A Crash is Looming, But a New Bretton Woods Is Within Reach!

by Brian Lantz and Harley Schlanger

Sept. 22—On July 25, 2007, as the first signs of the crisis began to emerge—the financial crisis that would ultimately lead to the collapse of Lehman Brothers and the near-collapse of the global financial system—economist Lyndon LaRouche opened a webcast with a warning that the system had reached a point of no return. He said:

> 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 cannot continue to exist under any circumstances, under any Presidency, under any leadership.... Only a fundamental and sudden change in the world monetary financial system will prevent a general, immediate chain-reaction type of collapse.[1]

Unfortunately, the Bush and Obama administrations ignored LaRouche's warning—and his proposals—and the disintegrating "world monetary financial system" which LaRouche identified was not replaced. This has led to the crisis we face today.

Following the 2008 financial collapse, the systemic monetarist ideology at the core of the City of London and Wall Street system was carried forward. The decision to adopt a policy of "bailing out" the bankrupt system did not bring about a physical economic recovery, but secured a further rapid growth of cancerous debt and a continued "financialization" of the United States economy and the global economy as a whole.

During the last ten years, over $12 trillion in "quantitative easing" (QE) money has been issued under the bail-out policy, at the British Empire's direction and co-ordinated through the central banks of the United States, the European Union, Great Britain and Japan.

Rather than curing the patient, governments instead have fed the very disease which is killing the patient—scrambling to save the British monetarist empire by pumping money into the derivatives market, corporate stock buy-back strategies, mergers and acquisitions, and junk bonds—resulting in a situation in which the

1. Lyndon LaRouche webcast, July 25, 2007, published in *Executive Intelligence Review*, August 3, 2007.

financial parasites suck up all the new "blood" of virtually zero-interest rate liquidity, while investment in physical production evaporates.

This policy of "financialization" has further withered U.S. manufacturing, as recently reviewed in *Industry Week*, in an analytical piece titled, "How Financialization is Starving Manufacturing." The effects of using monetarist measurements of economic well-being are also seen in other ways. New business creation in the United States, for example, (i.e., the much-ballyhooed "start-ups") plunged to a total of only 414,000 businesses formed in 2015, the latest year surveyed, according to the U.S. Census data released in 2017. That compares to 500,000 to 600,000 new companies that were started in the United States *every year* from the late 1970s to the mid-2000s. As well, rural areas have been given a "death sentence."[2] The cost of all this, in human lives and misery, is almost beyond calculation, and will only be touched on here, briefly.

While industry and agriculture have been starved of credit, the reign of "quantitative easing" has actually done nothing to stabilize financial markets. The central banks of Europe, Japan and America are now themselves choking on a total of approximately $14.5 trillion equivalent (at face value) of bank, government and corporate financial paper that they have purchased since 2008.[3] This deployment of "helicopter money" has only increased financial indebtedness, while also producing a dramatic growth of the S&P 500 Index from its low in early 2009—this, itself, a sign of increasing financial instability, as "Ponzi scheme" financial betting replaces long-term productive investment.

Debt as the Trigger

An important feature of the building financial crisis has been the growth of corporate, government and personal debt. Worldwide, in the ten years since the 2008 global financial crisis, the debt held by nonfinancial corporations has grown by $29 trillion, and since 2007, the value of corporate bonds outstanding from nonfinancial companies has nearly tripled to $11.7 trillion, according to a McKinsey & Company piece, "Are We in a Corporate Debt Bubble?" The McKinsey article, written by Judy Lund, continues,

> Over the next five years, a record $1.5 trillion worth of nonfinancial corporate bonds will mature each year; as some companies struggle to repay, defaults will most likely rise. . . . The average quality of borrowers has declined. In the U.S., 22% of nonfinancial corporate debt outstanding comprises "junk" bonds from speculative-grade issuers, and another 40% are rated BBB, just one notch above junk. In other words, nearly two-thirds of bonds are from companies at a higher risk of default, including many U.S. retailers.

On September 20, former FDIC chair Sheila Bair also joined in warning of the danger of ballooning consumer and corporate debt.

The explosion of debt has reached such proportions that even normally "heads in the sand" media outlets, such as Bloomberg, Forbes and CNBC, have become increasingly and overtly frantic about a potential crisis. A slew of relevant articles in their publications appeared on or around September 15, the 10th anniversary of the collapse of Lehman Brothers Investment Bank.

