

Allende, and Ronni Karpen Moffitt, a U.S. citizen and colleague of his at the Institute for Policy Studies, were killed by a bomb planted under the seat of their car. FBI agents tracked the murders back to DINA's Contreras. A 1978 Washington grand jury indicted him and eight other named conspirators and several unindicted co-conspirators. Two former U.S. prosecutors and two of the FBI agents who worked the Letelier-Moffitt case have declared they believe Pinochet was responsible for the murders.

The U.S. government also learned some details about Chile's overseas terrorism from Michael Townley, a U.S. citizen working for the Chilean secret police, who confessed to organizing the Letelier assassination. In 1980, Townley told a U.S. court that he had received orders from Contreras to assassinate Letelier. Townley flew to the United States under a false name, recruited a gang of anti-Castro Cubans to help him do the job, then made the bomb and detonator and placed the explosives under Letelier's car seat. Two Cuban exiles, who later pleaded guilty, detonated the bomb.

After plea-bargaining for a reduced sentence and testifying against his fellow conspirators, Townley gradually disclosed to the FBI other information about DINA. After the September 1973 Pinochet-led coup that overthrew the Allende government, Townley had ingratiated himself to DINA by demonstrating his electronic expertise. He also showed an aptitude for more exotic tasks and, by 1974, he had received an assignment to kill abroad.

Townley, according to bureau agents, began to think of himself as DINA's jackal, referring to the 1960s French killer who almost assassinated President Charles DeGaulle. FBI Special Agent Robert Scherrer slowly developed a father-confessor relationship with Townley, who told him how he and other elite Chilean agents organized the killing of Gen. Prats. The FBI learned of "Operation Condor," an agreement among six Latin American secret-police agencies to spy on their enemies abroad and even eliminate them. In the Prats case, for example, Townley recruited Argentine agents to detonate the bomb he had built.

Scherrer also extracted from Townley details about the Leighton hit in Rome, in which an Italian fascist leader pulled the trigger and a Cuban exile group in Miami took the public credit. In 1997, the Italian court condemned (in *absentia*) Contreras and Townley for attempted murder of the Leightons in Rome.

Townley's stories have been reinforced by other evidence to the point that the Letelier case may be reopened. All nine conspirators listed in the 1978 indictment have been tried. The unindicted co-conspirators could include Pinochet himself. Yet, prosecutors lacked direct evidence that would warrant an indictment of the former Chilean president.

Then, last December 23, Contreras, now serving a seven-year sentence in Chile for his role in the Letelier-Moffitt murders, declared that he was following Pinochet's orders in every action that he undertook. Since his statement was offered as part of an effort to get his sentence reduced, it's self-serving. But it appears to corroborate the conclusions of the U.S. officials involved in the case.

Pinochet has escaped prosecution in Chile because of the amnesty he granted himself and his cronies. But there is one exception: U.S. pressure could compel his prosecution in the Letelier-Moffitt case in Chile. But there is little likelihood justice will be done there unless it is pursued here in the United States.

Although he failed to confront Pinochet while visiting Chile, Clinton still can ask

Atty. Gen. Janet Reno to reopen the Letelier-Moffitt investigation into Pinochet's role as its alleged author. Such a request would signal a formal end of official impunity under which Pinochet has hidden for more than two decades. It would send a message to state terrorists everywhere.

But what we cannot lose sight of is that the Indonesia economic bubble was caused by a flawed monetary policy which led to all the other problems. Monetary inflation is the mother of all "crony capitalism."

#### CHARACTERISTICS OF THE CORRECTION

One important characteristic of an economic correction, after a period of inflation (credit expansion), is its unpredictable nature because subjective reactions of all individuals concerned influence both political and economic events. Therefore, it's virtually impossible to predict when and how the bubble will burst. Its duration likewise is not scientifically ascertainable.

A correction can be either deflationary or inflationary or have characteristics of both. Today, in Indonesia, the financial instruments and real estate are deflating in price, while consumer prices are escalating at the most rapid rate in 30 years due to the depreciation of the rupiah. Indonesia is in the early stages of an inflationary depression—a not unheard of result of sustained Central Bank inflationary policy. Many believe price inflation only occurs with rapid growth. This is not so.

Blame is misplaced. Rarely is the Central Bank and irredeemable paper money blamed—unless a currency value goes toward zero. In Indonesia the most vulnerable scapegoat has been the Chinese businessmen who are now in threat of their lives and fleeing the country.

A much more justifiable "scapegoat" is the International Monetary Fund (IMF) and the American influence on the stringent reforms demanded in order to receive the \$43 billion IMF-led bailout. IMF policy only aggravates and prolongs the agony while helping the special interest rich at the expense of the poor. The IMF involvement should not be a distraction from the fundamental cause of the financial problem, monetary inflation, even if it did allow three decades of sustained growth.

