

# The financial bubble: prosperity for some, tragedy for all

by John Hoefle

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Years ago, Lyndon LaRouche observed that, were aliens to visit Earth and see what was going on in our derivatives markets, they would write us off as a planet gripped by insanity. In the intervening years, that insanity, like derivatives, has spread like a disease, infecting the far reaches of the global financial system, and the minds of our fellow humans.

Today, money has become an obsession with tens of millions of Americans—not “money” in general, not “his money” or “her money,” but “my money!” Those who have it are obsessed with keeping it and adding to their pile, and those who don’t have it are obsessed with getting some.

What’s the most popular show on television: “Who Wants To Be a Millionaire?” It’s such a big hit that it has spawned a rash of copycats—“Greed,” for one, and even “Who Wants to Marry a Multi-Millionaire?”

What is the state of mind of a man who would pick a wife from among the contestants on a TV show, and what is the state of mind of a woman who would enter a contest to marry some guy she never met, just because he’s rich? And what about the states of mind of the tens of millions of viewers who have made such freak shows so popular?

If you’ve ever wondered how entire societies could go insane, like the Netherlands with the Tulip Bubble, just look around, because we’re living through such a period now.

This is a genuine, world-historic *mania*. The global financial system has become a giant casino, run by the British-centered international financial oligarchy as a way to separate the “little people” from their money. But that’s just a part of it. The real aim of these oligarchs (or ‘garchs, for short, since we don’t want to treat them with too much respect), is to destroy the nation-states and their populations, and take the world back to the feudal days when the Sun never set on the Queen’s slaves.

This requires quite a bit of trickery, because the nation-state is a vastly superior form of social organization—at least it is when it functions properly. As Benjamin Franklin warned: “A Republic, if you can keep it.”

To beat the United States, the ‘garchs have to destroy

it from within, which means dumbing down enough of the population to prevent it from functioning as a citizenry. Get enough people to turn their backs on reason, and the nation ceases to function. One of the ways this is done, is through greed, through “my money.”

Anyone with any sense knows that the world, and the United States, is increasingly being divided between the haves and the have-nots. Some are horrified by this on moral grounds, and some are just horrified at the thought that they may not make the cut. That they will be “losers,” rather than “winners.”

As if one can “win” from the destruction of civilization.

## On the edge of the abyss

By most accounts—meaning the reports from the oligarchy’s propaganda outlets, and the salesmen trying to lure your money into the bubble—the world economy has never been in better shape, thanks mainly to the wonderful growth in the United States over the last few years. After all, according to Federal Reserve Chairman Alan Greenspan, the biggest problem we have, is keeping growth under control, keeping the economy from overheating. Then there’s the silly debate about what to do with the non-existent “budget surplus”—do we pay down the debt, cut taxes, or put it into Social Security? Since there’s no surplus, why not do it all?

On the international front, they claim, our biggest problem is that the rest of the world is not following our lead, not generating enough “growth” themselves. We’re getting tired, Greenspan says, of carrying the bulk of this expansion alone. That’s an interesting concept: We’re getting tired of making all the money ourselves, and wish that others would take some of these profits off our hands. If you believe that line, I have a bridge to sell you. (Just look under Brooklyn, on eBay.)

What Greenspan knows, but doesn’t dare say, is that the United States is sitting at the center—meaning Ground Zero—of the biggest financial bubble in history. A bubble which is becoming more unstable by the day, and which requires constant attention and an increasing amount of money to keep it from popping.

Somewhere out there in oligarch-land is a command center, which constantly monitors the bubble and dispatches the equivalent of SWAT teams to the scenes of financial disasters.

“Hello, 911? This is Wall Street. We just lost a trillion dollars in the derivatives market!”

“Calm down, sir. We’ll be right there.”

Then, the whole system swings into action, with central banks supplying money and guarantees, manipulating the markets to cover up those pesky losses before they have to be reported on somebody’s books.

That’s the way the system works these days. One or more of the big players gets into trouble — and they tend to get into trouble in packs, since they all do basically the same thing — and the Keepers of the Bubble step in to drive the markets back into line with the big players’ derivatives bets.

All of the rules are designed to protect the power of the oligarchy against the power of nations. When Travelers Insurance and Citicorp announced their merger, everyone on Wall Street and in Washington knew it was illegal, but no one did anything. Actually, they did do something: Congress changed the law, repealing the Glass-Steagall Act and effectively legalizing the merger.

The financiers clearly consider themselves above the law. Asked about the repeal of Glass-Steagall, insurance giant American International Group chairman Hank Greenberg boasted to the *Wall Street Journal* that the change in the law was irrelevant. “Most financial companies have been doing what they wanted to in any event,” Greenberg bragged.

The Department of Justice seems to agree. The DOJ for years has used Federal conspiracy laws to nail both the innocent and the guilty, yet, when the chairmen of Travelers and Citicorp held a press conference to publicly announce their intent to break Federal law — a clear violation of Federal conspiracy statutes — the Justice Department did nothing. The same Justice Department that never met a black elected official it didn’t want to indict, and which threw Lyndon LaRouche and several of his associates into jail for daring to tell the truth about the financial oligarchy. We didn’t break the law, but got nailed anyway. The banks did break the law, and the DOJ did nothing at all. That makes it pretty clear who the DOJ works for: Wall Street.

