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## Book Review

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# The Evils of Monetarism: It's 'Globalization,' Stupid!

by Harley Schlanger

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### **Too Big To Fail: The Inside Story of How Wall Street and Washington Fought To Save the Financial System—and Themselves**

by Andrew Ross Sorkin New York: Viking,  
2009 539 pages, hardcover, \$32.95

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### **On the Brink: Inside the Race To Stop the Collapse of the Global Financial System**

by Henry M. Paulson, Jr. New York: Hachette  
Book Group,  
2010 453 pages, hardcover, \$28.99

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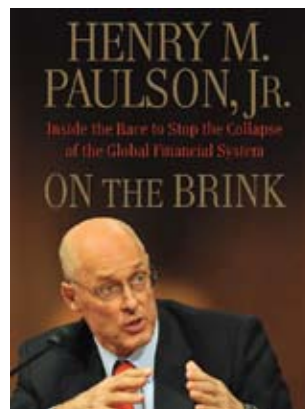
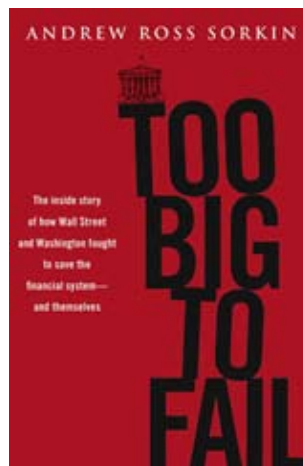
They are sticking with their story!

The swindlers and thieves among the world's leading bankers from the City of London and Wall Street, and the charlatans in university economics departments and think tanks who provide academic rationales for their corruption, insist that the post-Bretton Woods free-market system of "globalization" is just fine, thank you, and would function perfectly, if it were not for continued interference by government.

You can read their sophisticated arguments daily in the major press, and hear them spout off endlessly in the electronic media. And now, through a proliferation of books on the "greatest financial crisis since the Great Depression," we are being bombarded with their self-congratulatory paeans, as they wax on about how they have "saved civilization."

What nonsense!

As physical production continues to ratchet downwards at an accelerating rate, unemployment remains at



the highest levels in 80 years, and home and commercial foreclosure rates are skyrocketing, these self-proclaimed saviors are creating mountainous levels of debt which will never be paid off, through a continued bailout of worthless paper assets, which remain on the books of financial institutions, instead of placing those institutions into bankruptcy reorganization.

The debt, then, becomes the excuse for demanding Hitler-style fascist austerity, as in President Obama's so-called health-care bill, as human lives are being sacrificed as "useless eaters," just as they were in Nazi Ger-

many, to provide whatever minimal income stream can be squeezed out, to service the growing debt.

### **They Should Have Listened to LaRouche**

Books such as the two which are the subject of this review, *Too Big To Fail*, by Andrew Ross Sorkin of the *New York Times*, and *On the Brink*, by former Treasury Secretary Henry M. Paulson, Jr., should be sold as fiction, because, in spite of the "facts" that are presented

by the authors, it is clear that they still have no clue as to the insanity of the financial-monetary system which they claim, in their books, has been saved, by the process of endless bailouts.

At the outset, let me note that, had these authors, and any of those self-styled “Masters of the Universe” with whom they collaborate, paid attention to the voluminous writings and accurate forecasts of economist Lyndon LaRouche, there would have been no reason to write these books, as the continuing crisis they purport to cover would never have happened.

On July 25, 2007, as the first signs of the “credit crunch” were becoming visible, LaRouche opened a webcast with a warning that should have been included by these authors, if they were seriously attempting to provide insight into what the nation, and the world, has been forced to suffer over the last several years.

He began: “[T]he world monetary financial system is actually now currently in the process of disintegrating. There’s nothing mysterious about this; I’ve talked about it for some time, it’s been in progress, it’s not abating. What’s listed as stock values and market values in the financial markets internationally is bunk! These are purely fictitious beliefs. There’s no truth to it; the fakery is enormous. There is no possibility of a non-collapse of the present financial system—none. It’s finished, now! The present financial system can not continue to exist under any circumstances, under any Presidency, under any leadership. . . . Only a fundamental and sudden change in the world monetary financial system will prevent a general, immediate chain-reaction type of collapse.”

