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EIR Economics

Monetary disintegration proves LaRouche was right

by John Hoefle

"We are now in the middle of a new phase of disintegration of the global monetary and financial system," economist Lyndon LaRouche declared in a radio interview with "*EIR* Talks" on Feb. 1. "Around the world, leading people—bankers and political people—who, up until a few weeks or months ago would have either denied, or did deny, and would have rejected or even ridiculed my forecast on the present monetary situation, now are saying that the entire international monetary and financial system is in the process of disintegration. Not just collapse, but disintegration."

The ongoing disintegration of the global financial system may be news to some of the putative experts on the world financial scene, but it is not news to readers of *EIR* and its sister publications, whose coverage of the world's descent into economic Hell is unrivaled.

"Mexico's physical economy has been looted to the point of collapse, but the figures show that even the final phase of the bankers' speculative gain has been reached, and a financial blowout is imminent," *EIR* reported in April 1993. Other Ibero-American countries, such as Argentina and Brazil, "are also rapidly approaching a blowout phase," *EIR* warned.

One year and eight months later, that collapse occurred, and the United States, the International Monetary Fund, and the Bank for International Settlements have been forced to put together a $47.5 billion loan package to stabilize Mexico, to prevent the Mexican collapse from triggering a global catastrophe.

The Mexican loan package was necessary, Treasury Secretary Robert Rubin told the House Banking Committee on Jan. 25, because of "the potential that Mexico has for creating a spillover and affecting capital access in developing countries around the world, and by adversely affecting capital access, thereby creating the potential for economic, political, social, and security disruptions for those countries, which in turn would feed back and again affect our economic and security interests." The Mexican package, Rubin stated, "presents an historic opportunity to avert a crisis before it is too late, and a crisis that in our judgment could have a substantial and profound impact on this country for many years to come.

"We are facing an immediate crisis; we are not talking about weeks or months," Rubin warned.

LaRouche's Ninth Forecast

"The presently existing global financial and monetary system will disintegrate in the near term," LaRouche warned in his Ninth Forecast in April 1994. "The collapse might occur this spring, or summer, or next autumn; it could come next year; it will almost certainly come during President William Clinton's first term in office; it will occur soon. That collapse into disintegration is inevitable, because it could not be stopped now by anything but the politically improbable decision by leading governments to put the relevant financial and monetary institutions into bankruptcy reorganization."

That disintegration is inevitable, LaRouche warned, because the very existence of the speculative bubble, depends upon the looting of the underlying physical economy. As with a cancer, the growth of the bubble comes at the expense of its host; the larger the bubble, the weaker the host. Therefore, any attempt to prolong the life of the bubble by pumping it up further actually hastens its collapse.

The accuracy of LaRouche's economic forecasts is based upon his understanding of the science of physical economy. Economic growth depends on increases in the productive powers of human labor. Policies which increase that productive power through the development of infrastructure and higher levels of science and technology, lead to economic

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growth and the growth of relative potential population density, in per capita, per household, and per square kilometer terms. Policies which decrease that productive power—such as the looting of the economic base to feed a financial bubble—lead inexorably to economic collapse.

The mudslide

Thus far, the financial collapse has taken the form of what LaRouche described in his Eighth Forecast in November 1991, as a "mudslide." Huge chunks of the global economy have simply disappeared, like mud sliding down a rain-soaked hill. Institutions once considered to be too big to fail, have either ceased to exist or continue as mere shadows of their former selves. The U.S. banking system, although bankrupt, keeps its doors open thanks to a covert bailout from the Federal Reserve and U.S. Treasury over the last several years, typified by the New York Fed's de facto takeover of Citicorp. Some of Wall Street's most prestigious firms, Kidder Peabody for one, have disappeared. In the City of London, the venerable S.G. Warburg, banker to the queen, is seeking a bailout. The government of France is bailing out Crédit Lyonnais for the second time, and the Scandinavian governments have likewise bailed out their banking systems. Japanese banks are holding hundreds of billions of dollars in bad loans; Sumitomo Bank's write-off of $8 billion in such loans is a mere drop in the bucket.