Look what happened when the Commodity Futures Trading Commission (CFTC) suggested that it might take another look at regulating the over-the-counter derivatives market. It got *smashed*, to the point where it is now wandering around Washington like a eunuch, telling anyone who will listen that it will never bother the derivatives market again. The fact that the CFTC was right, that many of today’s derivatives deals are illegal under U.S. law — as the derivatives dealers and their supposed regulators freely admit — made no difference at all.

Merton Miller, the Nobel Prize-winning economist and member of the board of the Chicago Mercantile Exchange, put it succinctly: The CFTC, he said, “didn’t realize they were working for us; they thought they were in business for themselves.”

What fools! They thought they were regulators! The

moral — or immoral — of this story is clear: Today, under the current system, when the law interferes with the money, the law gives way. The market, not the nation, is sovereign.

## What they are protecting

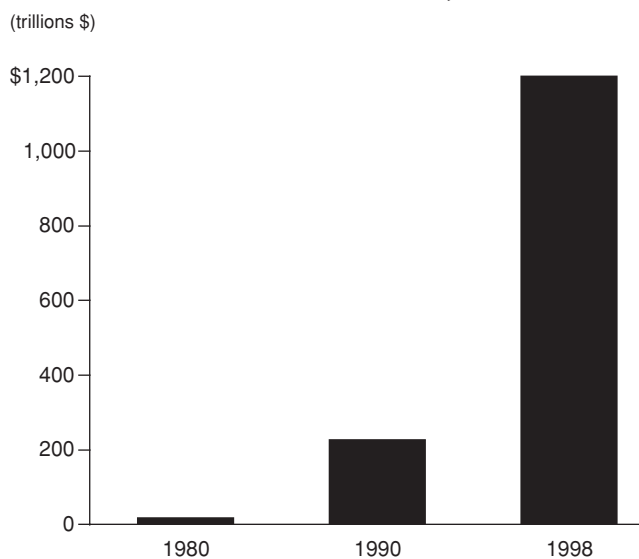
Let’s take a look at what all this propaganda is protecting, and why such brutal measures are considered necessary. The size of this bubble is staggering (**Figure 1**). We estimate that there are somewhere around \$300 trillion in financial claims outstanding worldwide, including derivatives, stocks, bonds, and other forms of debt, both on-balance-sheet and off-balance-sheet. Using the best official figures available, which isn’t saying much, we calculate that annual financial turnover now exceeds \$1 quadrillion a year — that’s \$1,000 trillion or roughly 100 times the level of world trade.

I would have put world trade on this graph, but you wouldn’t have been able to see it without a magnifying glass.

When most people think of trade, they think of physical goods, such as oil, food, cars, and the like, but that’s “Old Economy,” “Industrial Age” thinking. We’re in what the experts call the “New Economy,” where trade in physical goods is largely irrelevant. In the New Economy, we trade money and information, and the information is mostly about money.

Back in ancient times — the 1960s and ’70s — most of the dollars which exchanged hands between the United States and the rest of the world were related to trade in merchandise (**Figure 2**). Back then, 70% or more of the foreign exchange of dollars was connected to trade in physical goods, but today, U.S. merchandise trade accounts for only about five-tenths of

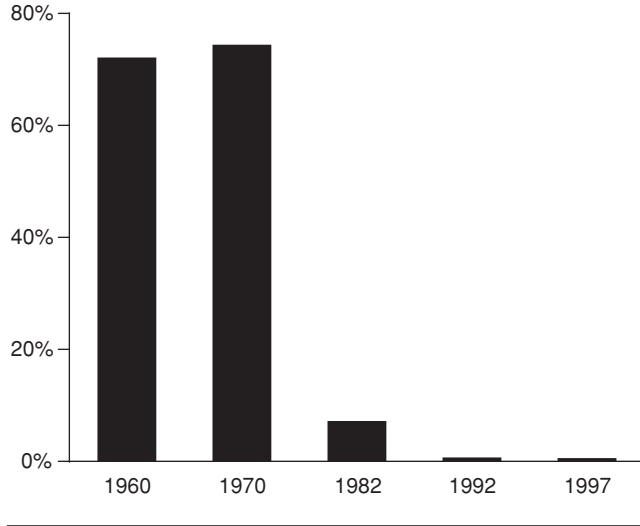
FIGURE 1  
Annual world financial turnover, 1980-98



Sources: Bank for International Settlements, *EIR*.

FIGURE 2

**U.S. merchandise trade as a percentage of global dollar foreign exchange, 1960-97**



Sources: Bank for International Settlements, U.S. Department of Commerce.

1% of global dollar foreign-exchange trading. More than 99% of all foreign exchange trading is now due to speculation of one form or another. And, foreign exchange speculation accounts for only about one-fourth of global derivatives trading, with the real action occurring in the interest-rate sector, meaning the bond markets.

