in China, on whether it was the capital and currency controls, or its large forex reserves, which was most critical in protecting the national economy. Former Prime Minister Zhu Rongji was committed to expanding foreign exchange, and Guo Shuqing would appear to support this view, by citing the statements of Republic of Korea officials, that the more the forex reserve a country held, the better. This does not, however, mean any softness on the currency and capital controls front!

"Provided China was in a serious financial crisis," Guo said, "the country would need perhaps several hundred billion U.S. dollars, as tens of billions of U.S. dollars (in emergency aid) is not adequate, as its economic scale is very big." There is no lender under the current international financial system that can provide such a huge amount of money, and China must depend upon its own self-reliant efforts, he said.

LaRouche's Policy

China, like the rest of the world, is caught in the crashing U.S. dollar system. This creates more pressure in Asia than Europe: most European trade is within the EU, and is conducted in euros, but China has to use dollars. Its currency and capital controls are a vital line of defense for its national economic sovereignty, but this is not enough.

Amidst all the other financial pressures, certain institutions, including the likes of Goldman Sachs and HSBC, the current manifestation of Hongkong-Shanghai Bank, have been promoting the view that China will make a "small" revaluation of the RMB, and then peg it to a "basket of currencies." When this view was published in the *Chinese Business Post,* it was immediately denied by the PBOC.

The Beijing banker affirmed that China had no intention to re-peg the RMB to a "currency basket"—for very good reason. In the daily financial turmoil, world currencies are frantically gyrating against each other, making any "currency basket" unworkable.

There is *no* solution possible, other than that proposed by Lyndon LaRouche—a new Bretton Woods system. In August 1998, as the "Asia" crisis was careening towards its second, and worst phase, LaRouche warned that China should not yield to pressure, then, to *devalue* the RMB in the wake of the collapsing yen.

There is only one option: that "China, the U.S.A., and other relevant nations, . . . establish, as early as possible, a new international monetary order, eliminating the present 'floating exchange-rate' system, and establishing a set of adjustable, but approximately fixed parities, similar to the pre-1959 form of the Bretton Woods agreements," LaRouche wrote. Financial and trade relations must be based on fostering "development of basic economic infrastructure and advanced technologies of agriculture and industry from the already industrialized to the so-called developing nations." Here lies the answer for China.

Austerity Hits Hungary On Eve of Entry to EU

by Birgit Vitt

Hungary will, on May 1, become a member of the European Union (EU), along with Poland, the Czech Republic, Slovakia, Slovenia, the three Baltic states, Malta, and Cyprus. But a Schiller Institute delegation that visited Budapest in February received the impression that the country has not been well prepared for this step by its political leadership: People are facing a kind of reality-shock.

Two years ago, the Socialist/Liberal government coalition under Prime Minister Peter Megyessy came to power, having made many electoral promises to the effect that the new government would improve living standards. They increased the wages of 800,000 state employees, and raised pensions. This led to a short-term improvement for the people, but it also increased the state's expenses and inflation. The government tried to get its money back through other means. In 2003, inflation was at 5.3%; but, according to official statistics, the cost of living in January 2004 had increased by 6.6% in comparison to the year before. From December 2003 to January 2004, basic living costs rose by 2.1%. This must be seen in the context of the increased value added tax and consumer taxes. Hungarians had to pay 3% more for food, while costs for public transport, waste disposal, energy, alcohol, and tobacco also increased. Given the 5% value added tax, Hungarians had to pay 16% more for medicine.

This is only the beginning. On Feb. 11, Tibor Draskovics was nominated as the new Finance Minister. He has assured EU headquarters in Brussels that he will do everything he can to consolidate the budget, and announced a draconian austerity program of 570 million euros in cuts for 2004. This still means a budget deficit of 4.6%, and is far from fulfilling the criteria of the EU's Maastricht criteria, which limit the deficit to 3%. Hungary's entry into the Eurozone will therefore most probably not occur before 2010.

