Paul Gallagher

The Early Economic Forecasts of Lyndon LaRouche

LaRouche Legacy Foundation

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Paul Gallagher is a longtime associate of Lyndon LaRouche, currently on the Editorial Board of EIR *magazine and its co-editor for Economic Affairs. He was part of LaRouche's first youth movement, in the 1960s, and has played a leading role since then in spreading and elaborating LaRouche's science of physical economy, having published and spoken extensively on physical economy, economic history, and scientific issues. He is also, like LaRouche, a former political prisoner. This is an edited transcript of his presentation to the first panel, "On LaRouche's Discovery," of the August 14, 2021, LaRouche Legacy Foundation seminar, "On the 50th Anniversary of LaRouche's Stunning Forecast of August 15, 1971: So, Are You Finally Willing To Learn Economics?"*

1957

At the start of 1957, Lyndon LaRouche made a very accurate forecast in a privately circulated study of the recession of August 1957-58, the most significant recession in the post-War period and one not expected by economists at all. Then beginning in 1961 with a published article headlined "Depression Ahead?" LaRouche began to forecast the breakup, by the end of that decade—with the potential consequence of economic depression—of the Bretton Woods system, what most people understood as the dollar-gold system. When Bretton Woods *was* broken up at the start of the 1970s, it became widely known among liberal and left economists and also American university and graduate students radicalized by the Vietnam War, that Lyndon LaRouche, uniquely, had been warning this was coming.

These forecasts by Lyn came from his view of the Presidency of Franklin Roosevelt, and his knowledge that the Bretton Woods credit system in which the United States was the dominant economy with the reserve currency, was *not* the Bretton Woods that Franklin Roosevelt intended in creating it.

In 1945, Lyn had warned fellow soldiers in the Burma/India theater, when President Franklin Roosevelt died, that the shift to the "little man" Harry Truman meant a fearful period for the United States. He had watched his fellow returning veterans quickly forget FDR's mission of remaking the post-War world without colonies and with "20th Century, not British 18th Century methods."

When he began his studies of the U.S. economy in the 1950s, LaRouche confirmed that the American economy was not focused at all on capital goods exports to underdeveloped nations. And this was degrading capital formation. It lowered the economy's productivity from the industrial infrastructure of FDR's great projects and war mobilization. For a long time afterward, he insisted that the economic failure of President Dwight Eisenhower's administration, with Ike equaling Truman's two recessions in two terms, was that it did not follow through on that post-War mission, and export capital goods for development as we had exported machines to win the war. The World Bank under Wall Street capo John J. McCloy, appointed by Truman, did not make low-interest loans for great projects in the Third World.

Eisenhower's economic policy pushed domestic consumer credit and an American consumer goods "boom." U.S. Census Bureau reports show that American exports of manufactured goods in 1955, at $8.6 billion in value, were 30% lower than they had been in 1950; they were still 20% lower in 1960. The U.S. trade balance in manufactured goods was of course positive in that period, but it was +5% of American GDP in 1945 and +3.5% of GDP in 1950. I'll skip the intervening constant decline; it disappeared entirely before 1970.

Credit was going elsewhere. Mortgage loans issued went from negligible in 1950, to $57 billion in 1960. Auto loans issued went from essentially zero in 1950, to $16 billion in 1960. Cars on the road went from 30 million in 1950, to 80 million in 1955.

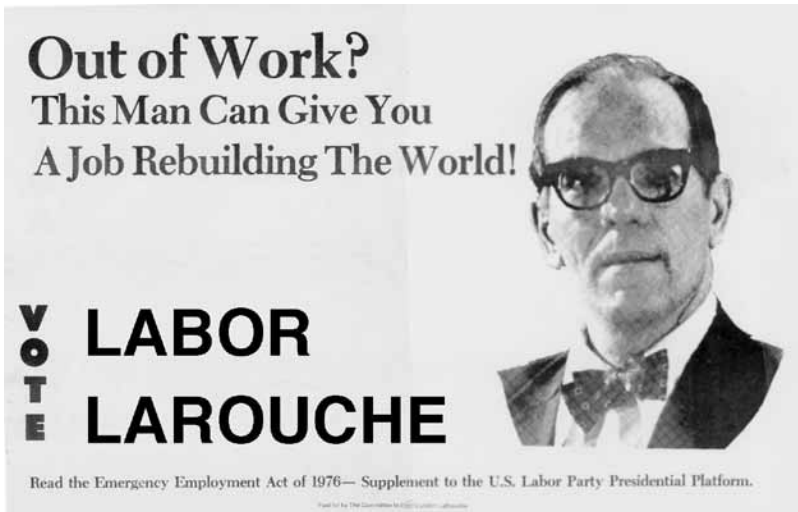
It was in analyzing that auto sales credit bubble, the burst of which was about to hit both car manufacturers and dealers, that Lyn saw the 1957 recession coming: U.S. auto production was five million vehicles in 1950, eight million in 1956, but back down to five million in 1958. And auto then employed 15% of the American workforce.

