
 John Hoefle

Reverse three decades of destruction

What we are witnessing today, most dramatically in Asia but rapidly spreading through Russia, the East bloc, and Ibero-America, is not a sudden phenomenon, but the result of three decades of destructive economic policies, during which time the physical economy of the world has been systematically looted, while the largest financial bubble in history has been created. The turmoil in Asia marks a rapid descent into Hell for populations around the world. This descent has been deliberately orchestrated by the international financial oligarchy, as part of a strategy to put the genie of the nation-state back in the bottle, and return the world to the era of empires, in which 5% of the population would live like kings, and the other 95%—those who survive this descent into a new Dark Age—would be relegated to the short and brutal lives of peasants.

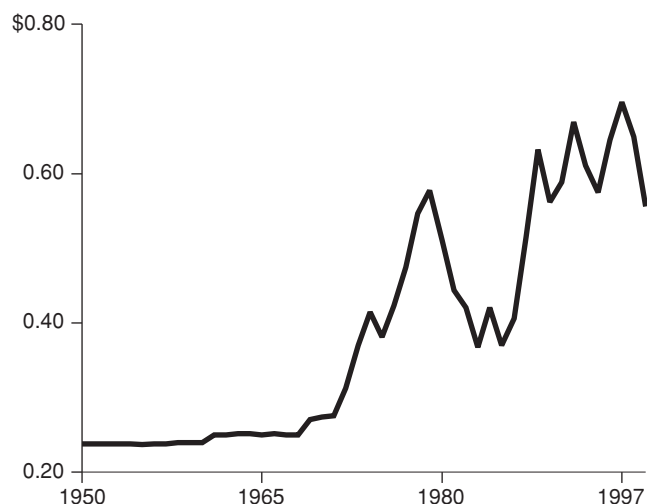
We are today faced with a stark choice: Either we reverse these 30 years of insanity, and quickly, or we watch civilization itself disintegrate.

The theme of our panel today is not just economics, but also culture and morality. How has the United States—once the beacon of hope for all mankind, leading the way toward a new era of progress for all—become so small, that we tolerate those who claim that the suffering in Asia is to our benefit? That the suffering in Russia, in Africa, in Ibero-America, indeed, even in our own country, is somehow beneficial? What happened to us? How did we go from a people committed to conquering the frontiers of science, to a nation willing to let entire peoples die, to protect our own portion of a shrinking pie?

Coming out of World War II, the United States had the most powerful economy in the world, a fact which filled the oligarchy with horror. Were the United States to resume its founding mission, that of dismantling the empires and replacing them with sovereign republics, the power of the oligarchy to rule the world would be destroyed.

The oligarchs, as you might imagine, were determined to prevent that, so they launched an assault on the American System, on the American nation, and on the American people. This assault targetted the culture and morality of America, to make the people little enough to accept fundamental—and fundamentally destructive—changes in the society, which would destroy America from within. What we see today, is the result of three decades of this decay.

FIGURE 1
U.S. dollars per German mark



Source: IMF International Financial Statistics, *EIR*.

Nixon pulls the plug

In 1971, President Richard Nixon broke the Bretton Woods system of fixed currencies by delinking the dollar from gold. At the time, there were violent debates about the dangers of allowing currencies to “float,” but the “experts” assured us that the governments and central banks were powerful enough to keep any speculators in line. The result: An era of currency stability ended, and an era of currency speculation began (**Figure 1**).

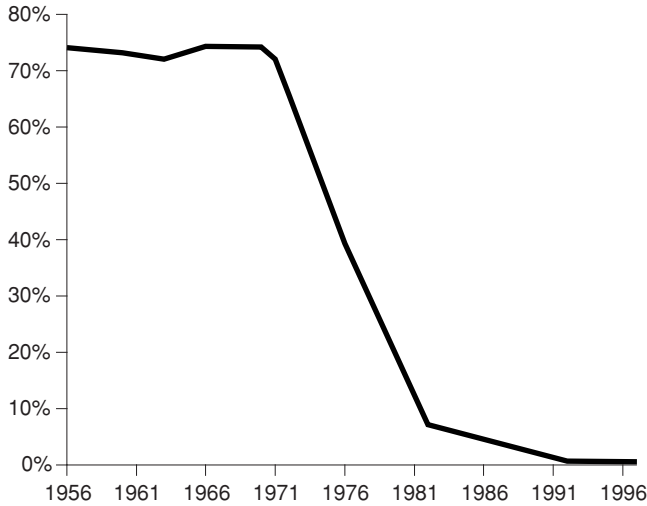
This is a crucial point. Few things are more necessary for world trade than stable national currencies, and few things are more destructive to world trade than currencies which fluctuate wildly. How can nations trade among themselves, when they don’t know what their currencies will be worth in a year, six months, or even tomorrow? There would be no George Soros, no currency raids, no multitrillion-dollar foreign exchange speculation today, if we had not made this fatal mistake. But we did, and the speculators have taken over so completely, that U.S. merchandise trade accounts for just 0.5% of global dollar currency trading (**Figure 2**).