With all of the talk of corporate and consumer debt, however, a far more deadly dimension of the crisis is now unfolding, a dimension rarely discussed, and one which you will not see addressed in the media outlets just mentioned. The hard reality is that unless the lurking issue of the quadrillion dollar market in speculative financial aggregates—most of it in the form of financial derivatives—is addressed, no attempt to get us safely out of the current crisis is possible. Since the crisis of 2008, this financial cauldron has been sustained at a roiling boil. This has been the consequence of "quantitative easing" as well as ever-softening "Too Big to Fail" bank reserve requirements and kindred measures.

The utter silence on the greatest danger that we face stems from the fact that those who run the central banks and other components of the financial system have refused to admit the actual nature of the 2007-2008 collapse. Many still insist on labeling that catastrophe as a "subprime mortgage" crisis, when even a cursory look at Lehman Brothers reveals that at the time of its collapse, it held approximately 930,000 over-the-counter (OTC) derivatives contracts.

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2. See "Goodbye, George Baily: Decline of Rural Lending Crimps Small Town Business," *Wall Street Journal*, Dec. 25, 2017.

3. See "Central Bank Balance Sheets," Yardeni Research, Sept. 25, 2018.

Derivatives: The Hydrogen Bomb

The actual, staggering dimensions of the looming financial collapse have, until recently, only been reported by the LaRouche movement, including Helga Zepp-LaRouche, Independent congressional candidates Kesha Rogers in Texas and Ron Wieczorek in South Dakota, the LaRouche Political Action Committee, and this publication.

Now, a small but significant number of independent analysts are beginning to speak up. For example, William White, former chief economist of the Bank for International Settlements, who along with Lyndon LaRouche was one of the few prescient voices speaking out before the 2008 Crash, told the German weekly *Der Spiegel* this week, that "the problems underlying the Lehman crisis have never been solved. On the contrary, they have turned worse." He added, "The debt is higher than ever before," criticizing the decision to print money to cover bad debt and arguing that the financial system is "crushing against a limit."

Additionally, the former chief economist of the IMF, Raghuram Rajan, who also forecast the 2008 crisis, is now warning of a domino effect which could be triggered by default, singling out the problem that the most risky sector of finance now resides in the "shadow banking system," in which there is no transparency. "Are there accidents waiting to happen? Yes, there are," he said in a recent interview.

The issue of corporate, government and personal debt, as large as these debts are, is only the lurking trigger on the estimated $1.2 quadrillion dollar financial derivatives bubble at the heart of the British Empire's *casino mondial*. A significant debt default, in so-called emerging markets or of corporate debt, would work like the nuclear fission trigger on a hydrogen (fusion) bomb. In the second quarter of 2018, insured U.S. banks had $207 *trillion* of exposure to derivatives, as known to the Office of the Comptroller of the Currency. In other words, the known exposure of these banks to derivatives contracts is *11 times the entire gross domestic product of the United States*.[4] Through "shadow banking" mechanisms the totals could be significantly higher.

4. Office of the Comptroller of the Currency, Quarterly Report on Bank Trading and Derivatives Activity, second quarter, 2018.

Institute for New Economic Thinking

William White, former chief economist of the Bank for International Settlements.

Calls for a Return to Glass-Steagall

As the enormity of the current unfolding crisis begins to sink in with certain more astute members of the Establishment, it is not then surprising that there are again urgent calls from additional quarters, for a return to Glass-Steagall banking regulation with its implications.

Among the most prominent of the new calls for Glass-Steagall is a white paper issued by the U.S. credit union association, the National Association of Federally Insured Credit Unions (NAFCU). Its report, titled "Modernizing Financial Services: The Glass-Steagall Act Revisited," was followed by a September 11 op-ed in *The Hill* by the organization's Executive Vice President for Government Affairs and General Counsel, Carrie Hunt. While understating the danger of a financial crash today, the subtext of Hunt's piece is clear: By not restoring Glass-Steagall after the Crash of 2008, the speculative orgy of the "Too Big to Fail" banks that precipitated the crash when housing prices collapsed—which she characterizes as "excessive, unbridled risk taking"—absolutely continues today.