The list of losses from the derivatives market is growing fast, and will escalate thanks to the Federal Reserve's raising of interest rates another half-point on Feb. 1. That same day, federal regulators closed Capital Corporate Credit Union of Lanham, Maryland, after the institution lost $100 million in derivatives; among its members are credit unions serving the White House and Congress. Typical of the insanity is the derivatives loss suffered recently by the Palm Beach County, Florida Sheriff's Department.

Growing recognition

The chorus of voices beginning to recognize the disaster at hand is growing, and many are worried enough to state their fears publicly. One of the most outspoken is Banque Bruxelles-Lambert's Roland Leuschel. In early January, Leuschel told the German daily *Süddeutsche Zeitung* that the crash "is already here. It is becoming a salami crash. We just had a crash on the bond market. And we had losses of $3.5 trillion in bonds alone. This is already one-half of the crash. . . . The crash always comes by surprise. Otherwise, it wouldn't be one." Leuschel continued in the Jan. 20 French weekly *L'Evénement du Jeudi,* noting that there are $2-3 trillion in financial transactions a day globally, with only 1% having anything to do with trade in goods and services. This is "artificial wealth, based on nothing," he said. "There are no miracles, bubbles always end up bursting."

"The whole financial system is in danger, it is quite possible that what we are witnessing is the process of the disintegration of the financial system," one German political source told *EIR*. "All the symptoms are there—unbalanced budgets, excessive internal debt, imbalance of accounts, and the like—but everybody thought, wrongly, we could survive in a sick system. . . . This is quite a psychological shock."

The debate on what is called the Mexican crisis reflects the depths of worry, and the depths of insanity in some circles. On the PBS broadcast, MacNeil-Lehrer News Hour, on Jan. 31, Treasury Undersecretary Lawrence Summers compared the current situation to the United States in 1929 and Europe in 1931, noting the calls at that time to just let the market system work: "You saw the consequences in the 10 years that followed. . . . Now, I'm not saying that this is going to cause some kind of Great Depression," he said, but many observers "have recognized that there is a need for government action at times of particularly severe financial distress. And that by providing a backstop, you can avert huge amounts of damage."

That triggered a response from former Federal Deposit Insurance Corp. (FDIC) Chairman L. William Seidman, who appeared on the show with Summers. The situation is not as dire as the government claims, Seidman said. The government "made it worse," he claimed, "because if the chairman of the Fed and the secretary of the treasury are screaming to high heaven that the world is going to fall in, that tends to have its effect on the marketplace."

Said Summers: "We're sure of what would have happened if we had not been prepared to act, and it would not have been pretty." He added: "You know, with all respect, it was thinking like Mr. Seidman's that made the Depression Great, as governments were not prepared to step in."

During Seidman's watch at the FDIC, the U.S. banking system collapsed. Had we put the system into bankruptcy then, instead of prolonging its demise via the derivatives bubble, we wouldn't be facing the biggest financial collapse in 650 years.

Perhaps the dumbest of the recent statements came from Federal Reserve Board Gov. John LaWare, who defended derivatives as the "crown jewels of U.S. capital markets." "It would be a grave mistake to try to outlaw them," he insisted. Picture LaWare as a doctor, issuing statements in defense of malignant tumors, and you get the idea.

The solution to this crisis begins with recognizing the disease, the decay and inevitable disintegration of the existing central-bank monetary system, LaRouche said recently. Nothing can be done, and nothing should be done, to save the system. You have to tell the patient to give up the diseased organ; otherwise the patient will die. "What we have to do, very simply," LaRouche said, "is to seize the U.S. Federal Constitution, and the work of Treasury Secretary Alexander Hamilton, the work of Henry Carey, of Friedrich List, and Abraham Lincoln, with both hands, and say, 'This was good; let us eliminate that which replaced it, which is now dying, and let us bring it back into operation.' "