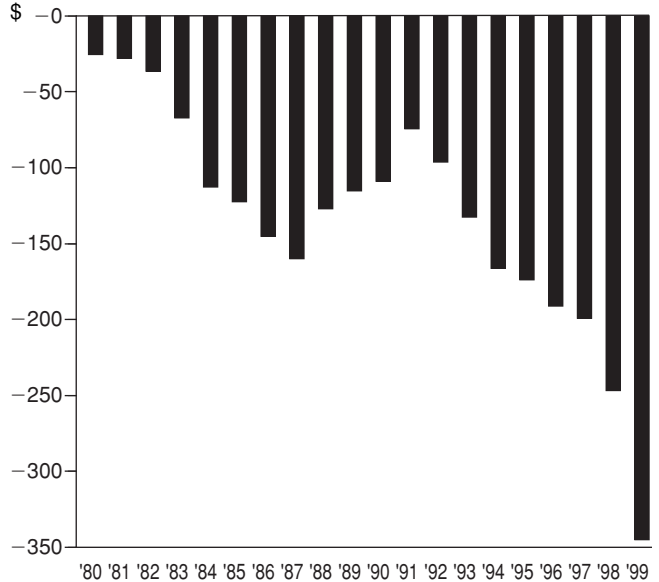
The effect of this shift in the U.S. economy, from being the breadbasket to the world in terms of both agricultural and industrial production, into what is euphemistically called a “service economy,” can be seen in our growing dependence upon foreign goods (Figure 3). Where we once exported our bounty to the world, raising both our own standard of living and that of the nations to whom we sold the machinery and infrastructure to make themselves more productive, we now have to import to make up the shortfall in our own production. We import food from countries where people are starving, while our own farmers go bankrupt at record rates. We move manufacturing facilities to countries where labor is cheap, destroying both our own productivity and our labor force at the same time. We are cannibalizing our nation, and destroying the world, through globalization.

**Focus on the United States**

Big deal! Who needs a physical economy when we have a stock market? This is the “New Economy” at work, the pride of Wall Street and the world (Figure 4). Since the Dow broke 4,000 points in early 1995, it has been going virtually straight up, with a few bumps along the way. All of today’s fluctuations, which we watch with such rapt attention, are occurring

FIGURE 3

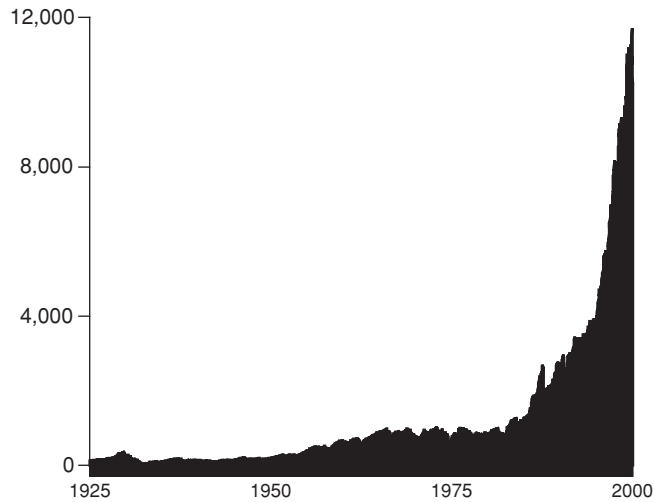
**U.S. physical goods trade deficit, 1980-99**  
(billions \$)



Source: U.S. Department of Commerce

FIGURE 4

**Dow Jones Industrial Average, 1925-2000**  
(weekly closings)



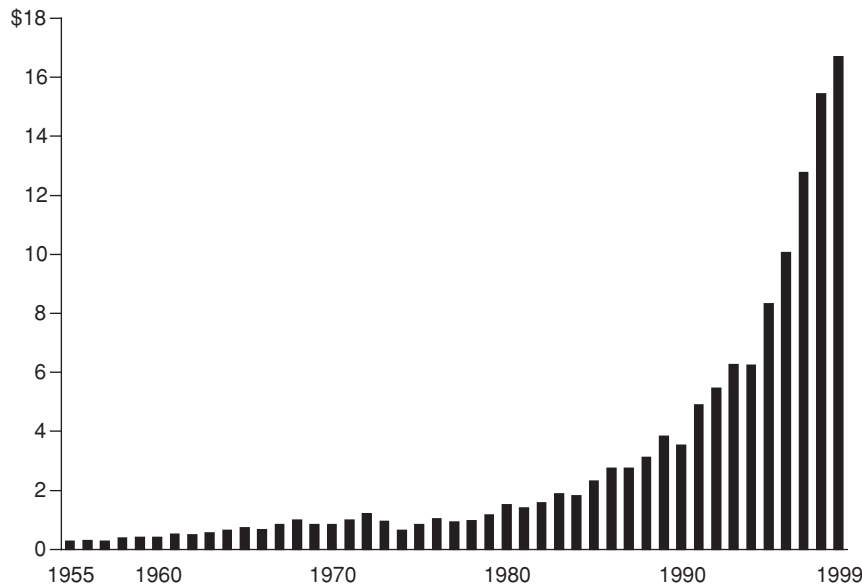
Source: Dow Jones.

at the top of this very big mountain. When the Dow drops 10% or so the experts call it a “correction,” but it’s just a minor fluctuation. A real correction would be more like Mount St.

FIGURE 5

**Capitalization value of all stocks traded on U.S. stock market, 1955-99**

(trillions \$)



Source: Federal Reserve Board of Governors, "Flow of Funds Accounts."

Helens, blowing the top of this virtual mountain to smithereens.