The next big ratchet downwards came at the end of the 1970s, when Federal Reserve Chairman Paul Volcker pushed interest rates through the ceiling (**Figure 3**). As with the floating currencies, we were told that this would be good for us—it’s amazing that anyone ever believes the Fed, given the way they lie about what they do. How many times have we been told that the Fed must raise interest rates to check inflation, to keep the economy from growing so fast that it overheats?

What the Fed was really doing, was changing the rules again, in favor of the speculators, while making life much

FIGURE 2

U.S. import-export trade as percent of global dollar currency trading



more difficult for the producers. With a 20% interest rate, you have to get a 30% rate of return on your investments just to make 10%. Who can get a 30% rate of return on a new steel plant, which takes years of design and construction, before it can begin to produce? Nobody. In such an environment, the productive economy decays.

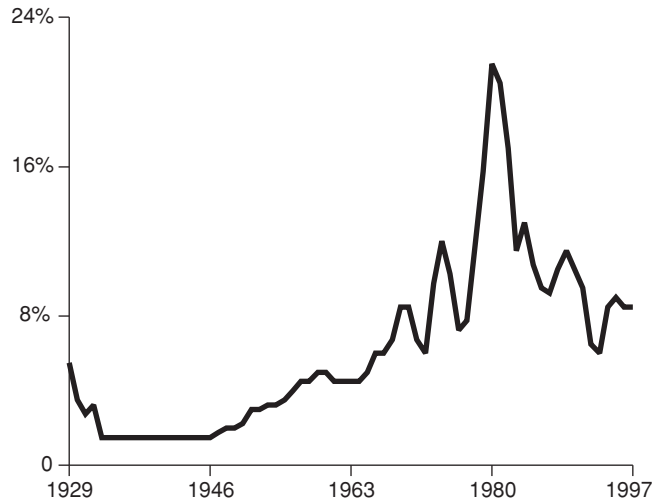
The result was a shakeout, in which the productive sector of the economy was “downsized,” while the speculative side of the economy grew. Many smaller firms disappeared, or were bought out by the huge conglomerates, with funding from the oligarchy.

These two moves—floating currencies and high interest rates—paved the way for the speculative orgy of the early 1980s, the so-called Reagan-Bush economic boom. Everything that could be speculated on, was: commodities, real estate, financial paper, anything. The economy became a giant casino. Real estate values soared—primed by billions of dollars of the oligarchy’s laundered drug money—to the point where speculators could buy a property in the morning, sell it in the evening, and walk away with millions of dollars in “profit” (Figure 4). The junk bond machine also fired up—again, with dope money—targetting and asset-stripping industrial corporations, and sending the ones which weren’t taken over, into the arms of the investment bankers for protection. The transformation of the American economy from one based upon industrial and agricultural production, to one based upon financial speculation, was in full swing. The boom was on.

But this boom, to put it politely, was a fairy tale. The 1980s was not a decade of growth, but a decade of debt. During the 1980s, financial claims increased more than \$6 for

FIGURE 3

U.S. prime interest rate

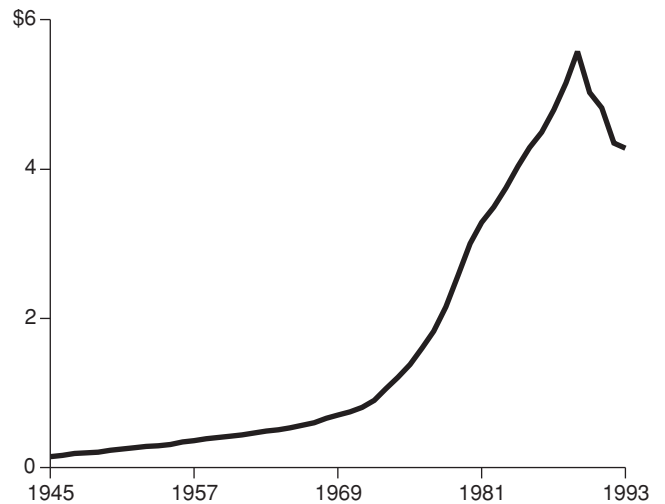


Source: Federal Reserve.

FIGURE 4

U.S. land values

(\$ trillions)



Source: Federal Reserve.

