 0.5% tax on both the seller and the buyer in the same transaction, thus, effectively, amounting 1%. For six months, there was a heated public debate over Wright's proposal. Wright was soon driven from office in what is generally agreed to be an overblown scandal. The Oct. 16-19, 1987 stock market crash confirmed Wright's warnings of the instability of the financial markets.

Also in the 1989-90 period, during discussion of the 1990 Budget Reconciliation Act, Sen. Lloyd Bentsen, then chairman of the Senate Finance Committee and now secretary of the treasury, raised a proposal for a transaction tax on selected financial instruments on the floor of the Senate.

In February 1990, partly in response to the furor over this issue, the Congressional Budget Office, in its report "Reducing the Deficit: Spending and Revenue Options," had a section on pages 388-89, entitled "Impose a 0.5% Tax on the Transfer of Securities." Its analysis of the tax reported that "the tax would have to be broad-based, applying to stocks, debt, options and trades by Americans on foreign exchanges."

In June 1993, Rep. Henry Gonzalez (D-TX), veteran House leader and chairman of the House Banking Committee, gave a series of "privileged order" House speeches deriding derivatives trading as "a fancy name for gambling." Gonzalez called for an investigation of how George Soros profited off the 1992 tur-

moil in European currencies markets. Gonzalez scored Citibank and other top corporate banks for off-balance-sheet derivatives speculation.

"... Is there money out there in these international markets for the procurement of goods, for firing the engines of manufacturing and production? No. It is paper chasing paper."

What Other Nations Have Done

Various nations have taken action to tax and/or ban some of the instruments traded in the financial derivatives market, in an attempt to assert sovereign control over their national credit and finances.

- In 1986, the government of Sweden doubled its equity transaction tax, which is the tax on trade of stocks on the Swedish stock market. In 1989, Sweden extended the tax to futures and options trades. The effect of this new tax was to substantially reduce the trading of futures on Sweden's Stockholm market. Furthermore, the tax closed the Swedish Option and Future Exchange (SOFE) for two years. But in 1990, apparently under pressure from financiers, Sweden abolished the derivative tax, and trading in the derivatives market exploded, helping to deepen Sweden's financial problems.

- Until as late as 1989, the German government held firm and refused to legalize the trading of some financial derivatives within the country. As a result of pressure from the trading of German government bond futures in the London markets, amendments to Germany's gambling law in 1989 made changes and permitted retail participation in derivative markets, followed by the opening of Germany's first financial exchange, Deutsche Terminbörse in 1990.

- At present, derivative taxes are assessed in Finland, France, Hong Kong, and Japan, although, on the whole, they are not very large. The exception is France, which assesses a significant 2% transaction fee. So far, however, the fee is only used to finance the annual budget for CMT, the French regulatory body for the futures and options markets. Once the CMT's budget requirement is met, the fee is no longer levied.

George Soros: Portrait of A Dirty Carpetbagger

George Soros was born in Hungary, son of a prominent Jewish attorney. During the Nazi occupation of Hungary, George's father used his connections get George a job with the man in charge of confiscating the estates of wealthy Jews. This phenomena of making a profit off the misery of others is a recurring pattern in Soros' life.

Soros moved to England in 1947, to escape Soviet domination of Hungary. During the early 1950s, Soros studied at the London School of Economics, a bastion of British imperial economics founded by the Fabian Society. At the LSE, Soros became a protégé of Sir Karl Popper, the head of the British Aristotelian Society, one of the more evil philosophical associations on the planet, and was also heavily influenced by the free-market economic theories of Friedrich von Hayek, whose economic policies were the model for Hitler's finance minister, Hjalmar Schacht and later, for the "shock therapy" atrocities of Harvard's "punk economist" Jeffrey Sachs.

In 1956, Soros moved to the United States, where he began looking for ways to put his economic theories to work making money.

In 1969, he founded the Quantum Fund, which is today the flagship of his far-flung operations. His success with the Quantum Fund led *Institutional Investor* to proclaim him the "best money manager in the world."

In 1979, Soros created the Open Society Fund, which served to further the philosophies of Popper and von Hayek.

In September 1992, Soros playing a leading role in the orchestrated collapse of the European Monetary System's Exchange Rate Mechanism, and earned be-



George Soros during a business trip to Moscow in spring 1993.

tween \$1 billion and \$2 billion for his destructive monetary speculation.