"Crony capitalism" was not the cause of Indonesia's trouble. Inflationism and political corruption allow crony capitalism to exist. It would be better to call it economic interventionism for the benefit of special interests—a mild form of fascism—than to abuse the free market term of capitalism.

Any serious economic crisis eventually generates political turmoil, especially if political dissent has been held in check by force for any significant period of time. There should be no surprise to see the discontent, with blood in the streets of Jakarta, soon spread and build. Political events serve to aggravate and magnify the logical but subjectively-sensitive declining currency values and the faltering economy. The snowballing effect makes the political crisis much more serious than the economic crisis since it distracts from the sound reforms that could restore economic growth. These circumstances, instead of leading to more freedom, invite marshal law for the purpose of restoring stability and the dangers that go with marshal law.

Errors in economic thinking prompt demands from the masses for more government programs to take care of the rapidly growing number of poor. Demands for more socialism and price controls result whether it's in education, medical care, unemployment benefits or whatever—all programs that Indonesia cannot afford even if they tried to appease the rioting populous.

#### THE INDONESIA CRISIS

**HON. RON PAUL**

OF TEXAS

IN THE HOUSE OF REPRESENTATIVES

*Friday, May 22, 1998*

Mr. PAUL. Mr. Speaker, the Soviet system, along with the Berlin Wall, came crashing down in 1989, the same year the new, never-to-end, era came to a screeching halt in Japan. The Japanese economic miracle of the 1970's and the 1980's, with its "guaranteed" safeguards, turned out to be a lot more vulnerable than any investor wanted to believe. Today the Nikkei (Tokyo) stock average is still down 57% from 1989, and the Japanese banking system remains vulnerable to its debt burden, a weakening domestic economy and a growing East Asian crisis spreading like a wild fire. That which started in 1989 in Japan—and possibly was hinted at even in the 1987 stock market "crash" here—is now sweeping the Asian markets. The possibility of what is happening in Asia spreading next to Europe, and then to America, should not be summarily dismissed.

#### ECONOMIC FALLACY

Belief that an artificial boom, brought about by Central Bank credit creation, can last forever is equivalent to finding the philosopher's stone. Wealth cannot be created out of thin air. New money and credit, although it can on the short-term give an illusion of wealth creation, is destructive of wealth on the long run. This is what we are witnessing in Indonesia—the long run—and it's a much more destructive scenario than the currently collapsing financial system in Japan. All monetary inflation, something nearly all countries of the world are now participating in, must by their very nature lead to an economic slump.

The crisis in Indonesia is the predictable consequence of decades of monetary inflation. Timing, severity, and duration of a correction, is unpredictable. These depend on political perceptions, realities, subsequent economic policies, and the citizen's subjective reaction to the ongoing events. The issue of trust in the future and concerns for personal liberties greatly influence the outcome. Even a false trust, or an ill-founded sense of security from an authoritarian leader, can alter the immediate consequences of the economic corrections, but it cannot prevent the inevitable contraction of wealth as is occurring slowly in the more peaceful Japan and rapidly and violently in Indonesia.

The illusion of prosperity created by inflation, and artificially high currency values, encourage over-expansion, excessive borrowing and delusions that prosperity will last forever. This attitude was certainly present in Indonesia prior to the onset of the economic crisis in mid 1997. Even military spending by the Indonesian government was enjoying hefty increases during the 1990's. All that has quickly ended as the country now struggles for survival.

## SOLUTIONS ATTEMPTED

The IMF's \$43 billion bailout promise has done nothing to quell the panic in the streets of Jakarta. If anything, conditions have worsened. The Indonesians deeply resent the austere conditions demanded by the IMF. Since the United States is the biggest contributor to the IMF and the world financial and military cop, resentment toward the United States is equal to that of the IMF. The Indonesian people know they won't be helped by the bailout. They already see their jobs disappearing and prices soaring. The political and economic future, just a few months ago looking rosy, is now bleak beyond all description. Indonesians know what the American taxpayers know: the IMF bailout helps the rich lenders who for decades made millions but now want their losses covered by weak victims. Is there any wonder resentment and rage prevail in Indonesia?

