From 1994 to Today: The System Disintegrates

by Nancy Spannaus

It was no more than a year after LaRouche's Ninth Forecast, that the proverbial "all Hell" began to break loose on the financial markets, reflecting the arrival of the bankruptcy-breakdown crisis that LaRouche had forecast.

1995: The Spring of this year brought the outbreak of a string of "derivatives" crises, of which the most notable were those that resulted in the bankruptcy, and takeover, of two centuries-old British financial institutions: Barings Bank, then taken over by the Netherlands' ING; and Lloyds of London.

At the end of the year, the international insolvency crisis expressed itself in the Mexican debt emergency, which led to unprecedented emergency action by U.S. Treasury Secretary Robert Rubin, to avoid global catastrophic effects.

It was at the end of 1995 that LaRouche released his now-famous Triple Curve, heuristically depicting the typical collapse function, which described what was occurring in the world economy from 1971 forward (**Figure 1**).

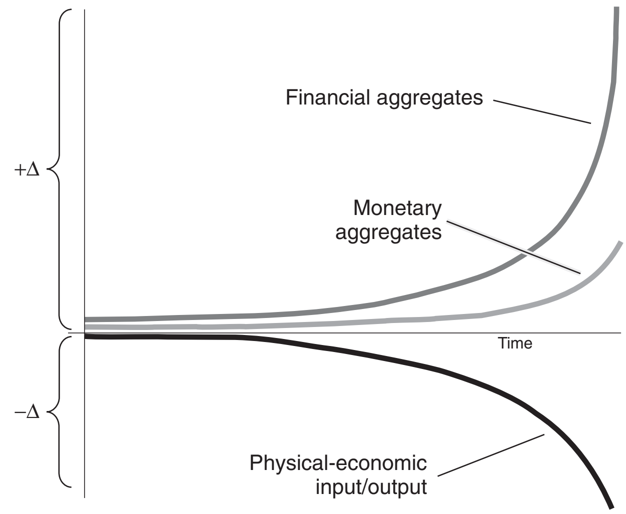
1997-98: On Feb. 15, 1997, LaRouche and his wife, Helga Zepp-LaRouche, issued a formal call for the convening of a New Bretton Woods Conference. Soon after, the so-called Asia crisis of 1997, which devastated the nations of Thailand, Indonesia, and Korea during the second half of 1997, erupted, and rapidly turned into the near-liquidation of the world financial system in August of 1998.

The August crisis began with the collapse of the Russian GKO, or state bond market, and expanded through a worldwide cascade of hedge fund bankruptcies. The signature bankruptcy was that of Long-Term Capital Management (LTCM), a Connecticut-based hedge fund, whose threatened insolvency led to the Federal Reserve arranging an emergency-rescue, with private banking funds, in September.

The LTCM crisis shocked the political and financial world, and led to broad discussion—including by the Clinton Administration—of a "new financial architecture."

It was not until the Summer of 1999 that IMF head Michel Camdessus publicly admitted that the world financial system had come within a hair's breadth of completely freezing up during the August-September period. This was precisely the vaporization of the system which LaRouche had projected in his "Ninth Forecast," to occur, likely before the end of President Clinton's second term.

FIGURE 1
A Typical Collapse Function



1999: In the Fall of 1998, and through March 2000, the international central bankers launched a "wall of money" policy, to attempt to print money fast enough to prevent the surfacing of the underlying financial debacle. Thrown into the mix, was the bubble created by a massive infusion of funds into the "Y2K" scare, the alleged danger that the world's computers would fail to function when the clocks turned from the 20th into the 21st Century.

In this period, LaRouche updated his Triple Curve to depict the process under a hyperinflationary collapse, with a curve showing the rate of emission of monetary aggregates overcoming that of financial aggregates. He called this: "The collapse reaches a critical point of instability" (**Figure 2**).