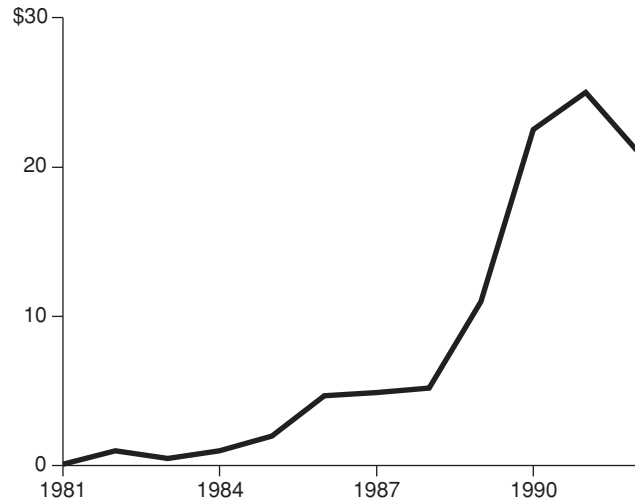
every \$1 increase in GDP, and only about one-third of GDP reflects production, while two-thirds reflects overhead costs, and the bubble.

By the end of the 1980s, the U.S. economy was in shambles. The real estate and junk bonds bubbles had burst, throwing the U.S. banking system into bankruptcy (Figure 5). The savings and loan system was destroyed—those thrifts which

FIGURE 5

Junk bond defaults

(billions \$)



Source: Moody's, Standard & Poor's.

didn't jump into speculation couldn't compete, and those which did, died—and the commercial banks were also bankrupt (Figure 6). By 1990, the Fed and the Bush administration were busy arranging under-the-table bailouts for the big U.S. banks. Citicorp was secretly taken over by the Fed, and shotgun marriages were arranged for several other giant zombies.

All during this period, Lyndon LaRouche had urged the governments and the bankers to shift their policies, warning that the speculative binge which they had unleashed must ultimately, inevitably, collapse. It were far better, LaRouche advised, to take your losses now, and reorganize the system. The longer you wait, he warned, the worse the consequences.

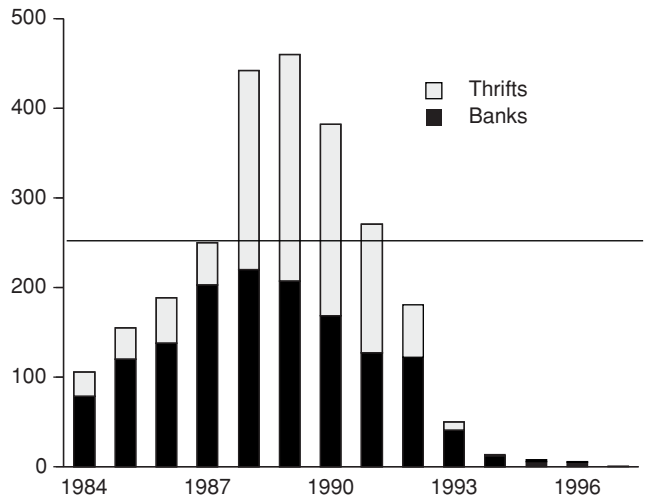
LaRouche's warning, like the writing on Belshazzar's wall, was ignored. Instead, the experts came up with a new scheme, a whole new level of financial speculation and insanity: derivatives (Figure 7).

One of the world's leading defenders of derivatives is Fed Chairman Alan-in-Wonderland Greenspan. Derivatives, Greenspan insists, are helping lead the world into a new era of economic progress, a world "beyond history."

"Beyond history." That's a quote. When someone talks like that about the economy, you know they're a few bricks shy of a load. But when the chairman of the Federal Reserve talks like that, you know he's also lying. "Beyond belief" is more like it. Remember, these are the characters who told us that allowing currencies to float was good for us, who said that high interest rates and junk bonds were good for us—now they're telling us that derivatives are good for us. Only a fool would believe that, but many people apparently do.

FIGURE 6

Bank and thrift failures

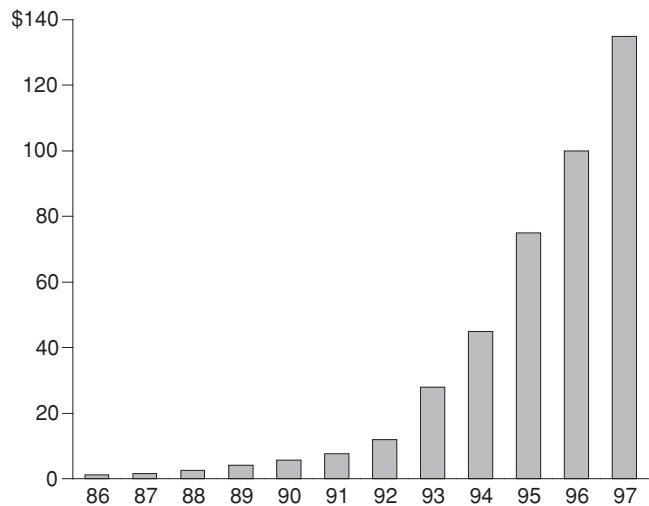


Source: FDIC.