Today, Soros oversees a network of foundations in 18 central and eastern European countries, all spun off from his original Open Society Fund. Soros's foundations, and funded from the proceeds of his currency speculation and other usurious activity. These funds, like all of Soros's activity, are designed to soften up the target populations for looting by the Anglo-American empire.

This looting will backfire spectacularly, however. As Lyndon LaRouche recently noted, "Once the 1989-90 breaking of the [Berlin] Wall had occurred, when the United States, led by filthy, dirty carpetbaggers like this George

Soros of derivatives notoriety, had gotten his four feet in the trough over there in Moscow, and the United States began to back him with things like Soros's pet from Harvard, Jeffrey Sachs, the policy in Russia was shifted away from a *momentary* turn toward affection and trust in the United States, back toward rage against the United States and others, for having imposed George Soros and his policies upon Russia and Eastern Europe.

"So now, in the past 12 months or so, very rapidly, Russia has been going into the direction at least of this Third Rome model, based on the Russian Orthodox Church as an ideological reference point to replace communism. That is very much in progress."

Refederalize the Federal Reserve Create Low-Interest Credit for Infrastructure, Agriculture, Industry

At the time this pamphlet goes to print, the vast flood damage in the Mississippi/Missouri River Basins is unfolding—dramatizing the fact that an overall continental management approach to our water resources was *not* taken over the past decade and a half, and that only a crash infrastructure-building program can rebuild the region, *not* token relief. As a July 17, 1993 statement of the Midwestern Governors' Conference declared, "Give us money, not relief."

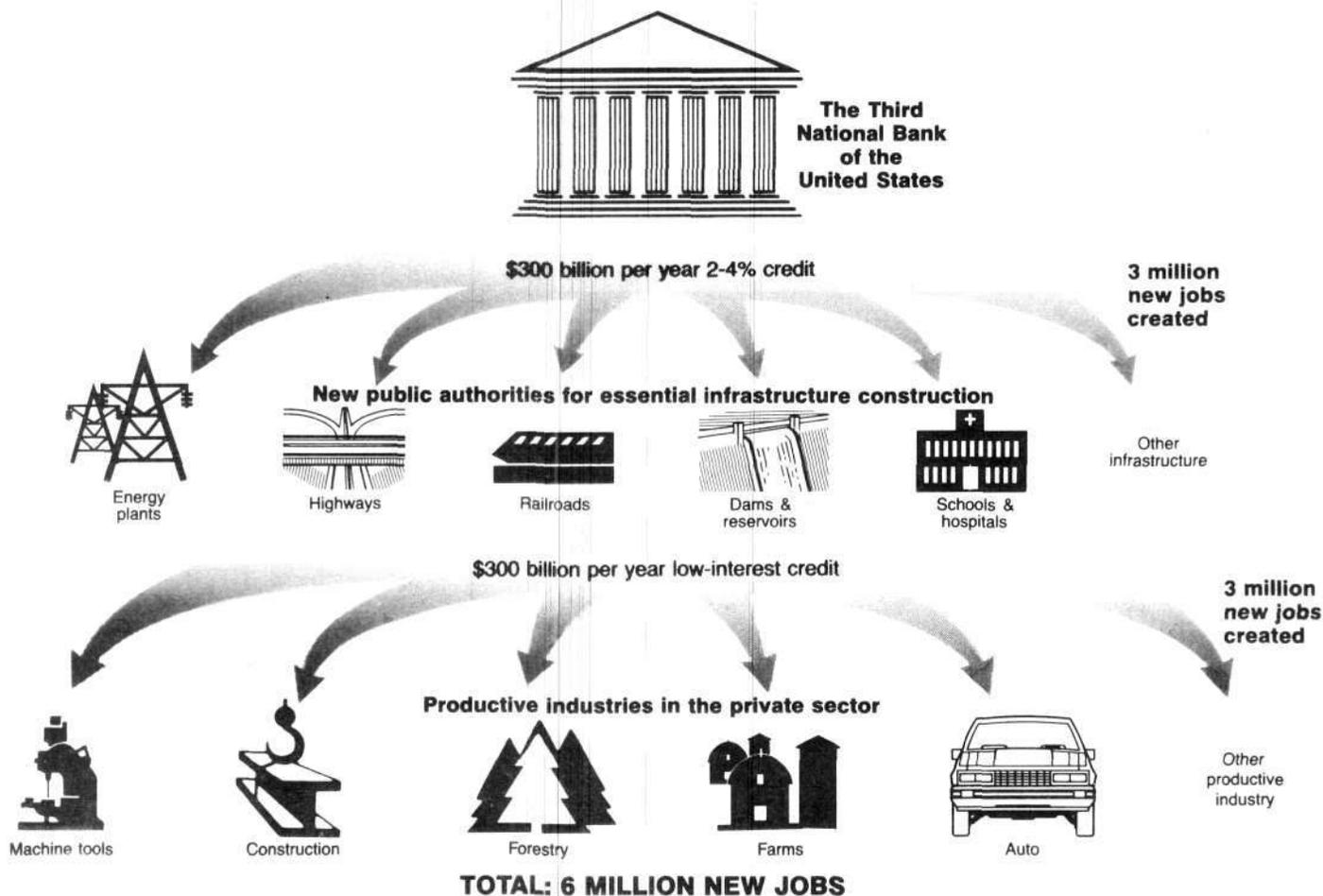
Where is the money to come from for the physical economy? In March 1992, the presidential campaign of Lyndon LaRouche aired a nationwide TV broadcast on the elements of such a "real, national relief" program. 1) Declare a national economic program. 2) Constitutionalize the Federal Reserve Bank. 3) Undertake needed large-scale infrastructure and development projects in the areas of transportation, energy production, water, education, and health care. 4) Implement international and domestic debt restructuring and moratoria.