By not acting to ensure that, "banks' past misdeeds are not normalized or accepted as status quo," U.S. lawmakers' protection of the TBTF banks means that nothing was done to prevent the growth of these banks, and the size of their debt holdings has swelled to unsustainable levels, which Hunt says "will have a catastrophic impact on the American economy and wreak havoc on consumers' financial well-being." Hunt writes that a "modern approach" to Glass-Steagall—

would restrict the banks' ability to make risky

THE HILL

Updated Glass-Steagall would mal
banks put people before profits

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> bets with consumers' savings and reduce their overall size, thereby limiting the likelihood of future bailouts and economic turmoil.

Similar warnings, and calls for Glass-Steagall measures, are also now being voiced in Europe. Among these is the former chairman of Sparda Bank, a Munich-based savings bank, Günter Grezga, who identified "deregulation" of banking as the cause of the 2008 financial crisis. He proposed a "Trennbanken system" (banking separation, as in Glass-Steagall), so that "the crisis not be repeated." His appeal was covered on September 11 on the Austrian website, kontrast.at.

National Archives

President Franklin Roosevelt signing the Banking Act of 1933 (the Glass-Steagall Act). At his immediate right and left are the two most prominent figures in the bill's development, Sen. Carter Glass of Virginia and Rep. Henry Steagall of Alabama, June, 16, 1933.

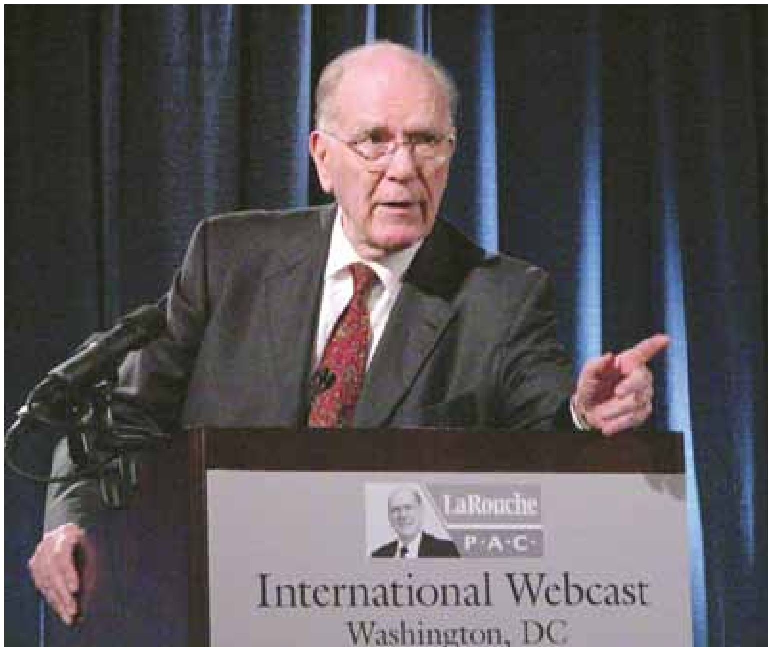
The same theme was sounded in a column in the German *Finanzmarktwelt* on September 6, whose author, Claudio Kummerfeld, calls for a bank separation law modeled on Glass-Steagall. Reporting on the systemic threat posed by the unraveling of Deutsche Bank, he says that under a separation law, the bank could be broken up, which would allow a separate investment bank based in London to go under, without affecting "the deposits in a separated primary bank in Germany."

The political parties that now make up the new government of Italy have already called for Glass-Steagall bank separation measures.

The original 1933 Glass-Steagall legislation was an important element of Franklin Roosevelt's New Deal, which also emphatically required a national credit institution (the Reconstruction Finance Corporation was put to use) and national credit. The leading features of Glass-Steagall were the establishment of a wall of separation between commercial and investment banks, and an insurance program to protect depositors, implemented by the FDIC.

The repeal of Glass-Steagall in 1999 by the Gramm-Leach-Bliley Act, with the support of leaders of both U.S. political parties, opened the door for an orgy of speculative swindles, allowing commercial banks to buy and sell "instruments of financial innovation," such as "derivatives" and "swaps," which are in reality worthless pieces of paper, "bets" with no underlying value. With the repeal of Glass-Steagall, the U.S. government, including the FDIC, now stood behind all of these casino bets. The blowout of the Mortgage-Backed Securities bubble, which had been pumped up by speculative lending from deregulated financial institutions after Glass-Steagall was repealed, was the actual trigger for the Crash of 2008.