The United States has just sent a military delegation to study and obviously advise the Indonesian government regarding the law and order crisis now in process. Our officials say that we're there to watch that the Indonesian military does not abuse the rights of Indonesian citizens. Even if true, and well motivated, where did this authority come from for us to run to the scene of the crime—on the other side of the world—and pretend we have all the answers? Putting aside the question of whether there is proper authority or not, the Indonesian people perceive even a few U.S. military advisors as a further threat to them. The IMF is seen as an extension of the United States and is expected to more likely side with the Indonesian military than with the demonstrators. No government, even the questionable ones, likes to see any dissolution of governmental power. It might encourage others unhappy with their own government. And it is not as if the U.S. Government is innocent and benign, considering our recent history at Kent State, Waco, and Ruby Ridge and the hundreds of no-knock entries made in error, causing loss of life, multiple injuries and destruction of property. Let us make sure our own government acts responsibly in all matters of law and order here at home before we pretend we can save the world—a responsibility not achievable even if motivated with the best of intentions.

Effort to prop up an ailing economy after the financial bubble has been popped, prolongs the agony and increases the severity of the correction. Japan's bubble burst in 1989, and there is not yet any sign of the cleansing of the system of bad debt and mal-investment which is necessary before sound growth will resume. And Indonesia is embarking on the

same predictable course. Restoration of free markets, including the establishment of a sound monetary policy, has not yet been considered. The people of Indonesia and the rest of the world should prepare for the worst as this crisis spreads. For Congress, the most important thing is to forget the notion that further taxing American workers to finance a bail-out will work. It won't work—it is the worst policy of all for us to pursue.

The Indonesian Government had one idea worth considering under these very difficult circumstances. They wanted to replace their central bank with a currency board. It's not as good as gold standard, but it would have been a wise choice under current conditions. But the United States and the IMF insisted that in order to qualify for IMF funding this idea had to be rejected outright and the new central bank for Indonesia had to be patterned after the Federal Reserve with, I'm sure, ties to it for directions from Federal Reserve Board Governor Alan Greenspan and company. A currency board would allow a close linkage of the rupiah to the dollar, with its value controlled by market forces, and would have prevented domestic Indonesia monetary inflation—the principle cause of the economic bubble now collapsed. The shortcoming of a currency board tied to the U.S. dollar is that the Indonesian currency and economy would be dependent on dollar stability which is far from guaranteed.

## REFUSAL

In the approximately eight months since the crisis hit Indonesia, there has been no serious look at the underlying cause: monetary inflation brought about by a central bank. Nor has any serious thought gone into the internationalization of credit as United States exports of billions of dollars, and thus our own inflation, to most nations of the world which hold these dollars in reserve and use them to further inflate their own currencies. Our huge negative trade balance and foreign debt is not considered by conventional wisdom to be relevant to the Asian currency problems, yet undoubtedly it is. True reform to deal with the growing worldwide crisis can only be accomplished by us first recognizing the underlying economic errors that caused the current crisis.

The philosophy of the free market holds a lot of answers—yet the difference between free market capitalism and interventionist political cronyism has not been considered by any of the world banking and political leaders currently addressing the exploding East Asian crisis.

Concern for personal liberty is not a subject associated with the crisis and is an ongoing

casualty of past and current policy. A greater concern for individual liberty will be required if a positive outcome is to be expected from the fall-out of the Indonesian crisis. Let's hope we can get our priorities straight. Congress has an obligation not to worsen the crisis by capitulating to more bail-outs and to remain vigilant enough to keep the administration from accomplishing a similar bail-out through Executive Orders outside the law.

## MESSAGE

What should the message be to the Congress and the American people regarding this sudden and major change in the economic climate in Indonesia? First and foremost is that since we operate with a fiat currency, as do almost all the countries of the world. We are not immune from a sudden and serious economic adjustment—at any time. Dollar strength and our ability to spend dollars overseas, without penalty, will not last forever. Confidence in the U.S. economy, and the dollar, will one day be challenged. The severity of the repercussion is not predictable but it could be enormous. Our obligation, as Members of Congress, is to protect the value of the dollar, not to destroy it deliberately, in an attempt to prop up investors, foreign governments or foreign currencies. That policy will only lead to a greater crisis for all Americans.

As the Asian crisis spreads, I would expect Europe to feel the crunch next. Unemployment is already at or approaching 12% in Germany and France. The events can be made worse and accelerated by outside events like a Middle Eastern crisis or a war between India and Pakistan both now rattling their nuclear sabers. Eventually though, our system of "crony capitalism" and fiat money system will come under attack. Our system of favoring industries is different than the family-oriented favoritism of Suharto, but none-the-less is built on a system of corporate welfare that prompts constant lobbying of Congress and the Administration for each corporation's special interests. We have little room to talk as we preach austerity, balanced budgets and sound money to the current victims. Our day will come when we will humble ourselves before world opinion as our house of cards comes crashing down.

We will all know we are on the right track when the people and our leaders are talking of restoring liberty to all equally, and establishing a sound money system that prevents the Federal Reserve from manufacturing money and credit out of thin air for the benefit of politicians, corporations and bankers who directly profit