III. True Economic Science

A TALE OF TWO PARADIGMS

Why the West Must Join China's Belt and Road Initiative

by Harley Schlanger

Oct. 20—The 19th Congress of the Chinese Communist Party opened on Oct. 18 with a powerfully optimistic speech by President Xi Jinping, in which he presented a bold strategy for the continued advance of China's economy, as a contribution toward realizing "the common destiny for mankind and enduring peace and stability." President Xi outlined how China would build on its extraordinary progress in reducing poverty, saying that by 2020, poverty in China will be completely eliminated, and by 2035, the nation will be fully modernized. While the driver for this is the extension of the New Silk Road into a global landbridge, centered on the Belt and Road Initiative (BRI), Xi spoke of the thinking behind it, which includes promoting the "spirit of science" and classical culture, to make China an "innovation society."

The Schiller Institute's Helga Zepp-LaRouche, an early advocate and promoter of the New Silk Road, has been featured regularly in the Chinese press to provide her analysis of this process. She described the effects of China's policy as a "key, unstoppable dynamic globally." To bring this "Spirit of the Silk Road" to a Western audience, Zepp LaRouche has initiated a weekly Webcast, to counter the lying characterizations in the trans-Atlantic media of China's policy, and Xi's leadership. Only rarely can one find an honest report on China's dramatic accomplishments and its goals for the future.

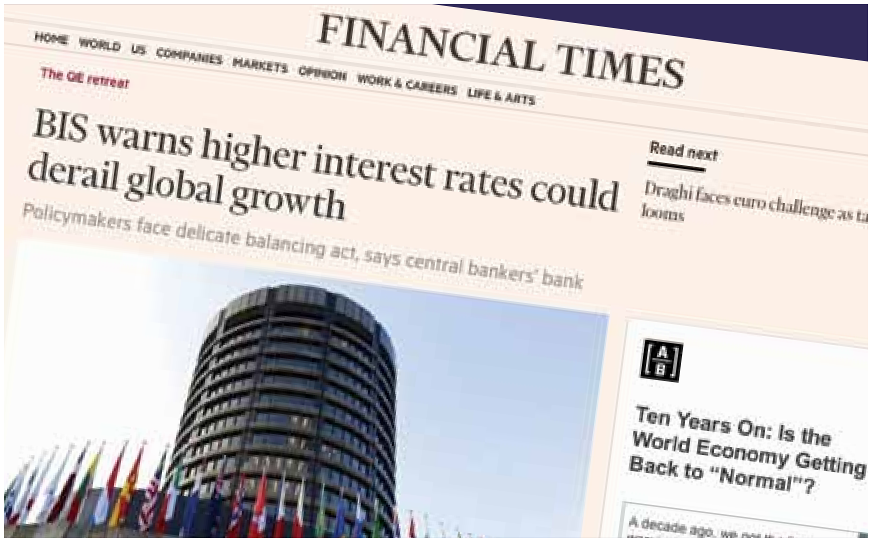
Schiller Institute

Helga Zepp-LaRouche, leading a seminar in Beijing in 1996, calling for a Eurasian Development Bank and "an emergency meeting of the principal nation-state powers for the purpose of establishing a new international monetary system."

"Most people are still unaware that we are at a crossroads of human history," she said in her first webcast, on October 5. If there were honest reporting on what China is doing, she continued, people would become excited, and would wish to be a part of this dynamic, which she calls a "New Paradigm for mankind." She spoke of the opportunity for this paradigm to advance when President Trump goes to Asia for a series of events, beginning on Nov. 5. He will meet with President Xi on Nov. 8.

A Bubble Is Not Economic Growth

One of the oft-repeated falsehoods about China's economy in the Western media is that credit expansion by Chinese financial institutions to fund the BRI projects has produced a financial bubble, which will ultimately pop. This argument, emanating from China's enemies, is based on classic neo-liberal dogma, which describes government spending as inherently wasteful, including spending channeled into infrastructure. This belief has played a major role in the failure of Western nations to invest in modernizing their own infrastructure, and is behind the incompetent insistence by neo-liberals that investment in infrastructure should be funded only by public-private partnerships, or PPPs, and further, that the choice of projects should be determined by their immediate profitability. As the federal government debt has grown in the United States to above $20 trillion—with the largest growth occurring under Presidents George W. Bush and Barack Obama—the adherents of this view now unabashedly argue that government credit for infrastructure is not possible, because of the large deficits already on the books. Instead of new investments to improve the economy, they push austerity, which in reality *decreases* productive economic activity and, therefore, physical wealth creation, as well as the creative powers of the citizens.



