

How To Survive Without Derivatives

by John Hoefle

Nov. 6—The derivatives market is a lot like heroin. The people who use it become convinced that they can't live without it, despite all the evidence to the contrary. These poor, desperate creatures ignore nearly everything around them in their obsession with their next fix. Everyone who comes in contact with them can see that they are destroying themselves and hurting society, but the addicts are gripped by something they cannot control, something which, in truth, controls them.

No society can tolerate letting junkies write the drug laws—even boneheads in Congress understand that much—but when it comes to derivatives, their minds tend to turn to smack. When it comes to financial regulations, the inmates are running the holding company. We suspect it might have to do with the millions of dollars in campaign contributions and other perks the derivatives addicts pump into the political system each year. We're not saying Congress is a bunch of whores, but FBI drag queens contend they have evidence to support that contention.

Here we are, more than two years into the biggest financial crisis anyone alive has ever seen, a crisis which is widely understood to have been caused by derivatives, and yet these weapons of mass destruction continue to be not only tolerated, but actively supported by our Federal government. It is beyond insane.

If a doctor were to keep a patient on life support after he died, in the hope of reviving the tumor that killed him, we would expect that the doctor would

quickly lose his license. That is essentially what is happening today, as the Feds and the Fed twist the whole nation out of shape trying to keep Goldman Sachs, J.P. Morgan Chase, and the other derivatives giants from suffering their well-deserved fate.

Since our future depends upon kicking this nasty habit and returning to more wholesome economic policies, we hereby offer an alternative to the terminal stupidity of a derivatives-driven doom.

Production

There it is! Let's all say it together: "Production." Come on, you Wall Streeters in the back, speak up. We promise it won't hurt, and you may even get to like it after a while, as you dry out.

We know you like to promote yourselves as the engines of the economy, providing the capital that makes the world turn 'round. But, let's get real: All you really do is skim way more than your fair share of the money circulating through the economy. You don't produce anything for your cut; you don't add anything important. You are, to the economy, as fleas are to a dog, and we're just trying to give you the opportunity to correct your ways before the big flea dip.

We used to understand that a nation produced wealth by physical transformation and production. We would take iron ore, turn it into steel, use the steel to build the railroads that transformed our nation, the power plants that produced the electricity that powered our homes

and factories, the pipes that delivered our drinking water and carried away our wastes, and much more. In our short history as a nation, we have gone from wood to coal to oil to nuclear power, with each step dramatically raising our standard of living.

What made these advances in productive potential possible was the creativity of the minds of our citizens, who made discovery after discovery. We went from the first manned flight, to putting a man on the moon in six decades, because we were committed to progress and the development of the potential represented by each and every one of our citizens. We weren't perfect. Sometimes, far from it, but we were, in general, on the right path.

We began to go off the rails in a big way in the late 1960s, though the decay actually began to set in after the death of President Franklin Roosevelt. The rise of the Baby Boomer culture, which turned its back on production, in favor of paper-pushing and financial gambling, marked a visible turning point. Each decade after that, the problem got worse, the parasite problem grew, and the real economy declined. Four decades later, when we should have already been on Mars, we've lost the capability to even go back to the Moon. We're going backwards.

You can't blame that on derivatives, *per se*, but you can certainly blame it on the post-industrial insanity which made derivatives possible. Stupidity breeds failure, not success.

If we are to pull out of this death spiral, we must return to science, to infrastructure, to manufacturing, and other things the Baby Boomers hate. Being a nation of gamblers hasn't worked, so let's go back to being producers.

Risk

Get a group of Wall Street types together and, after they finally quit whining about how hard it is to live on a mere million times the average unemployment compensation, the subject usually turns to risk. They'll talk about risk management, about appetite for risk, about the need for investors to begin taking risks again. They will tell you that the derivatives markets serve a valuable function, that they help establish the proper prices of various types of assets, and so on. It is all a bunch of crap.

By risk, they really mean speculation, and by speculation, they mean separating suckers from their money. When they call for investors to start taking risks again,

think of the casino advertisements touting all the money you'll win if you'll just start feeding money into the slots. Or think of a sheep-shearing pen. Come on in, Mr. and Ms. Sheep, our tailors are waiting to serve you.

The price-setting part is a scam, too. The parasites—oops—financiers, tell us that these markets are needed for “price discovery.” How can you possibly know how much a barrel of crude oil or a CDO is worth, without us?! What they really mean is: How far can we jack up the price?

For physical goods, the formula for determining price is fairly clear: Take the cost of production plus a reasonable profit, and that's your price. The only time you need a “market” to figure it out, is when you're selling something that is intrinsically over-priced—like the trillions of dollars of mortgage-backed securities that Wall Street sold over the last few years. They went for top dollar “market prices,” but the securities turned out to be worthless. The buyers took the risk, the sellers took the cash, and, in the end, they all went bankrupt. Who wouldn't want a sweet deal like that?

One thing you have to admit, though. These idiots did take a lot of risk, and discover a lot of prices. All of it wrong, and it did blow up the world, but what the heck, nothing's perfect.

Enough Already!

The first step toward turning this global collapse around is to stop being so damned stupid. Most of us have no problem with that, but the junkies only care about that next fix. Not just the financial junkies, but the political junkies, and the media whores, too, who suck up to the big money because, they like the power, the fame, and the corruption that comes with it.

We all know what needs to be done. We are the People, the body which founded our government, and in which the responsibility lies to keep that government on the track expressed by the principles embodied in the Declaration of Independence and the Constitution. We, the Citizens of the greatest Republic in world history, have to begin thinking, and acting, according to those principles. If we do, the government will follow. The British Empire and its stooges will howl, but that's a good sign. We didn't ask their permission the first time, and we don't have to now. Our job is to help lead the world out of this mess. Lyndon LaRouche has already got this bandwagon started, so grab your friends and climb on board. We can live without derivatives.

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