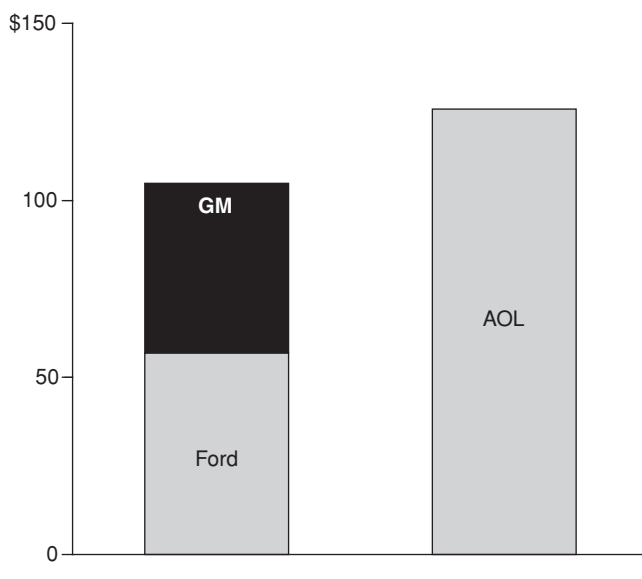
Still, until that correction occurs, this is a money machine which, in the slippery words of Fed chairman Greenspan, "creates wealth" (Figure 5). And what wealth! The value of the stock traded on U.S. stock markets has skyrocketed in recent years, growing by nearly \$13 trillion during the 1990s. At the end of the go-go 1980s, the stock market cap was just under \$4 trillion. When it comes to blowing bubbles, the decade of the 1980s was a wimp. In the 1990s, we got serious! That this growth occurred without any comparable growth in the real economy is not a problem because, according to our "leading economists," this disconnection between the financial and physical economies is a good thing, insulating each from problems in the other.

Once you accept that brilliant concept, you can start to make the serious money, which in the stock market means the Internet.

FIGURE 6

**Market capitalization: Ford, General Motors, and America Online**

(billions \$)



Source: Yahoo! Finance.

Take America Online, for example (Figure 6). At the end of 1999, AOL was the tenth-largest company on the New York Stock Exchange, in terms of market capitalization, right behind Hank "We Do Whatever We Want" Greenberg's AIG. AOL's stock has taken a bit of a hit since it announced it was buying Time-Warner (a deal which will basically double it in size), so its market capitalization is now down to \$126 billion, from a peak of about \$210 billion. Even so, it's still more than Ford and General Motors combined.

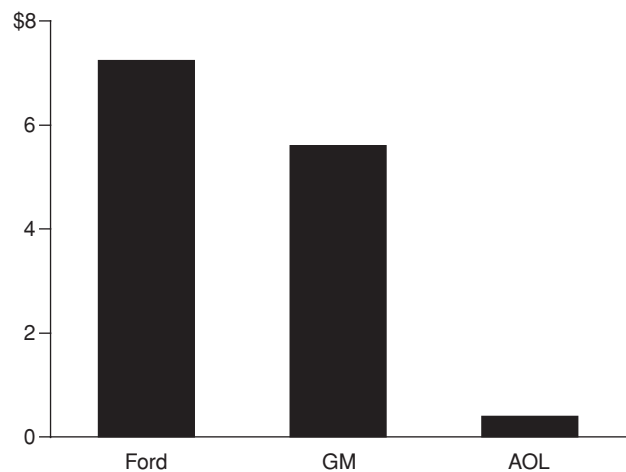
That's pretty impressive, especially considering that Ford and GM both make a lot more money than AOL (Figure 7). But in today's virtual economy, what the company does is irrelevant; it's what the company's stock price does that counts. Companies which make real products are actually at a disadvantage, because all that production costs money. Which means that there's less money for the shareholders.

The smartest way to buy stocks, the investment geniuses insist, is to buy on margin (Figure 8), putting some money down and borrowing the rest. That enables you to buy more stocks than you could afford, if you had to pay cash up front. But, the debt shown in Figure 8 is only part of the picture, because some of the more determined investors take out second mortgages on their homes, or personal loans, or even credit card cash advances, to buy stocks. After all, what's 20% interest when you can buy stocks that go up hundreds, even thousands of percent in a year? Who can afford to pass up that kind of profit?

FIGURE 7

### Net income: Ford, General Motors, and America Online

(billions \$)

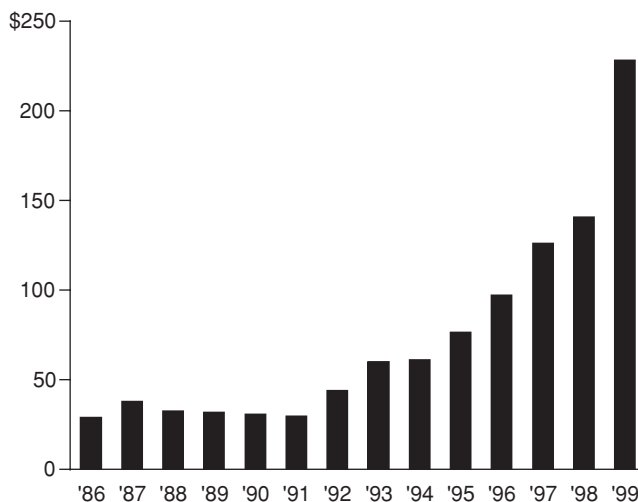


Source: Company reports.

FIGURE 8

### NYSE customer margin debt, 1986-99

(trillions \$)



Source: New York Stock Exchange.

Of course, more than half of the stocks traded on U.S. exchanges lost value during 1999, with the major indices being held up by a relative handful of companies. So, if you're going to bet your house on the stock market, you'd better pick carefully.

### The rich get richer

The old saying about statistics is that if your head is on fire and your feet are frozen, on average you're doing just fine—when in fact you're dying, if not already dead.