Indeed, days after the July 25, 2007 webcast cited in the opening of this article, Lyndon LaRouche drafted an emergency bill, the Homeowners and Bank Protection Act (HBPA), which specified what he meant by adopting "a fundamental and sudden change." Incorporating the basic principles of Glass-Steagall, LaRouche's proposal would have put the entire banking system through a Franklin Roosevelt-style bankruptcy reorganization. Taking such action would have frozen trillions of dollars of worthless assets, to be written down, or written off entirely, and there would have been no such category created as a



EIRNS/Stuart Lewis

Lyndon LaRouche delivering his "End of the Post-FDR Era" webcast, Washington, D.C., July 25, 2007.

bank "Too Big to Fail," and no multi-trillion dollar bailout package to save them.

His draft bill would have protected the legitimate functions of banks, to allow them to disburse hundreds of billions of dollars of productive credit, issued by the U.S. government, which would have been channeled first into job creation in productive infrastructure, with an emphasis on the most modern technologies in high-speed rail construction, nuclear power production, and water and power management. This would have reversed the collapse of physical goods production and employment, which began with President Nixon's August 1971 decision to end Roosevelt's post-war recovery plan associated with the Bretton Woods system. A number of state and local governments passed resolutions in support of the HBPA, but the City of London and Wall Street stopped its introduction into the Congress.

LaRouche's Full 'Four Laws' Required

In 2014, Lyndon LaRouche issued, "The Four New Laws to Save the U.S.A. Now! Not an Option; An Immediate Necessity" (https://larouchepac.com/four-laws).

In that document, LaRouche defines the only legitimate and scientifically accurate approach to economics, one which will secure future progress for the human species. Here, Man, not money or "supply and demand," are placed at the center of economics. Mr. LaRouche specifies that the U.S. government must now be charged with the responsibility, "to institute four specific, cardinal measures: measures which must be fully consistent with the specific intent of the original U.S. Federal Constitution." The Four New Laws feature reinstatement of Franklin Roosevelt's original Glass-Steagall banking separation act; a return to a national banking system; U.S. federal credits uttered to build a new U.S. infrastructure platform and a high technology, high-productivity economy; and a crash "science driver" program to develop fusion power and greatly expand NASA's human space exploration program.

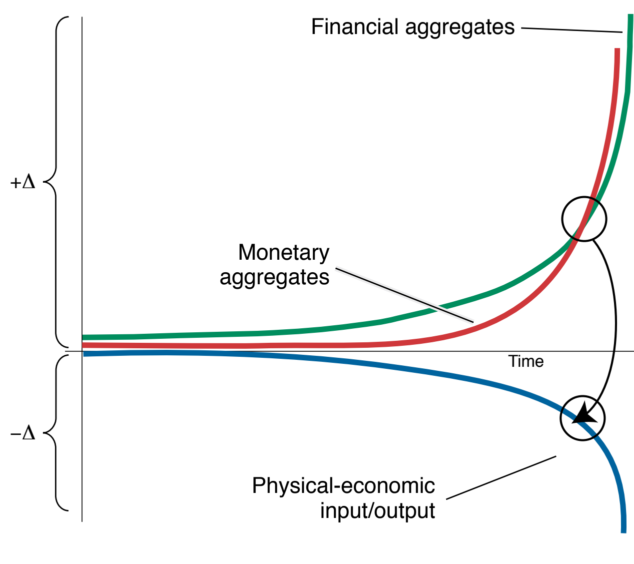
LaRouche points out that the "four new laws" are a unity and must be grasped as a unity. This unity embraces humankind itself—the true identity of every human being as a potential genius—and provides the opportunity (physical, moral, and emotional) for every individual to lead a functionally productive, and by implication, immortal, life. The "four specific cardinal measures" taken as a unity are the means to achieving this rebirth, this *renaissance*, of our nation.