FIGURE 7

World derivatives growth: The cancer takes over

(trillions \$)



Sources: BIS, *Swaps Monitor*, ISDA, EIR.

The 'Triple Curve' function

The effect of these policies has been a marked shift in the U.S. economy, away from a production orientation, where we understood that wealth came from the production of physical goods, into a "post-industrial" economy, in which the manip-

FIGURE 8

A typical collapse function

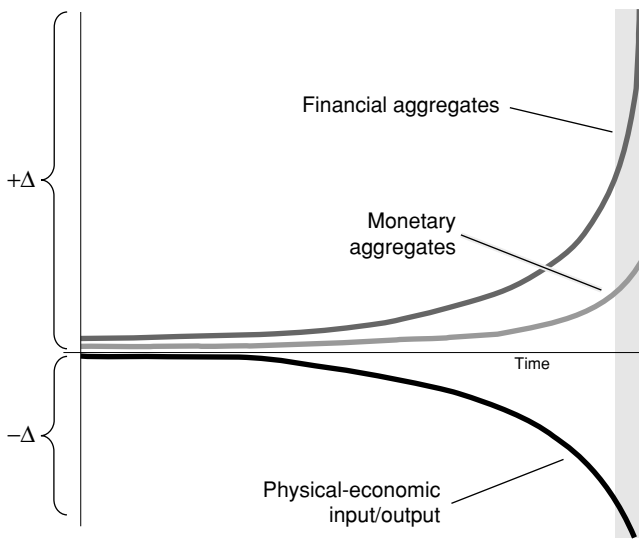
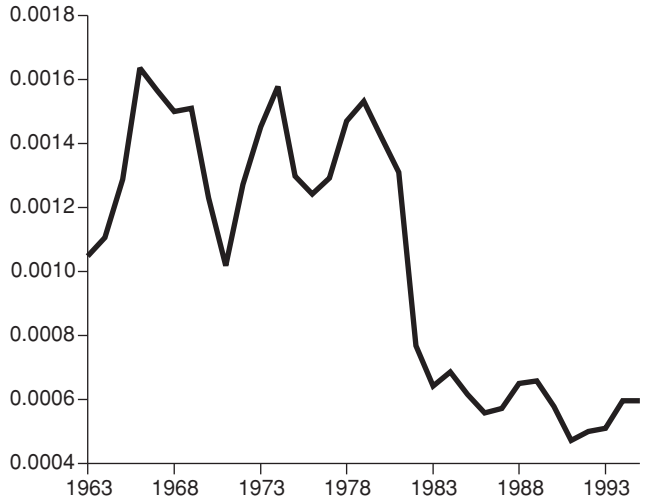


FIGURE 9

American machine tools produced per capita, 1963-95



Sources: *U.S. Machine Tool Handbook*, U.S. Commerce Department.

ulation of money is all too often considered the source of wealth. This process, in which financial claims are going north at a hyperbolic rate while the physical economy is going south at a hyperbolic rate, can be seen in LaRouche’s Triple Curve (Figure 8). This is the world “beyond history,” to which Alan Greenspan refers. The level of financial claims is growing, while the ability to pay those claims is being destroyed. This is a system which cannot survive.

When measured in terms of physical production per capita, per household, and per square kilometer, the U.S. economy has been contracting at an average of about 2% a year over the last 30 years, and the rate of contraction is accelerating. That translates into a drop of some 50% since the mid-1960s, when the rock-drug-sex counterculture assault on America was launched by the oligarchy.

Much of this decline has been masked by the effects of the bubble, which distort measurements made in dollars. It has also been masked through looting: We import food from countries where people are starving, we import goods manufactured by people working in near-slave-labor conditions, and we have thrown many of our own people on the scrapheap. We have the illusion of prosperity: billionaires by the score, millionaires by the thousands, people rolling in the virtual money of the bubble economy.