Within days after this warning, LaRouche specified precisely what he meant by a “fundamental and sudden change,” with his drafting of the Homeowner and Bank Protection Act (HBPA). Had this legislation, which was endorsed by local and state governments throughout the United States, been passed by Congress, more than 2.5 million families would still be in their homes. Further, the banking system, as a whole, would have been put through a Franklin Roosevelt-style bankruptcy reorganization, freezing trillions of dollars of worthless assets, to be written down, or written off entirely, later, and there would never have been the atrocity known as a bank “too big to fail.”

In addition to the HBPA, which would have protected the legitimate functions of banks, an utterance of hundreds of billions of dollars of productive credit, by the U.S. Congress, focused initially on job creation in pro-

ductive infrastructure, including, but not limited to, high-speed rail construction, nuclear power production, and water and power management, would have reversed the 45-plus years’ collapse of physical goods production and employment, and initiated a real economic recovery.

### **It’s Called ‘Physical Economy’**

What the financial wizards, whose thoughts and actions are chronicled in Sorkin’s book, have not yet grasped, is that an economy is not about money, but about the production and distribution of the physical goods needed, today, to sustain a global population of more than 6.8 billion, while, at the same time, investing in the future, in areas which will allow for the scientific and technological progress needed to provide for the next several generations.

Physical economy is the subject of LaRouche’s life work, centered around his assimilation of the crucial discoveries of scientists and physical economists of the past, such as Johannes Kepler, Gottfried Leibniz, and Bernhard Riemann, and his advancement of their work, through his own unique discoveries about the American System of economics. It was this system, introduced by Benjamin Franklin and his protégé Alexander Hamilton, and revived by John Quincy Adams and Abraham Lincoln, which allowed the United States to break successfully from the monetarist system of the British Empire, to establish our nation as the world’s leading industrial-agricultural producer, and the model for the unprecedented physical economic development of nations such as Germany, France, and Japan, at the end of the 19th Century.

Under the mis-leadership of pro-British traitors, from Teddy Roosevelt and Woodrow Wilson, to Calvin Coolidge and Herbert Hoover, the American System of physical-economy was replaced by a typical imperial, speculative, bubble economy in the 1920s, which popped, causing the Great Depression. The City of London bankers and their Wall Street allies, such as the Harriman family, backed the coup that placed Hitler in power in Germany, to accelerate the looting of the German people, to pay the debt allegedly owed to the British and American bankers.

Fortunately for the U.S., Franklin Roosevelt rejected fascism as a solution, and moved quickly to reverse the speculative, free-market policies which led to the Depression, imposing instead, bankruptcy reorganization, on the day of his Inauguration, and using legislation, especially the Glass-Steagall banking regulation



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White House/Pete Souza

*The assumptions of officials such as Federal Reserve chairman Ben Bernanke (left), and former New York Federal Reserve president (and current Treasury Secretary) Timothy Geithner (right, with Larry Summers looking on), that led to the meltdown of the financial system, were repeatedly, devastatingly wrong.*

bill, to return the U.S. to an economy based on infrastructure development (called “internal improvements,” under our early, anti-British, anti-monetarist leaders), and investment in energy-intensive forms of agro-industrial production.

FDR’s American System approach was again reversed, by the same London-centered financial forces, to some extent, after FDR’s death, and then with a vengeance, following the British assassination of President Kennedy. In the subsequent five decades, we have seen an all-out assault against physical production and a regulated system, in favor of what is known as “globalization,” a radical free-market, deregulated monetary system, where increasingly bizarre and worthless “financial instruments” have become the main product of the so-called economy.

### **The ‘Crash’ Occurred Before 2007**

The sophisticated trick that underlies the writing of economic “journalists,” such as Sorkin, and fraudsters such as the mega-speculator and former Goldman Sachs CEO Paulson, is that they argue that the “wealth” produced by these “financial instruments” is real, and is the basis of a strong economy. Instead of viewing the detachment of investment from physical economy, to purely speculative churning of financial instruments, as a net loss for the real economy, they look only at the monetary profits which can come from the building of a

bubble, as a plus for the economy.