LaRouche's economic approach is based on *physical science,* i.e., Man's creative discoveries, which constantly redefine our relationship to the universe around us. This is LaRouche's *Science of Physical Economy,*[5] developed through his study of the discoveries of scientists and physical economists of the past, such as Johannes Kepler, Gottfried Leibniz and Bernhard Riemann. He made advances on their work through his own unique discoveries, parallel to the earlier "American" approach of Benjamin Franklin and Alexander Hamilton.

For LaRouche and these scientists mentioned above, an economy is not about financial profits or "monetary theory"—which has been the basis of all neo-liberal economic "theory," a thinly-disguised justification for looting populations, and one which has been hege-

5. See: *So, You Wish to Learn All About Economics*, by Lyndon LaRouche.

The Collapse Reaches a Critical Point of Instability



monic in the British Empire for 300 years. Rather, physical economics is about applying the most advanced scientific discoveries to the production and distribution of goods, to provide an improving standard of living for all people, while at the same time investing in the future, in areas which will lead to the scientific and technological progress needed to provide for the next generations.

On the other hand, the current, continued exponential growth of global debt and the growth of the utterly fantastic derivatives *casino mondial* of fictitious wealth can only continue through the issuance of new borrowing and increasing debt. As an inverted pyramid, it is only held up by increasingly weakening streams of revenue (debt service) bled from the remaining real economy. And this is what we have seen, particularly in the United States over the recent decades. This has been rigorously presented in Lyndon LaRouche's series of heuristic "Triple Curves" of a "typical collapse function,"[6] as the hyperbolic growth of financial and monetary aggregates, sustained by the third curve, the downward-plunging curve of the actual physical inputs/outputs of the real economy.

At the current moment, the growth of the global derivatives market appears to have fallen slightly, ostensibly due to "trade compression efforts." However, the quadrillion dollar derivatives bubble remains as the main explosive, and the debt is the now-ticking detonation charge.

For example, in the "emerging market" economies, fueled by the speculative dollar carry-trade, these nations are saddled with more than $8 trillion in corporate and sovereign debt, of which more than $249 billion comes due in the next year. With rising interest rates, and a stronger dollar, speculators are fleeing from these emerging markets and their currencies, making dollar-denominated debt payments far more costly, and defaults inevitable. Witness the current currency and economic crises in Turkey and Argentina, systemically spilling over into Europe and Europe's banks—and then into the United States through derivatives "hedging."

Along with emerging market debt, U.S. corporate debt, student loan debt, and car loan debt have all grown exponentially, and all of this debt is then "securitized" into derivatives products, in the way that mortgage-backed securities are. The growing debt is the live "detonator."

This is the terminal condition of the process described by LaRouche's "collapse function," and President Donald Trump's actions, as valiant and well intentioned as they have been—as President he cannot succeed without our help. The demands to "save the cancer!" come from the British Empire, via the central banks, City of London and Wall Street, intent on saving their global monetary system, which is indeed the British Empire itself. Given the collapse of the real economies of the "West" caused by this blood-sucking, this system can now collapse at any time, with catastrophic consequences.

The reality of this crisis is now increasingly being acknowledged. The immediate threat to be addressed is the global debt bomb of derivatives, and the explosive charge of debt, built up by what have been unlimited flows of Central Bank quantitative easing and accompanying measures. The "bomb" could simply be detonated by the Federal Reserve attempting to now "taper" QE and raise interest rates.

The realization that one must take away from all of this, however, is that this crisis is fundamentally not about financial paper and algorithms. The matter at hand is existential for mankind as the failing British Empire's monetarist financial system has already riven the world. It is this failing and homicidal British Empire

6. For LaRouche's Triple Curves, see Dennis Speed's presentation in the August 31, 2018 issue of *EIR*.

EIRNS/Eli Santiago

LaRouche PAC organizing for LaRouche's Four Laws in New York City, June 28, 2018.

that is threatening a geopolitical "Thucydides Trap" and thermonuclear war, attempting to manipulate the United States against its natural allies Russia and China and their growing "South-South" alliance for cooperation and peaceful development.

President Trump and Solutions Today

The Belt and Road Initiative of China's President Xi Jinping is already transforming much of the world, engendering optimism about the future. Even if censored and blocked out in the mass media, a multitude of projects and people-to-people exchanges have made enormous, positive changes in the relations among nations and made physical changes on the ground. As a consequence of the Trump presidency and the Belt and Road, and the influential ongoing work of the LaRouche movement, the "fundamental and sudden change" that economist and statesman Lyndon LaRouche called for in 2007 can be fully realized now!