Financial Times *of London warning of looming financial difficulties.*

Ironically, those who argue that China's spending on the BRI has created a gigantic, unsupportable bubble, and that therefore Western governments should not emulate China in generating large volumes of credit for infrastructure, seem to have missed the fact that the biggest bubble in the world is not a Chinese bubble, but that which was created by the bailouts of banks and financial institutions in the trans-Atlantic world after the Crash of 2008. The quantitative easing (QE) policy of the central banks, which provided virtually zero-interest credit to those institutions, allowed them to continue carrying worthless debt on their books—which they continue to buy and sell—while pouring money into overvalued equity markets—stocks, bonds, and commodities. Thus, while spouting their "fiscal conservative, anti-government" rhetoric against government spending on infrastructure and science, they make exceptions when it comes to bailing out bankrupt financial institutions, so they may continue to run their speculative swindles!

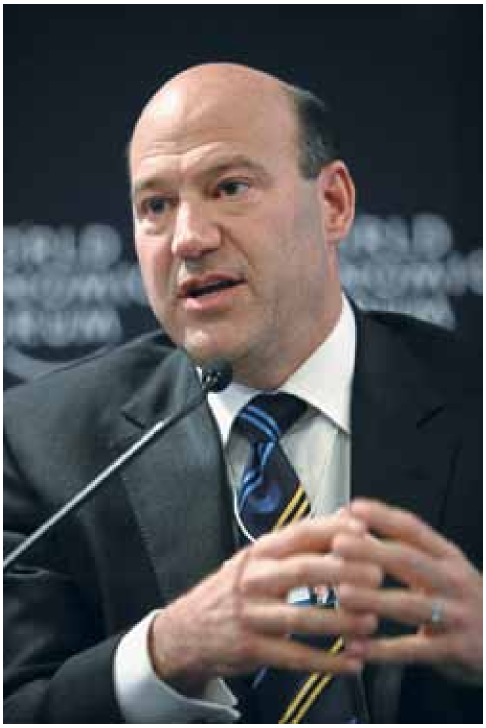
As a result, the "too big to fail" (TBTF) banks today are larger than at the time of the 2008 crash; the biggest U.S. banks are 40% larger in assets. As there are now fewer banks overall, there has been a concentration of banking assets held by a smaller number of institutions. Further, there has been an expansion of derivative positions, since efforts to rein in derivative trading failed. The Dodd-Frank banking "reform" bill did nothing to limit it—not surprising, as its sections on derivative trading were written by derivative traders! And with the volumes of cheap money flowing from the central banks to the TBTF banks, trading of financial instruments of dubious value has expanded, as traders are taking on more risk, in search of ever bigger profits.

Those economists, journalists, and politicians critical of China have, for the most part, until now, praised this bubble economy in the United States as "Obama's recovery," and lead the cheers, as stocks hit new record highs daily. But, as stock market valuations have soared "on a sea of liquidity," a real danger exists that, when the liquidity is removed, through "tightening," i.e., increasing interest rates, it will likely lead to a crash.

Crash Warnings Grow

A number of institutional voices in the trans-Atlantic world are now warning of the danger of a crash larger than 2008. El-Erian, chief economic adviser at Allianz, and former CEO of PIMCO, the world's largest bond trading firm, is one of them. In recent weeks both the International Monetary Fund (IMF) and the Bank for International Settlements (BIS) have sounded alarms over plans by central banks to raise interest rates and to divest themselves of the junk assets they took on their books as collateral for QE. In its Fall meeting in Washington, the IMF warned of "downside" risks, if central banks adopted a "faster-than-anticipated tightening," while the BIS in its annual survey identified what its economists called the "risky trinity": low productivity growth; unusually high debt levels; and limited room for political maneuver, given the growth of "populist" movements hostile to both the political and financial establishment.

Warnings from the European Union include a report by the Adam Smith Institute, "No Stress III: The Flaws in the Bank of England Stress Tests," which concludes that the "UK banking system is an accident waiting to happen." Another City of London insider, Ambrose Evans-Pritchard of the *Daily Telegraph*, wrote of the present economic conditions in the West, that he has "never seen a more dangerous confluence of circumstances, or more remarkable complacency." And, from Germany, the former German Finance Minister Wolfgang Schäuble, who had earlier played a large role in promoting the flow of liquidity coming from the European Central Bank to bail out the European Union's TBTF banks, has now told the *Financial Times* that he is concerned "about the increased risks arising from the accumulation of more and more liquidity and the growth of public and private debt."