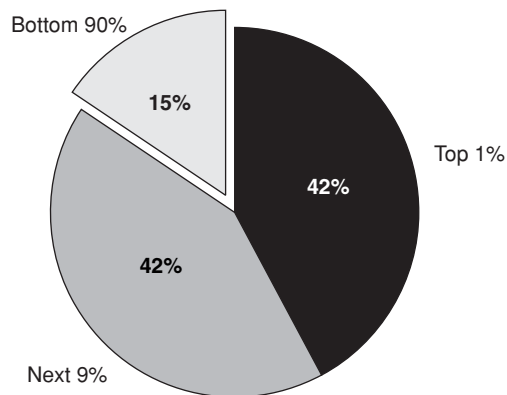
Keep that in mind when you hear about how wealthy we all are today, because the wealth is not distributed equally. As a study by Richard Freeman shows (see "America's Growing Income Gap: There Is No 'Economic Boom,'" *EIR*, Feb. 11, 2000), the rich are indeed getting richer, but the poor are getting poorer.

As it turns out—surprise, surprise!—the rich own most of the stock, and therefore get most of the stock income (**Figure 9**). The wealthiest 1% of the U.S. population owns 42% of all stocks, and the next 9% owns another 42%, meaning that 84% of all U.S. stocks are owned by the wealthiest 10% of the population. The remaining 90% of the population gets to share the rest. So, the top 10% get the lion's share of that \$13 trillion in stock value created by Mr. Greenspan's bubble, and they get to keep more of it, thanks to the cuts in the capital gains tax.

That's one of the reasons why the top 20% of the population now has more total income than the bottom 80% (**Fig-**

FIGURE 9

### U.S. stock ownership



Source: Federal Reserve, Survey of Consumer Finances, August 1997.

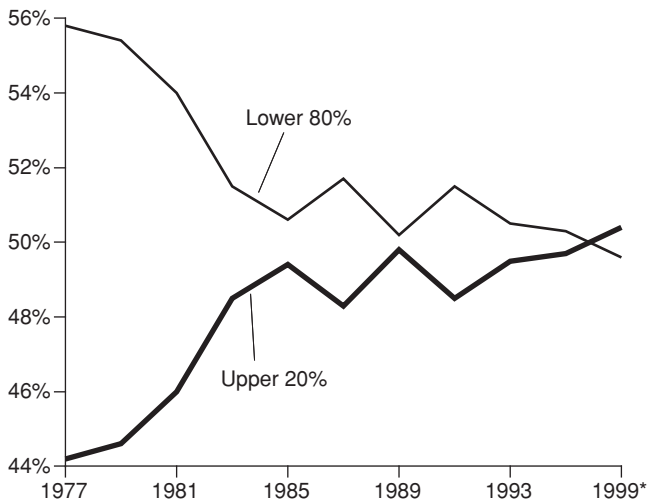
### ure 10).

It gets even worse when you compare the wealthiest 1% to the poorest 20% (**Figure 11**). The median income of the top 1% of the population was \$215,000 a year in 1997, and that more than doubled to \$472,000 a year last year. The bottom 20% of the income spectrum was not so lucky: Their median income fell from \$10,000 in 1997, to \$8,600 in 1999.

FIGURE 10

**Upper 20% of families haul in more of total U.S. after-tax income than lower 80%**

(percent)



\*Projected  
Sources: Congressional Budget Office; EIR.

Imagine trying to support a family on \$8,600 a year, or less. Chances are, you wouldn't be on a first-name basis with a BMW salesman.

Which brings us to, as they say, the bottom line on this winners-and-losers scorecard: net wealth (Figure 12). In the 1980s, being a millionaire was a big deal, but today, millionaires are commonplace — maybe not quite a dime a dozen, but getting close. According to one recent study, there were 7.9 million millionaires in the United States in 1998, compared to 1.6 million in 1990. But, in an era where you can become an instant millionaire by winning a TV game show or a lottery, millionaires are passé. To really make it big, you have to be a billionaire, of which 237 were created in the United States in the 1990s, compared to only 13 in the 1980s.

So, while on average we're all getting richer, the average is meaningless, because 1% of the population owns 35% of the wealth in the country, and the next 9% owns 33%. That's two-thirds of the wealth in the hands of the richest 10%, leaving 90% of us to fight over the remaining third of the pie, much of which is hot air anyway.

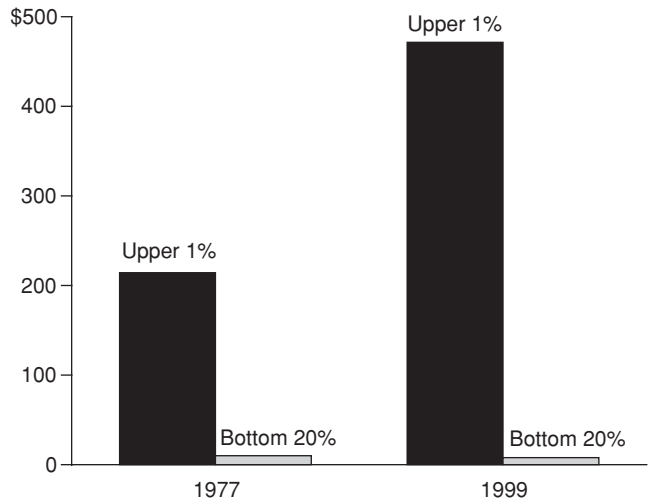
**Sinking beneath the waves**

Of course, these *nouveaux riches* are not without their problems. After all, having the nicest stateroom on the ship is small consolation when the ship is sinking in a sea of debt (Figure 13). During the 1990s, according to the official fig-