Although they, at times, accurately portray the manic and dangerous tactics of policymakers to manipulate the “market,” to save their firms, their careers, and their personal portfolios—for example, both books are full of stories of CEOs who acknowledge that what they are carrying on their books, for their own accounts and their clients, and trading with their counterparties, is “crap” (see below)—they argue that there is nothing intrinsically wrong with the systemic shift, from the production of goods, to proliferation of instruments of “risk,” such as collateralized debt obligations (CDOs) and credit default swaps (CDS), and such hyperinflationary, non-productive investments as those typified by currency speculation in the “carry trade.”

Given that he has spent the last years studying the disintegration of this system of “financial innovation,” from his perch as “Dealbook” editor of the *New York Times*, Sorkin’s book must qualify as an outright fraud. His opening statement of the problem shows that he had to be “in” on the game, as it is impossible that he could believe the absurdity of the explanations offered by himself, or the players involved.

Sorkin writes that, by 2008, Wall Street had gone from “celebrating its most profitable age to finding itself on the brink of an epochal devastation.... As the unraveling began, many on Wall Street confronted a market unlike any they have ever encountered—one





CSPAN videograph

*Alan Greenspan's belated admission, before a Congressional committee (shown here), that there was a "flaw in our system," came too late for the millions of Americans who have now lost their jobs, their homes, and their savings, in the economic collapse, and the bailout of Greenspan's Wall Street cronies.*

gripped by fear and disorder that no invisible hand could tame. They were forced to make the most crucial decisions of their careers, perhaps of their lives, in the context of a confusing rush of rumors and policy shifts, all based on numbers that were little more than the best guesses. Some made wise choices, some got lucky, and still others lived to regret their decisions. In many cases, it's still too early to tell whether they made the right choices."

How dramatic! Lest the reader get caught up in what one reviewer described as an authentic modern tragedy, the "fall of the Titans," examine, instead, the fallacious implied assumption that the "most profitable age" of Wall Street was actually "profitable," and good for Americans! Even as he takes us through repeated examples of how insane the trading practices at leading banks were, and how the assumptions of officials such as Federal Reserve chairman Ben Bernanke, and former New York Federal Reserve president (and current Treasury Secretary) Timothy Geithner, were repeatedly, devastatingly wrong, the assumption is that there was nothing wrong with the system—just a dose of over-exuberance related to the housing market, and the subsequent failure to price assets properly, such as mortgage-backed securities (MBS).

Contrary to the assertions of both Sorkin and Paulson, the problem was never caused by housing per se,

but the dicing and slicing of mortgages from home purchases into the now-notorious MBS—then, using them as leverage for short-term borrowing to purchase even more exotic, unregulated financial derivatives, while arguing that the short-term speculative profits derived from this practice represented real economic growth. Both authors argue, foolishly, that the collapse of manufacturing and productive jobs—which, in reality, has been ongoing since the mid-1960s—was a mere side effect of the popping of the housing bubble, and these jobs will ultimately come back, thanks to the bailouts!

Thus, in spite of massive evidence, presented in these two books, of the insanity of the post-industrial, speculative casino economy, and the criminal lunacy of creating trillions

of dollars of new debt to bail out the bankers and financiers who created history's greatest Ponzi scheme, neither Sorkin nor Paulson ever question its underlying legitimacy!

### **'So I'm the Schmuck?'**

An astute reader can, if sufficiently motivated, find massive evidence of the hypocrisy of the leading players in both of these books, though that is clearly not the intention of either author. One such example is the belated admission, before a Congressional committee, by former Fed chair Alan Greenspan, who deserves much of the blame, as architect and chief cheerleader for the disastrous policies imposed since his tenure began, at the time of the October 1987 stock market crash, that there was a "flaw in our system."

Greenspan, who at the height of the speculative bubble was nearly universally proclaimed to be the "guru" or the "maestro" (except, of course, by LaRouche, who repeatedly exposed him as a faker), said of his once-beloved "financial innovations," which he had promoted with a vengeance, that "...some of the complexities of some of the instruments that were going into CDOs bewilders me. I didn't understand what they were doing or how they actually got the type of returns out of the mezzanines and the various tranches of the CDO that they did. And I figured if I didn't understand

it, and I had access to a couple hundred Ph.D.s, how the rest of the world is going to understand it sort of bewildered me.”