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Gary D. Cohn is concerned that clearinghouses that are suppposed to guarantee derivatives, could fail

On Oct. 16, President Trump's chief economic adviser, former Goldman Sachs President Gary Cohn, told the American Bankers Association that he is concerned that the clearinghouses that were set up under Dodd-Frank, allegedly to make derivative trading more "transparent," represent "a new systemic problem." The clearinghouses are supposed to guarantee payment if a derivative trading partner fails. But what happens, he asked, if a clearinghouse fails? He said that an estimated $278 trillion in interest-rate derivatives goes through clearinghouses. "These are just staggering numbers," he exclaimed, adding "We don't have a resolution plan for them."

These warnings all contain elements of a belated recognition of the dangers that the Western financial system now faces, but, at the same time, if people are trapped inside a house that is on fire and realize that they are about to die in a deadly conflagration, this does not mean that they are intelligent, rational or know how to save themselves. Most of these financial "experts" refuse to accept self-blame, that it was they who stored open containers of flammable liquid next to an oil furnace. Today's neo-liberals, who created the policy of economic austerity and financial bailouts, such as Schäuble and the IMF, now warn of impending doom. What do they have to offer? Only more of the same—"stay the course," they say, "for the financial system must be saved," no matter how many people these policies kill.

LaRouche's Record

In the Oct. 20, 2017 issue of *Executive Intelligence Review*, an article written in 1996 by Lyndon LaRouche was republished, under the title "Why Are Nearly All Economists Quackademics?" In that article, LaRouche eviscerates the fraud and incompetence of the hegemonic monetarist theories—and those theories' spokesmen—which have governed the policies of Europe and America for the past forty-five years. A careful reading of that article shows conclusively that there are no financial sleight-of-hand tricks which could now save the banking system or stabilize the markets. An entirely new economic approach is required.

In 1971, LaRouche gained world renown when he forecast the imminent collapse of the post-World War II Bretton Woods system. Despite the fact that *all* leading economists—including Treasury secretaries, central bank heads, and college professors—dismissed LaRouche's warnings, he was proven right by the events of August 15 that year.

On October 19, 1987, U.S. stock markets had their biggest one-day drop in history, as a stock bubble popped. Four months earlier, Lyndon LaRouche forecast that there would be a stock crash *in October.*

Twenty years later, in July 2007, LaRouche warned of an impending collapse of the "Bush recovery," another speculative bubble, this time based on mortgage-backed securities trading in a market deregulated by the

1999 repeal of the Glass-Steagall bank separation act.

In both 1987 and 2007, LaRouche put forward as a solution the return to the American System of economics, beginning with a restoration of Glass-Steagall, to end government support for reckless speculation, combined with credit creation for investment in physical production. The system of credit, designed by the first Treasury Secretary of the United States, Alexander Hamilton, to secure investments in physical processes which would increase productivity, through a National Bank, is a central feature of the American System, which has been revived by LaRouche, and is included in his Four New Laws. It starts with the idea that there is a fundamental difference between credit which is invested to ensure productivity increases, which lifts up the whole economy, and debt creation, which only provides funds for gamblers and speculators, who expect to be bailed out when their bubble implodes, as it inevitably does.

Chinese Credit vs. Western Funny Money

Contrast the reality of the bankruptcy of the Western financial and economic system with the accelerating rate of growth of the *physical economy* in China, accomplished through improvements in productivity, which have resulted from BRI projects. While the central banks of the trans-Atlantic system have been churning out "funny money," to provide liquidity to banks that are *insolvent,* because of the worthless paper they are carrying on their books, and the unsustainable leverage they have generated, China's government credit agencies and its leading banks have been building the infrastructure platforms for the future, not only in China, but for its neighbors in Eurasia and in Africa.

The work on economic policy and theory done by Lyndon LaRouche, and by his wife Helga, is reflected in the success of the BRI of China, whose leaders clearly understand the principles embodied in LaRouche's Four Laws. This is the basis of the New Paradigm for which Mrs. LaRouche has been tirelessly campaigning, which has become an "unstoppable global dynamic" since Xi Jinping announced the BRI policy in 2013. It is now time to move mankind out from under the Old Paradigm, with its wars, terrorism, austerity, and bailouts, and for the United States and Europe to join this New Paradigm.