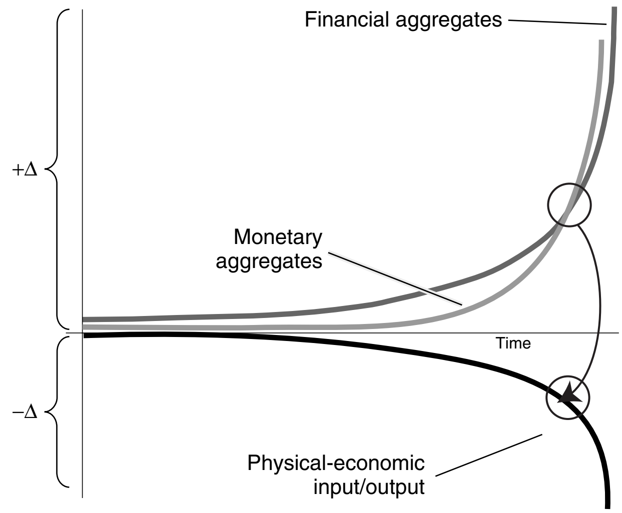
2000: In March of 2000, the bubble created by the "Y2K" scare, and the spurt of IT growth, collapsed. However, the Fed continued to pump cheap money into the banking system. From the pumping of these funds came the so-called housing bubble, created by the demand from speculators and financiers to find a new source of securitizations—i.e., looting.

2001: The money-pumping expanded even further in the wake of the Sept. 11 terror attacks.

2002-06: The extraordinary growth of the housing bubble, fed by Greenspan's low-interest rate policy, took the bubble to new heights of insanity, although the fragility of the scheme began to show, with bankruptcies triggered by the collapse of prominent hedge funds such as Amaranth, in the Fall of 2006.

2005: In the Fall, LaRouche put out a sharp warning on the

FIGURE 2
The Collapse Reaches a Critical Point Of Instability



threat of hyperinflation, like that in Germany 1923, as exemplified by the major increases in commodity price inflation, especially oil and minerals.

2007-08: The housing bubble began to collapse in 2007, as a reflection of the blowout of the banking system as a whole. By July 2007, the process led LaRouche to conclude that the system was finished:

"First of all, this [a war deployment—ed.] occurs at a time when the 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, or any leadership of nations.* Only a fundamental and *sudden change* in the world monetary financial system will prevent a general, immediate chain-reaction type of collapse. At what speed we don't know, but it will go on, and it will be *unstoppable*! And the longer it goes on before coming to an end, the worse things will get."

It took a while for the panic to become visible, but today, that's exactly what you see. The system has disintegrated, and the fraud that it still functions is now disappearing, in the biggest crash known to history.

LaRouche's Proposals

These three documents elaborate the "three steps to survival" which Lyndon LaRouche outlines above.

Homeowners and Bank Protection Act

This is the original model proposal made by LaRouche in late August 2007, of which a variety of versions have been passed by more than 75 cities, and 3 state legislative bodies, around the United States.

Here are the essential features of the Homeowners and Bank Protection Act of 2007:

1. Congress must establish a Federal agency to place the Federal and state chartered banks under protection, freezing all existing home mortgages for a period of however many months or years are required to adjust the values to fair prices; restructure existing mortgages at appropriate interest rates; and write off all of the cancerous speculative debt obligations of mortgage-backed securities, derivatives, and other forms of Ponzi schemes that have brought the banking system to the present point of bankruptcy.
2. During this transitional period, all foreclosures shall be frozen, allowing American families to retain their homes. Monthly payments, the effective equivalent of rental payments, shall be made to designated banks, which can then use the funds as collateral for normal lending practices, thus recapitalizing the banking system. Ultimately, these affordable monthly payments will be factored into new mortgages, reflecting the deflation of the housing bubble, and the establishment of appropriate property valuations, and reduced fixed mortgage interest rates. It is to be expected that this process of shakeout of the housing market will take several years to achieve. In this interim period, no homeowner shall be evicted from his or her property, and the Federal and state chartered banks shall be protected, so they can resume their traditional functions, serving local communities, and facilitating credit for investment in productive industries, agriculture, infrastructure, etc.
3. State governors shall assume the administrative responsibilities for implementing the program, including the "rental" assessments to designated banks, under the authority of the Federal government, which will provide the necessary credits and guarantees to assure the successful transition.