These “complexities” never interfered, however, with traders at Lehman Brothers, Merrill Lynch, Goldman Sachs, and Morgan Stanley, just to name a few, who were buying and selling these instruments for their own profit, while filling up the portfolios of their unsuspecting clients with this garbage, benefiting from the churning of the markets that they caused.

Following the government takeover of Fannie Mae and Freddie Mac in a vain effort to halt the collapse of the market for mortgage-backed securities (MBS), the collapse of Bear Stearns, and with Lehman and Merrill heading into the dump by September 2008, a “sudden,” momentary honesty emerged among the principals, which is chronicled by both authors, and shows that they knew all along that their high stock valuations and super-profits were based on fraud.

After all, when in history had any sane investment banker accepted leverage rates of 30.7 to 1, which was the valuation at Lehman, or 26.9 to 1 at Merrill, with the “1” representing the value of the firms’ overpriced assets? Sorkin reports that, “the CEOs of the firms that sold these products had no better comprehension of it all.” Instead of mark-to-market accounting, by which the value of an asset is determined by the price it would get if sold, “banks valued their illiquid investments simply at the price they paid for them, rather than venture to estimate what they might be worth on any given day.”

The arbitrary nature of who was to be bailed out, and who would be allowed to fail, i.e., whose worthless assets would be guaranteed by the Federal government—and whose not—was too much for the anguished CEO of Lehman Brothers, Richard Fuld, who responded when told that Lehman would not be bailed out, “So I’m the schmuck?”

### **‘Free Money’**

Of Merrill Lynch, which claimed its CDO exposure was “nearly fully hedged,” Sorkin writes that as “market condition worsened, it became clear that the metrics they were using had no grounding in reality.” AIG, which sold a new form of “risk insurance” called credit default swaps (CDS) manufactured by their financial products division in London, concluded from their computer models that these devices “seemed fool-proof.” The holders of such swaps—mostly banks and investment firms—could expect, according to Sorkin,

“to receive millions of dollars in premiums a year. It was like free money.”

AIG has already received over \$180 billion in Federal bailout funds, in addition to untold billions more in loan guarantees, and is lining up for yet-another bailout. Its counterparty exposure in notional derivatives stood at over \$2.7 trillion when the bailout began. Lloyd Blankfein, who replaced Paulson as CEO of Goldman Sachs, said of AIG, that it was “marking to make-believe”; while James Lee, a J.P. Morgan Chase official involved in the review of AIG’s books, is quoted asking, “Who is going to buy this shit?”

The answer is, that the American people, and their children and grandchildren are buying this “shit,” as the bailout continues. The question which should be posed is: “free money” for whom?

Sorkin, whose book contains page after page of such raw material, which would be of great value for a Pecora Commission, to prosecute the swindlers who have, instead, been the beneficiaries of the largesse of both the Bush and the Obama administrations, nevertheless fails, because of his acceptance of the axioms of globalization and the post-industrial economic paradigm. His failure, therefore, to treat what he has chronicled as real crimes against the American people, sadly deserves for his book the subtitle, “Too Big To Read,” as it ultimately leads the reader nowhere.

It would be a much better use of time—and money—for one wishing to reverse the collapse of our nation’s, and the world’s, economy, to spend time at LaRouchePAC.com, and study the webcasts and writings of Lyndon LaRouche, to become a knowledgeable adherent of the American System of physical economy. One can begin with LaRouche’s answer to the fifth question from his March 13, 2010 webcast, and his follow-up discussion of that answer, posted as the “Special Weekly Update” on April 1, 2010 [in last week’s *EIR*].

As for former Secretary Paulson, it is hard to believe that he could have been as self-deluded as he presents himself. Typical is his description of his state of mind after another one of his “weekends at Bernie’s” in the Autumn of 2008, as he and his fellow superheroes, Bernanke and Geithner, crafted one bailout after another, to prevent “a meltdown” and to “save” the system: “Perhaps I should have foreseen the problems ahead, but for the moment that night, as I fell asleep, I just felt good.”

That is more than can be said for the rest of us, who will likely spend many sleepless nights undoing the damage done by these criminals.