But underneath, our economy is just a shell of its former self. Poverty abounds—real poverty, of real people. More than one in ten American families receives food stamps; homelessness is epidemic, with people living in cars, under bridges, and on the streets. Children without food or medical care, and without hope. People spending money they can’t

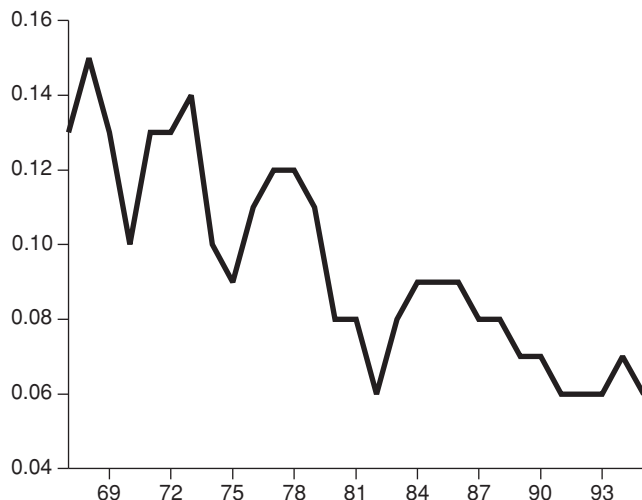
afford on the lotteries, in the vain hope that they will win the “big one,” and find a way out of their misery. Mere existence, for an alarming number of our citizens, has become a daily fight. This is America today, the America whose economy, we are continually told, is “fundamentally sound.”

Physical economic collapse

We must cure our fellow citizens of this myth, if we are to survive. To that end, let us take a more detailed look at the true state of the U.S. economy today, from the perspective of the market basket of physical goods.

- Goods production: The most telling metric of our industrial decline, is the collapse of machine-tool production. Machine tools are the machines needed to build the machines, which increase the productive power of a worker’s labor (Figure 9). You cannot have a fully functioning industrial economy without a strong machine-tool industry, and the decline of American machine-tool production, reflects the decline of American industrial production. Another metric is the decline in U.S. car production (Figure 10). We should be exporting cars, not importing them. As a result of this decline in manufacturing, the percentage of the workforce involved in the manufacturing of goods has declined to about the level it was at the time of the Civil War (Figure 11). Thirty years ago, nearly 50% of the workforce was involved in manufacturing, agriculture, or essential public services such as health care and education; today, the figure is less than 20%. Much of our industrial capability has simply disappeared, as plants were closed, and skilled workers retired, or were laid off. We have lost an entire generation of industrial workers: The shortage

FIGURE 10
Cars produced per household, 1967-95



Sources: U.S. Commerce Department.

FIGURE 11
Manufacturing workers in U.S. labor force



Sources: U.S. Bureau of Labor Statistics.

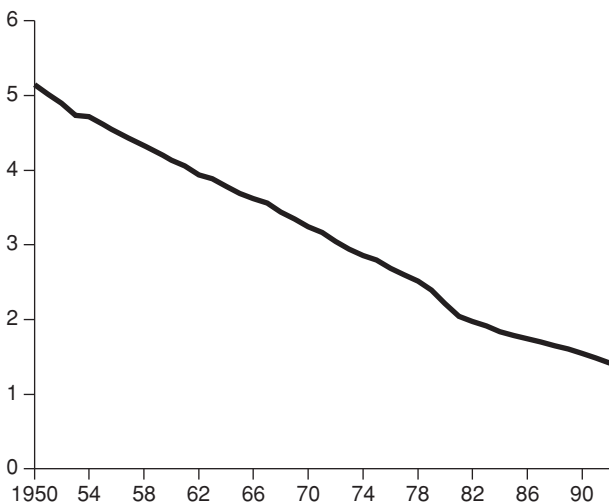
of skilled labor is so acute, that the aerospace and other high-tech industries, are encountering increasing difficulty finding workers to handle some aspects of what manufacturing remains.

A similar situation exists in agriculture, where family farms are failing at record rates, driving experienced farmers off their land.

- Infrastructure: Without infrastructure—food, water, shelter, transportation, health care, education, and related items—there can be no prosperity. We used to understand that, but too many of us no longer do. Today, infrastructure projects are often attacked as “pork-barrel” items, a waste of money. The result, point by point:

- Transportation: The cheapest method of moving bulk goods is by water, and throughout our history we have put a high priority upon developing a system of navigable rivers and canals. The industrial development of the Midwest was due in large part to the Great Lakes and the Mississippi and Ohio rivers. But today, inland waterway development projects are considered boondoggles, or, even worse, “crimes against Mother Nature.” Waterborne freight is cheap, but slow, so we developed a nationwide system of railroads to move goods, both for speed and to carry goods in areas where there was no water transport grid. The railroads were originally built by patriots committed to building the nation, uniting the coasts and providing development corridors for the vast stretches in-between. But our railroad system has been taken over by the financiers, and is now being dismantled (Figure 12). Today, thanks to the disastrous merger of Union Pacific and Southern Pacific, much of the rail traffic in the western half of the nation is gridlocked, and Congress,

FIGURE 12
Railroad mileage per thousand households



Sources: U.S. Statistical Abstract, U.S. Census Bureau.