FIGURE 11

**U.S. median income, top 1% vs. bottom 20%**

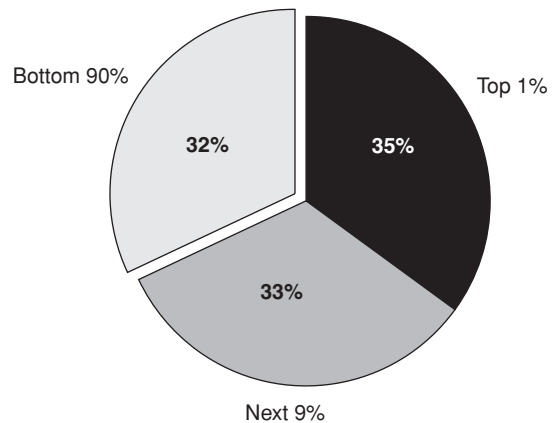
(thousands \$)



Source: Congressional Budget Office, EIR.

FIGURE 12

**American distribution of wealth**

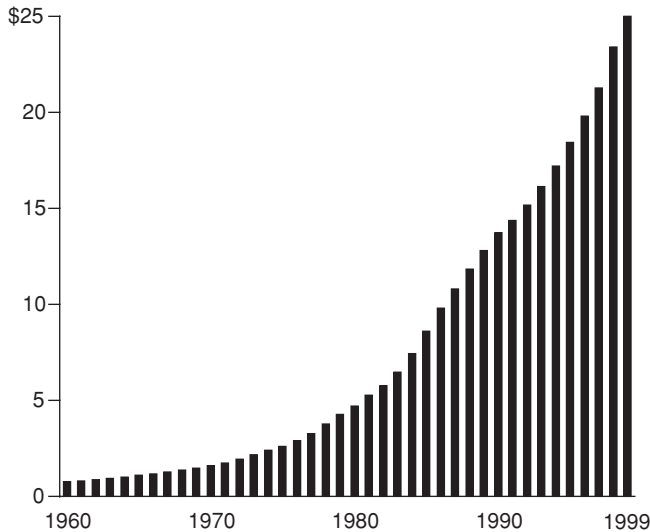


Source: Congressional Budget Office, EIR.

ures, the U.S. economy went over \$3 in debt for every dollar rise in Gross Domestic Product, ending the decade with more than \$25 trillion in combined government and private debt. ("Official figures," keep in mind, means what they publicly admit to; the truth is always much worse.) The growth of the debt during the decade, \$12 trillion or so, depending on the final official figures, offsets nearly all of the \$13 trillion gain in the stock market.

FIGURE 13  
**U.S. total debt, 1960-99**

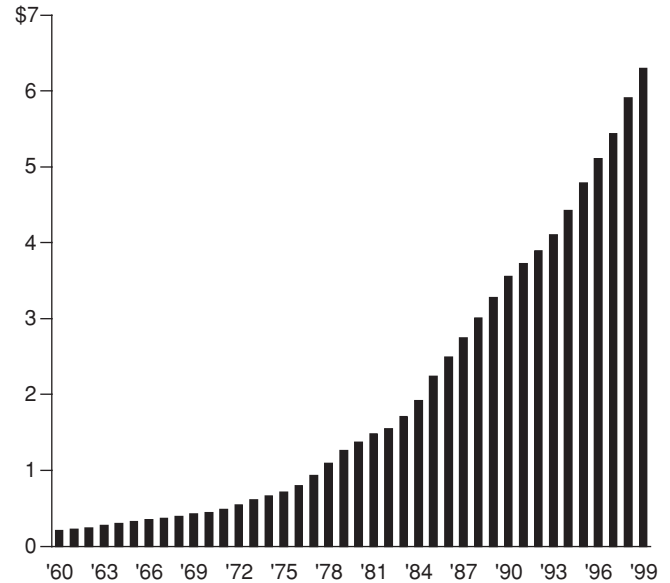
(trillions \$)



Source: Federal Reserve Flow of Funds.

FIGURE 14  
**U.S. household debt, 1960-99**

(trillions \$)



Source: Federal Reserve Board of Governors, "Flow of Funds Accounts."

However, while the stock gains are concentrated among the rich, the debt is not, at least when it comes to household debt (**Figure 14**). According to a 1997 survey by the Federal Reserve, the bottom 90% of U.S. families owed 71% of family debt. That's what happens when one has to live off credit cards and other borrowing, to cover an inadequate income.

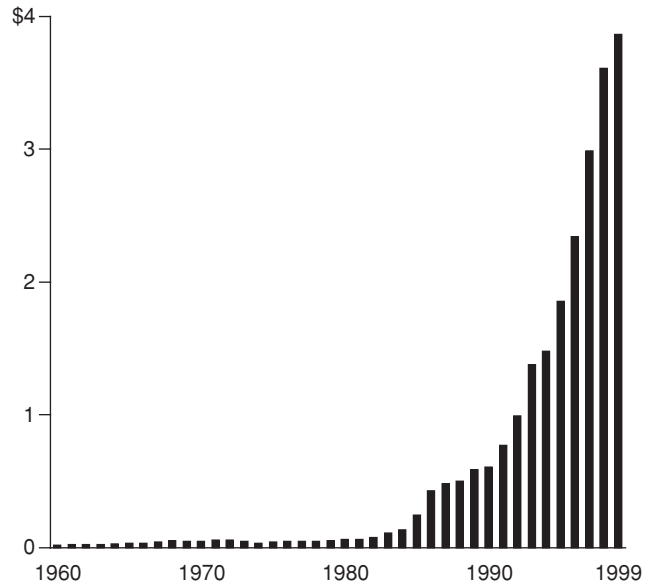
Living beyond their means, many people are counting on their mutual funds, pensions, and the equity in their homes to bail them out—but such hopes are fruitless. The value of mutual funds has skyrocketed, rising more than fivefold in the 1990s (**Figure 15**). But that rise, due to the rise in the stock market as a whole, will disappear a lot faster than it grew. The same holds true for pension funds (**Figure 16**), especially the private funds. When Mount St. Helens blows, so does the safety net.