In the second half of 2003, there was a speculative run against the Hungarian currency, the forint, as a consequence of which, the central bank had to increase interest rates to 12%. The areas in which cuts will be made are the follwing: Economics Ministry Eu138 million; Defense Eu46 million; Education and Culture, each Eu32 million; Information Technology and Telecommunications Eu30 million. According to Interfax, subsidies for the health-insurance fund will be cut by Eu35 million, for city administrations by Eu38 million, and for railroads by Eu4 million.

Agriculture Hit Hard

Hungary, as a new member of the EU, will not receive any EU subsidies for one year. This will hit agriculture particularly hard, and is expected to lead to an immediate wave of farm foreclosures. Twenty percent of the Hungarian working population is employed in the agricultural sector. At the end of February, hundreds of thousands of farmers demonstrated all over the country. Those most hard-hit by the crisis are pork and dairy farmers, whose costs of production are much higher than the income they make for milk, dairy, and pork products. State subsidies won't fill the gap. What makes the situation particularly difficult, is that Danish dairy producers are trying to sell cheap milk powder into the Hungarian market, as are Dutch farmers who want to replace the very tasty Hungarian tomatoes. There is also the Hungarian branch of the food conglomerate Parmalat, Parmalat Hungaria RT, whose future, after the bankruptcy of Parmalat in Italy, is unclear. Its market share is 5-6%, and it owes half a billion forints to the milk distributors.

While in the previous year, the Agricultural Ministry could give 230 billion forints in state subsidies to the agricultural sector, in 2004 it will be only 40-50 billion forints. The 160 billion forints in EU subsidies for agriculture will only be available next year. Many Hungarian peasants and farmers therefore will not have the money they need to invest in production. Because of last year's drought, animal feed prices rose by 12%.

The radical budget consolidation will have social consequences as well, particularly among the very poor—as suggested by the large-scale plundering of supermarkets at the end of February in Slovakia, after the Slovak government announced a 25% cut in social welfare.

Schiller Institute Intervenes

The Schiller Institute team talked with economists, church leaders, intellectuals, as well as young people, about the global financial-economic crisis and Lyndon LaRouche's Presidential campaign in the United States. There was general agreement that the crisis must be solved on the basis of the principle of defending the Common Good. The interlocutors from the Hungarian side emphasized that the crisis will have cultural consequences for their country. Some pointed to the fact that Hungary's educational system, once among the most brilliant in the world, is being destroyed, and that this means destroying a whole generation of young people. Many emphasized how important a solid, Classical education is, in view of the fact that only a new generation of politicians—who will come from those who are today 18-25 years old—can give the country a future.

The Schiller Institute representatives presented LaRouche's strategic analysis, including the consequences of the Bush-Cheney war policy and the role of the neo-conservatives in the Bush Administration. They discussed LaRouche's Presidential election campaign, and his program for reorganizing the bankrupt world financial system. This program is well understood, especially in light of a seminar which LaRouche gave at the Hungarian Finance Ministry at the end of 2002, on the need for a New Bretton Woods financial reorganization. Of particular interest to the Hungarian participants, is the need to orient Europe in the direction of a Eurasian economic development perspective.

During an event which was organized by the Schiller Institute at the Budapest Reformatory University, Elisabeth Hellenbroich made reference to the keynote speech which LaRouche had given on Feb. 14 at the Schiller Institute conference in Virginia (*EIR*, Feb. 27). There, LaRouche had emphasized that we are now at the end of a doomed system, and the question before us is one of power: whether we will succeed in bringing an end to the imperial policy of the neo-conservatives in Bush's Administration, and whether there will be a solution to the global crisis, based on an alliance of sovereign nation-states, which will lay the foundation for a new global financial system, a New Bretton Woods. She concluded with the challenge to the audience, that Europe can only fight for a new global system, if it defines its mission in terms of the need to feed 6 billion people on the Earth.