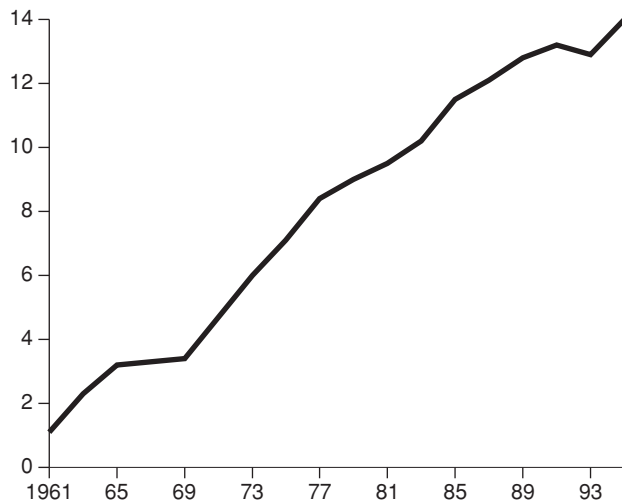
never one to learn from its mistakes, is now permitting the breakup of Conrail, which will destroy what is left of the eastern grid.

That leaves the road and air-freight systems, which are essential, but cannot replace water and rail. Today, the trucks are getting bigger and heavier, overloading roads and bridges which are deteriorating, and which we supposedly can't afford to replace. The result is a transportation grid which is

FIGURE 13

Average age of jetliners

(years)

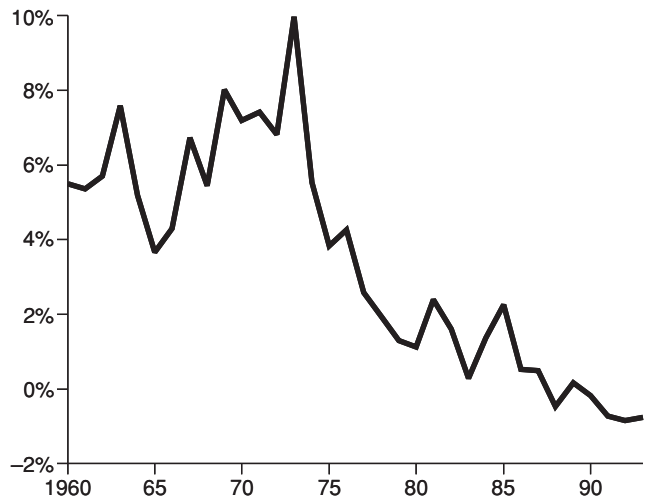


Sources: U.S. Statistical Abstract, U.S. Census Bureau.

FIGURE 14

Electricity generated, U.S.A.

(per capita)



Sources: Electric Power Statistics Sourcebook, U.S. Census Bureau.

inefficient in the distribution of goods, overly expensive, and deteriorating.

The deterioration can also be seen in passenger transportation. Our jetliner fleet is aging (**Figure 13**), and the airways are congested. The solution, a network of high-speed, magnetically levitated trains, is technologically feasible and would be highly efficient.

- **Water:** Abundant supplies of safe, clean water for human consumption, and agriculture and industrial processes, are a prerequisite for human life. On a planet dominated by oceans, there is no need for water shortages, but they exist. Not only have water management projects — such as the North American Water and Power Alliance, which could provide plentiful water to the western U.S. — been defeated, but the whole idea of water management has been turned on its head. Today, when the Mississippi or some other river floods, the kooks come out of the woodwork to demand that the river be allowed to flow wherever it wants, humanity be damned. Flood control is now seen as a crime against Mother Nature — another sign of a society gone mad. In many cities of the Northeast, the water mains are 100-150 years old, and vast amounts of water spill out through leaks in the system. All too often, the water that does make it though the system is not safe to drink, due to outbreaks of waterborne diseases, as our water purification engineers fight a losing battle with the collapse of the water system.

- **Energy:** Brownouts and blackouts have become a common occurrence, and what power is available, is way too expensive (**Figure 14**). We once talked of an electricity supply that was too cheap to meter, but now we talk about conser-

vation, of downsizing our lightbulbs and others ways to cut back power consumption. We have people who die in heat waves, because they can't afford to run their air conditioners; we have monthly electric bills today which rival the house payments of not too long ago. The failure to move to nuclear fusion power, with its safe, clean, and efficient power generation, is a significant drag on the U.S. economy, and a major strategic vulnerability.