Many people won't make it that far. More than 10 million people filed for bankruptcy in the 1990s, double the number who filed in the 1980s (**Figure 17**). It got so bad that the defaults began to hurt the credit-card banks. Congress, in its infinite wisdom, again took action, this time revising the bankruptcy statutes to make it harder for the average citizen to obtain protection.

So, people are desperate, frightened by the reality that they're being pushed over the edge of the abyss. This desperation leads many to seek the "big score," to "get theirs" before they go under. People are gambling in many ways, from bet-

FIGURE 15  
**Mutual fund assets, 1960-99**

(trillions \$)

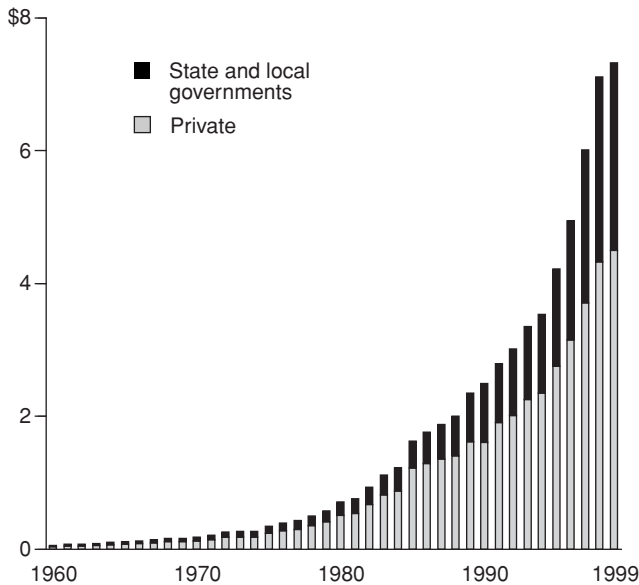


Source: Federal Reserve Flow of Funds.

FIGURE 16

**Pension fund assets, 1960-99**

(trillions \$)



Source: Federal Reserve Flow of Funds.

ting their future on the stock market, to lotteries and casinos (Figure 18).

There is also the problem of cultural pessimism. Prior to the launch of the counterculture in the late 1960s, most people believed that if they worked hard all their lives, they would leave a better world for their children. Their fellow man was their ally in this great work.

That is still possible — this political movement represents that potential — but how many people believe it?

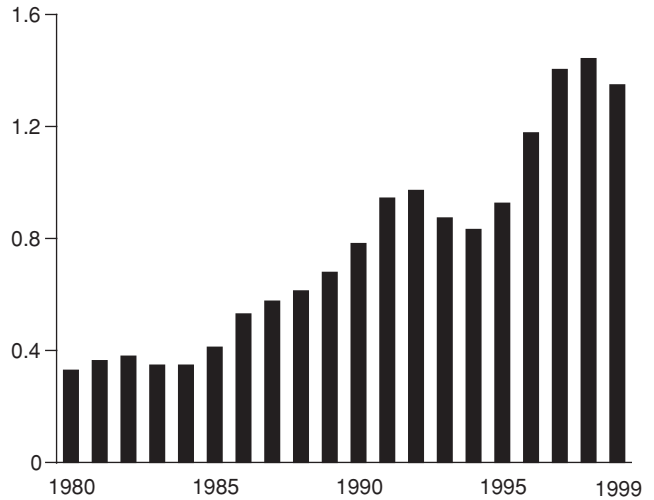
With the rise of the counterculture, many among us turned our back on reason, and the scientific and technological breakthroughs which flow from reason, and adopted a belief structure heavily contaminated with pagan superstitions. We turned our backs on nuclear power, and its potential to revolutionize our economy, a mistake for which we pay heavily in ways well beyond our electricity bills. We turned our backs on pesticides such as DDT, condemning millions of people in poorer nations to starvation and disease. We're turning our backs on water management, to the point where we're tearing down dams and letting the rivers run "free." We've turned our health care over to health maintenance organizations (HMOs), which place a much higher priority on meeting the demands of Wall Street, than they do in keeping us alive.

By turning our backs on progress, we have created a world economy which is in decline, in which resources are becoming scarcer. And, when the pie starts to shrink, the fights start

FIGURE 17

**U.S. bankruptcy filings, 1980-99**

(millions of filings)

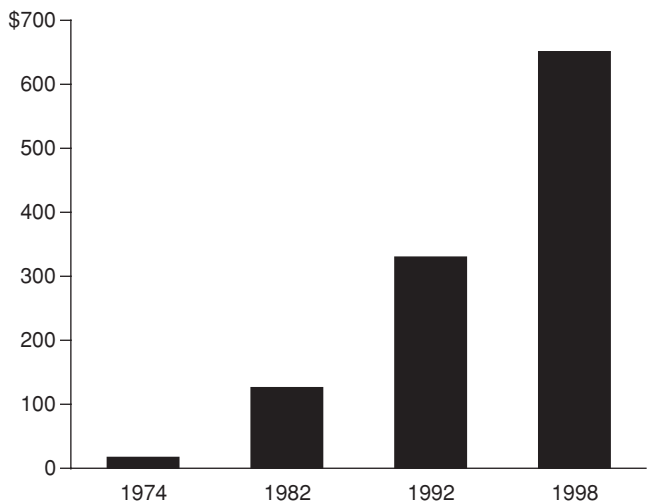


Source: Administrative Office of the U.S. Courts.