The diagram on this page shows the effects that

will ensue from this approach, beginning with steps to bring the creation of the nation's credit back under the control of the Congress, as stated in Article 1, Section 8 of our U.S. Constitution. As LaRouche described the economic growth process, "My recovery program depends on the initial action of federalizing, nationalizing, the Federal Reserve System. That is, to take away its status as a quasi-independent corporation controlled by bankers, and to make it an institution of the U.S. government, the kind of bank that the United States Bank represented under President George Washington.

"This bank would be a means, not for emitting currency, but for putting federal currency, legal tender, out as loans at very low interest rates to get the economy moving again.

"We are talking about loans on the order of magnitude of over \$300 billion a year for public works, and a comparable amount of lending into the private sector for investment primarily in employment in high-tech and engineering types of activity.



"We are talking about 3 million people in the public sector, working for federal, state, and local infrastructure projects, such as railway projects, water system projects, power system projects. . .

"We are talking about, on the other side, another 3 million people at least, employed as a result of vendor agreements, which are made with spinoffs of these public projects. So we are talking about an increase in employment of about 6 million people within a year."

The interest rates on such loans would be between

2% and 4%. How would the money be paid back? Through *increased tax revenues* as a result of the productive economic activity that would be generated.

In contrast, the Federal Reserve Bank since its founding in 1913, is a non-public interest central bank, which functions on behalf of a self-selected group of private financial interests. The Fed has all along opposed public-interest improvements and economy-building measures, to the point that it now fosters derivatives speculation that is bringing down the entire economy.

Draft Resolution to Congress: Tax Derivatives, Investigate Soros

This resolution can be used to organize your local, state, and federal representatives to take action against derivative speculation, or for drafting letters to the editor of your local newspaper.

WHEREAS close to 22 million in the U.S. workforce are now out of work or underemployed, which is 17 percent of the total U.S. workforce of 128 million; and

WHEREAS the physical infrastructure of the nation is wearing down to the breaking point in terms of the essentials of existence for today's and future populations: power supplies, bridges and transportation systems, sanitation and water, health care facilities, housing stock, etc.; and

WHEREAS the natural resource base and ecology of the United States are being degraded by the lack of economic growth, technology, and infrastructure improvements; and

WHEREAS the pools of skilled manpower, capital equipment stocks and education potentials are in danger of being permanently dispersed and destroyed; and

WHEREAS credit flows needed for investment in the real, physical economy are instead going into streams of speculation in the national and international "derivatives" trade; and

WHEREAS the "derivatives" market is a gigantic financial bubble that has ballooned over the past six years to the point where an estimated \$400 billions of nominal values of exotic financial instruments are now traded in the United States daily—interest rate swaps, stock options, financial futures, foreign exchange deals, etc.—which is sucking capital out of our farms, factories, cities, infrastructure, and needed projects; and