- **Education:** A disaster. In the minds of our children rests the future of mankind, and proper education steeps children in the great concepts and discoveries of history. Such education bears little relationship to the mind-numbing drill-and-grill classrooms of today, where signs of life are often labelled a "disorder," and stamped out with drugs. In order to develop the cognitive powers of our citizens, we must develop the beauty of their character, and infuse them with the ability and desire to change the course of human progress for the better.

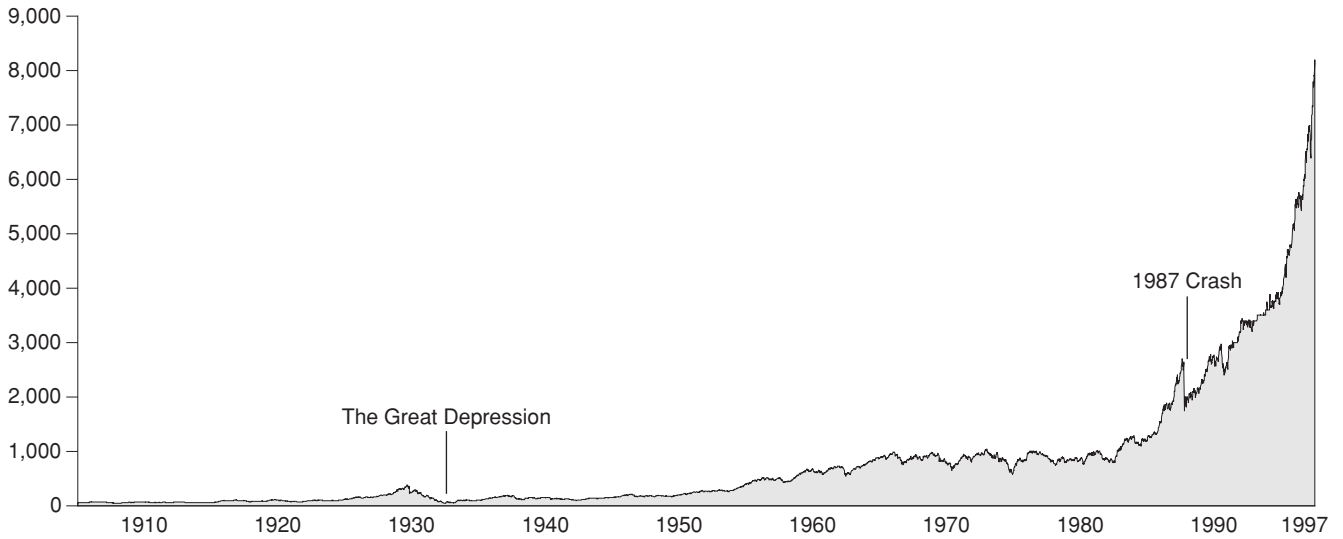
- **Health care:** Another disaster. It is in the public interest to treat the sick, both because they are human, and because we are. Human life is sacred. It is also in the public interest to eradicate communicable diseases, to prevent them from spreading to others. This is a moral point, over which the bean-counters should have no say. We treat the patient first, and talk about the cost later.

The final phase

While the fundamental processes upon which the economy depends to survive have been operating below the breakeven point, the monetary claims have been skyrocketing. Take a look at the Dow Jones Industrial Average (**Fig-**

FIGURE 15

Dow Jones Industrial Average weekly closings, 1900-97



Source: Dow Jones & Co.

ure 15). The Dow has been going almost straight up over the last few years, to the point that the 1987 crash was just a small blip. But ask yourself, why? What has happened in the real economy to make the Dow grow so high? Nothing. During this period, corporations have not expanded, but contracted, laying off workers, downsizing, and doing all the awful things the Wall Street analysts tell them are necessary to win the favor of investors. Corporations don't produce products anymore, they produce a stock price, and Wall Street could care less whether they do it with gambling casinos or steel mills.

