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

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

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

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

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

New Year Deepens Dollar Crisis

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

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

Strong Inflation Pressure

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

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

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

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

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

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

Physical Economy

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

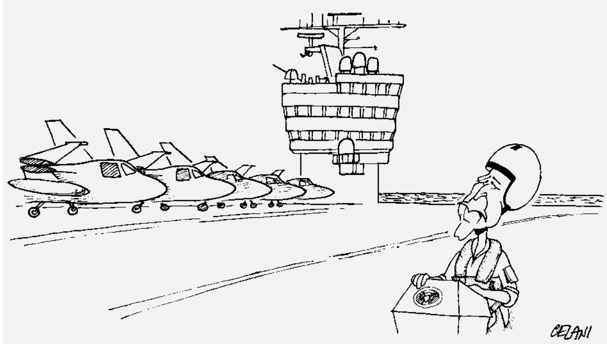
The principal means by which that intentional fraud by the Fed and U.S. government agencies have massively faked the figures on inflation, has been a swindle sometimes called "the Quality Adjustment" or "hedonic" factor. The most direct way of exposing the fact of the intentional fraud in those reports,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

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

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

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

In Russia, the central bank reported cash exchanges during October 2003 at a level not seen since the 1998 crisis: Russian citizens exchanged over $5.5 billion of foreign currency. In its monthly review of the currency market, the Russian central bank noted: "The decline of the ruble-dollar exchange rate in September, combined with



- "I declare major economic problems over!"

the rise of [the] euro, greatly increased the interest in the euro among Russian individual depositors. The demand for euro[s] increased by 42% in October. The structure of currency demand has abruptly changed in favor of the euro, while the demand for the U.S. dollar fell by 11%." Russian President Vladimir Putin, speaking at a meeting with the government leadership on Dec. 29, emphasized Russia's vast amount of gold reserves, which are among the highest in the world.