WHEREAS the growth of this cancerous bubble has been facilitated by Federal Reserve practices extending low-interest rates to favored private banks for speculation, and by fostering the creation of, and speculation in, billions worth of U.S. government debt; and

WHEREAS the federal proposals-to-date for dealing with the jobs and real economy crisis include ap-

proving such ill-conceived measures that will only make matters worse, as: more free trade, more taxes, and shut down of the last remaining military-industrial centers of high-skilled, high-technology output capacity; **THEREFORE**

BE IT RESOLVED THAT

THIS BODY CALLS ON CONGRESS:

❖ **1. To impose a tax on transactions in derivatives** at a rate of one-tenth of one percent of the notional value of the instrument in each transaction struck, which at current levels of speculative trading would have the result of yielding an annualized tax revenue in the range of \$60 to \$80 billions, and the additional result of shrinking the market down to tolerable size. The tax to be collected as follows: every person who sells a derivative form of investment to a purchaser in the United States, would pay at least a one-tenth of one percent sales tax on the so-called notional value of the item transferred as an option at that time. For a U.S. buyer buying a derivative from a foreign seller, the buyer would have to pay the tax on behalf of the foreign seller; and

2. To initiate an economy-building program of emergency nationwide infrastructure development, involving credit for investment on the level of \$800 billions per year over the next five years, thus causing direct and indirect job creation on the order of 8 million highly skilled jobs and millions more productive jobs of all types.

3. To investigate and take appropriate action against the activities of derivatives speculators such as George Soros, whose machinations on the financial markets have devastated the economies of former East bloc nations and Italy, and who has most recently targeted the German mark in an effort to destroy the European economy which would play the key role in the economic recovery of Europe, the former East bloc, and the nations of the former Soviet Union. We commend the steps by U.S. Representative Henry B. Gonzalez in this direction.

Petition to President Clinton: Free Lyndon LaRouche!

Upon the initiative of Helga Zepp-LaRouche, wife of political prisoner Lyndon LaRouche and a founder of the new international civil rights movement, the following petition is being circulated for millions of signatures to present to President Bill Clinton. We urge every signer to organize others to sign this petition and to subscribe to this newspaper: Be part of the movement to restore this nation to greatness.

Dear President Clinton:

"In the course of your election campaign, and following your election as President of the United States, you pledged to bring about a change in American policy. We welcome this intent, and wish you courage and steadfastness for this difficult task.

"We call upon you to take a first step in this direction: To end a crying injustice—see to it that Lyndon LaRouche is immediately set free and exonerated.

"Lyndon LaRouche, who is innocent, has been incarcerated as a political prisoner in the federal prison in Rochester, Minnesota since January 1989. He committed no crime; his sentencing and imprisonment were the result of years-long slanders and persecutions by forces of the Reagan-Bush administration, in combination with the media and private organizations, as well as forces of the secret services of formerly communist states.

"Over 1,000 prominent jurists from all over the world have protested publicly against this abuse of justice, in the course of which LaRouche and a number of his associates were supposed to be eliminated as an undesired opposition. Hundreds of parliamentarians and other prominent personalities from all over the world have joined this protest.

"The LaRouche case was presented to the Human Rights Commission of the United Nations several times; UN Special Rapporteur Angelo Vidal D'Almedia Ribeiro included the case in his report last year to the UN Commission on Human Rights.

"Since then, explosive new material has come to light documenting the political motivation behind this persecution. One U.S. court has, in fact, ruled that the trial had come into being as a result of 'constructive fraud' on the part of the government.

"We are outraged at the arrogance of the Bush government, which ignored all protests and appeals. Yet it was George Bush himself who in 1988, i.e., before LaRouche had been indicted in Alexandria, Va., declared in public that LaRouche belonged behind bars, thus, as Vice President, anticipating any legal procedure.

"We, the undersigned, see ourselves as members of an international coalition to free Lyndon LaRouche. We appeal to you, President Clinton: Give a signal that you seriously mean to bring about change: Act! Take the necessary steps immediately to set LaRouche and his associates free.

"I join the international coalition to free Lyndon LaRouche and endorse the above appeal. I agree to have my name published with this appeal in American or European newspapers."

NAME

ADDRESS

Signed: 1. _____
2. _____
3. _____

Sign, circulate and send to:

The New Federalist P.O. Box 889 Leesburg, VA 22075