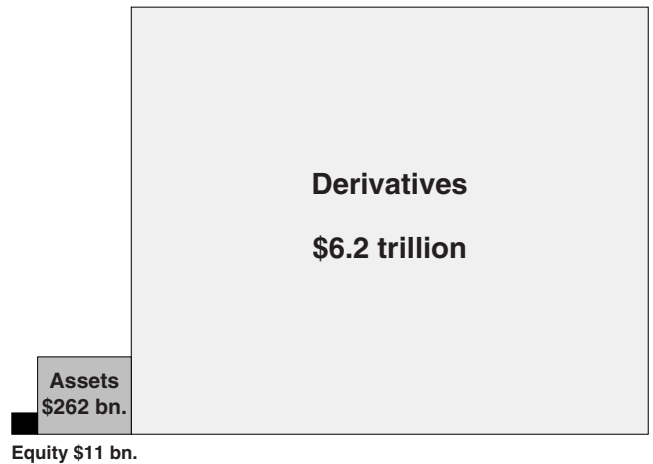
The banks have also bounced back, reporting record profits over the last several years. But the big banks aren't really banks anymore: They're speculators, playing the derivatives markets, placing bets hundreds of times larger than their equity capital. The banks are like gamblers in a casino, raking in the chips, and getting filthy rich—right up to the point where they try to cash out their chips, and discover that the money isn't there. A good example is J.P. Morgan, a bank with a reputation for being conservative. As of March 31, Morgan had \$12 billion in equity capital, \$271 billion in assets, and \$6.6 trillion in off-balance-sheet derivatives (Figure 16). A loss equivalent to just two-tenths of 1% of its derivatives portfolio, would be enough to wipe out every nickel of Morgan's equity capital, and such losses are coming.

The financial institutions are in deep trouble at this point. The only way they can keep their pyramid scheme growing, is by further looting the real economy, and the faster they loot

FIGURE 16

J.P. Morgan & Co.'s derivatives, assets, and equity compared

(as of Dec. 31, 1997)



Source: Office of the Comptroller of the Currency.

the real economy, the faster it collapses. The International Monetary Fund's "bailouts" of the Asian economies have not only failed to stem the hemorrhaging, but have demonstrably made matters worse. All eyes are now on Japan: If Japan blows, the entire global financial and monetary system will

follow. The bankers are now demanding that the Japanese people throw their life savings into the bubble, to buy a bit more time, but it won't help. And if we get past Japan, there are plenty of other Achilles' heels, starting with Russia and Brazil.

After three decades of looting, the international financial system is finished. The IMF is finished. The central banks have lost control, and are now admitting that they don't know what to do. Greenspan has said it, the IMF has said it, the Bank for International Settlements has said it—they don't see a way out. They're just trying to hang on, and keep the game going.

The bankers' confusion is understandable, because from inside their system, there is no way out. There is not some problem with their system, which can be corrected. Their system is the problem. They are the problem.

But, so are we, because we let it happen. And we have to look deep within ourselves, to find the flaws of thinking, and the flaws of character, which stopped us from intervening.

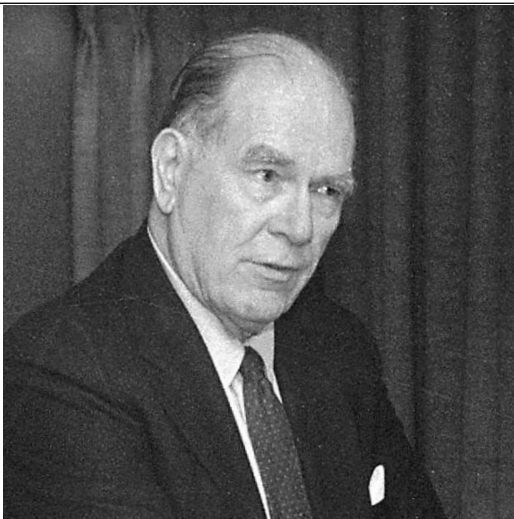
If we fail to act

The issue before us today, is how to defuse this failed financial system, before it explodes. If we fail to act, we face a chain-reaction implosion in which the world's financial and monetary systems could simply disintegrate in a matter of

days. The bankers are demanding more of the poison which is killing us, and only a few governments have shown the wisdom and the courage to resist.

At every turn, the elements essential for the survival and development of mankind, are being dismantled. Three decades ago, most of us saw our fellow man as an ally, someone helping to build the world, to turn it into a better place for ourselves, and the generations to follow. Today, many of us have just the opposite view, and see our fellow man as a threat, a competitor for scarce resources. The attitude, that "for everything you get, there is less for me," is a reflection of a great pessimism, of someone who views the world as collapsing, and is looking out for their own survival. It is the "each against all" world of the British Empire's Thomas Hobbes, not the world of our Founding Fathers and their co-thinkers.

We stand at the crossroads of civilization, and the decisions we make now will determine whether civilization survives or dies. Either we use the power of reason to build our way out of this crisis, or we continue along the well-worn path of failure. We know which path the oligarchy would have us take—just follow the neon signs, all the way to Hell. What we must do, is climb, put our minds to the wheel, and create a new Renaissance out of the ruins. It's been done before, and we can do it again.



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