FIGURE 18

**U.S. gambling wagers, 1974-98**

(billions \$)



Source: IGWB.

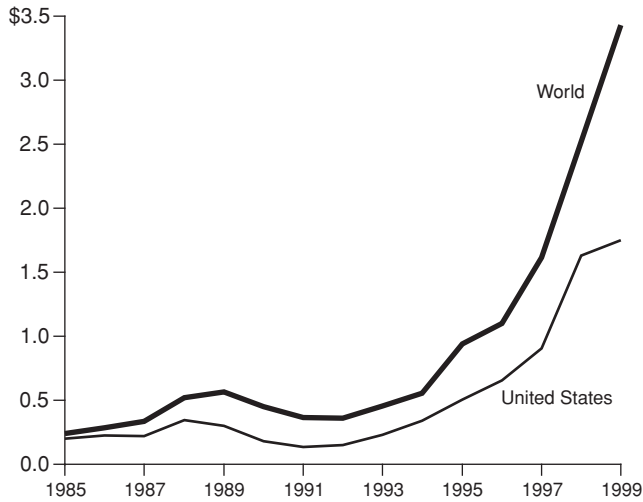
to break out. The people who used to be your allies when the pie was growing, now become your competitors: For every piece they get, there's less for you. A Hobbesian "each against all" dynamic sets up, along racial, religious, geographic, and



FIGURE 19

**Growth in mergers and acquisitions, 1985-99**

(trillions \$)



Source: Thomson Financial Securities Data.

political lines, anything which differentiates one individual or group from another.

While we're busy trying to steal from each other, the oligarchy is robbing us all blind.

**We have a choice**

While the suckers are pouring their money into the financial markets, the oligarchs and their proxies are grabbing physical assets as fast as they can (Figure 19). They know that the bubble is doomed, and are seizing control of raw materials, food supplies, energy, communications, and other essentials, to give them the power to dominate the world after the crash. They're going after post-crash income streams: Whoever can pay will have to turn to the oligarchs for the necessities of life. If you can pay, you'll pay through the nose. If you can't pay, tough; you're just a useless eater and you will be left to die.

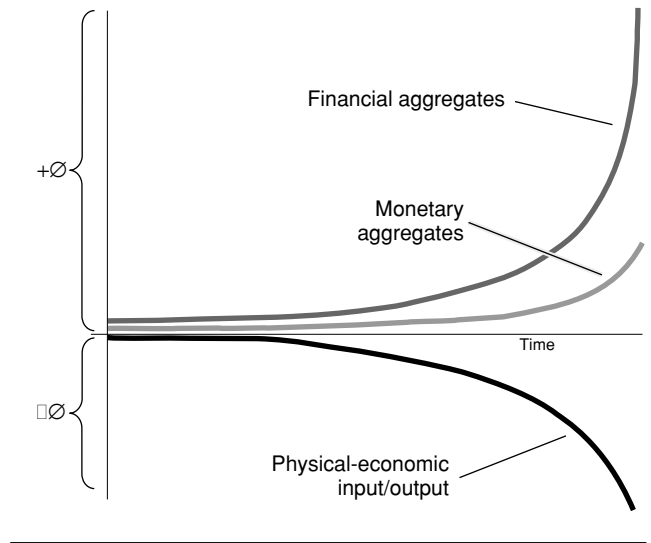
If the oligarchy gains greater control after the financial collapse, the result would be a New Dark Age. As LaRouche says, if we don't prevent that from happening, it's going to mean Hell on Earth, at least for decades to come.

The alternative to this looming nightmare, is the sovereign republic, which, when it adheres to its principles, is politically and economically vastly superior to the empire. As the young United States proved, the republic is more than a match for the empire, when it harnesses its power for the good.

Don't make the mistake of thinking that the danger is somewhere off in the future. This collapse is not something which will happen somewhere down the road. The system is

FIGURE 20

**A typical collapse function**



breaking apart as we speak. The events of the last three years, from Asia, Russia, and Brazil to the current problems in the bond and derivatives markets, represent the death throes of the bubble. The shocks are coming faster and harder than ever before, and every successful "rescue" only makes the system more unstable. The problem, as LaRouche's "Triple Curve," or A Typical Collapse Function (Figure 20) shows, is that we have reached the point where it simply isn't possible to keep the system going much longer. The combination of printing money like crazy while cannibalizing the physical economy, is inherently hyperinflationary, making the money virtually worthless. But, if they don't keep pumping money into the system, the value of the assets in the bubble will fall, from their stratospheric levels back to earth, resulting in a chain-reaction deflationary collapse. Caught between a hyperinflationary blowout and a deflationary collapse, the oligarchs are on a worldwide rampage against nation-states, spreading war and chaos wherever they can, and running the risk of triggering World War III.

None of those options—hyperinflation, deflation, or war—are acceptable, so let us organize the only alternative, Lyndon LaRouche's proposal for a New Bretton Woods global financial system, and save civilization.

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