This change is now the substance of the urgent call by Helga Zepp-LaRouche, founder of the Schiller Institutes, as well as the intervention of the national flagship campaign of Kesha Rogers, Independent candidate for Congress in the Texas 9th Congressional District. The urgent requirement now, as emphasized by those two leaders, is for the convening of a "Four Powers" summit of President Trump, President Xi Jinping, President Vladimir Putin and Prime Minister Modi. *The purpose of that summit is the prompt creation of a New Bretton Woods financial system, of fixed exchange rates and sovereign credit, replacing a now collapsing monetarist dis-order with a New Paradigm of "win-win" development.* The Donald Trump Presidency means that a New Bretton Woods summit among the leaders of the four leading—but very different—nations of the U.S., Russia, China and India, can now be organized.

This New Bretton Woods initiative is being taken to the United Nations this week, as well as to Capitol Hill in Washington, D.C., supported by prominent international endorsements. (See the Petition elsewhere in this issue.)

In July 2016, prior to the Republican convention, Trump shocked the bankers when he stated that he favored a return to Glass-Steagall bank separation. CNBC television reported that "Wall Street is not pleased" by this. Trump intervened directly in the Republican Platform hearings, insisting, along with campaign manager Paul Manafort, that Glass-Steagall be included in the party's platform. The plank said simply, "We support reinstating the Glass-Steagall Act of 1933, which prohibits commercial banks from engaging in high-risk investment."

Trump's commitment to Glass-Steagall was reaffirmed by spokesman Sean Spicer, following a meeting between Trump and community bankers in March 2017. The President answered a question from Bloomberg News on May 2, 2017, about whether he still supports Glass-Steagall, by saying, "I'm looking into that right now . . . There's some people that want to go back to the old system [Glass-Steagall], right? So we're going to look at that."

Since his inauguration, President Trump has worked to revive U.S. manufacturing and, between the months of July 2017 and July 2018, the Bureau of Labor Statistics has reported a gain of 327,000 jobs in manufacturing, which is the largest gain since 1994-95. However, this increase in manufacturing job growth is not enough to turn the tide, given the ongoing collapse of U.S. in-

EIRNS/Sylvia Spaniolo

LaRouche PAC organizing for LaRouche's Four Laws in New York City, June 9, 2018.

frastructure, nor halt the huge "sucking sound" emitted from the City of London's "Square Mile" and from Wall Street.

The net physical economic output of the United States is negative. The real-world, physical consequences of disinvestment are just now being further highlighted by the devastating effects of Hurricane Florence in North and South Carolina, following the similarly disastrous hurricanes Harvey and Maria, the effects of which have not been mitigated. Nor has the prospect of future such threats been addressed. Likewise, consider the ongoing drought in the Western United States, with life-threatening water shortages and forest fires. It is also necessary to remind ourselves of the collapsing transportation grid in the New York City/New Jersey region, and consider the most recent "Report Card" of the American Society of Civil Engineers, which gave U.S. national infrastructure a grade of D+.

The continued destruction of the current and future creative and productive capabilities of the nation must be fully recognized and addressed. Causally, the continued collapse of physical economic activity is today visible in unemployment, destroyed living standards, the epidemic of heroin and other opioids, a skyrocketing suicide rate, and mass-killings that dominate our American landscape today.

This is an all-encompassing crisis, and agitation for Glass-Steagall, by itself, is not sufficient. It only begins to address the underlying axioms, as presented by LaRouche. LaRouche's Four New Laws—and the approach to physical-economic development contained therein—are cardinal measures, and must further inform our drive for the leading four nations on the planet to convene a New Bretton Woods summit. It is the system of British monetarism itself which must be overturned, as Franklin Roosevelt acted against it in his time. American citizens are now weighing in, mobilizing with Texas Congressional candidate Kesha Rogers and the LaRouche PAC's national 2018 Campaign to Win the Future. This approach must become the affirmative policy of the U.S. government, and, as we demolish the Russiagate coup attempt, President Trump will be freed up to take these urgently required measures.

So, You Wish to Learn All About Economics?

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