Later, LaRouche called his recession forecast “a study of longer-term capital formation trends completed in February of 1957, which forecast the forthcoming recession to occur that year as exceeding those in 1947-49 and of 1954, and to persist for an extended period.”

1961

More extraordinary was his first *published* long-term forecast, “Depression Ahead?” in 1961, which he said was intended to be the first of three studies in the *International Socialist Review*. That journal cut relations with him, and he completed the study in his 1967, *The Third Stage of Imperialism*, the first mass publication of his own independent movement.

With “Depression Ahead?” LaRouche began to forecast not only the fateful economic events of the 1960s leading to the Bretton Woods breakup, but also their impact on society. The U.S. economy’s concentration on its own consumption would end surpluses in goods trade which were important to the dollar’s global reserve function—and indeed the American goods trade surplus disappeared in the late 1960s. There would be “an inevitable impulsion toward adoption of Schachtian economics” in the United States and European nations—this meant Hitler’s central banker Hjalmar Schacht’s policy, an austerity policy involving steady, indefinite ratcheting downward of real wages.



Lyndon LaRouche’s extraordinary early economic forecasts were based on his insight on what would really make the American economy fundamentally healthy – or not so.

1967

And there would be “a new kind of approach to the underdeveloped sector.” That approach, the transfer of production of some industries from industrial nations to what essentially were Schachtian work camps in the Third World, was the subject of LaRouche’s criticism in *The Third Stage of Imperialism* of 1967. This serious attack on “globalization” appeared long before that term was invented.

Just as important, LaRouche noted that the “The leveling out of the rate of technologically-oriented expansion of U.S. industrial plant (and employment) capacity meant a drastically lowered rate of assimilation of racial minority strata,” that is, in the workforce. He wrote there was “a demoralizing shift of high school and university graduates’ post-matriculation employment prospects away from production-oriented” jobs. And this, he forecast, meant that many strata of youth would be radicalized in the United States and Europe in the 1960s, but working people only later, in response to real deterioration of economic conditions.

This *pre-Vietnam* insight was perhaps the most extraordinary early forecast LaRouche made. It defined his strategy for starting his independent political movement: Find radicalized students and graduate students of above-average discernment and commitment to the welfare of others. Teach them his method of economics, to prepare them to be able to show radicalized working people their common interest with the unemployed and with the working people of the underdeveloped nations.

The Third Stage of Imperialism intended that anti-Vietnam War students should recognize the Schachtian fascist policy underlying such a fundamentally colonialist war. They could organize for a policy of Third World industrialization and development projects. This could make common cause with those students’ political antagonists, namely, American and European skilled workers, who didn’t realize how or why their job and wage prospects were heading south to Schachtian labor camps. One of LaRouche’s first campaign posters was: “This man can get you a job REBUILDING THE WORLD!”

LaRouche’s 1961 article had already forecast that a series of monetary crises by the end of that decade were likely under continuation of U.S. monetary policy and would lead to the breakup of the Bretton Woods fixed-currency, gold-reserve system. The pound sterling crises of 1966 and 1967, leading to the uncontrolled 15% devaluation of the pound in November 1967, turned out to be the trigger. In the post-War period the

British had maintained their colonial "imperial trade preference" system and "pound sterling bloc" within the dollar-based Bretton Woods system. And starting in the later 1950s London banks blatantly violated the Bretton Woods rules by opening high-interest accounts for dollar deposits in London, then creating very high-interest-rate, actually unpayable, dollar debt of Third World countries, known as Eurodollar loans.

This was the diametric opposite of Franklin D. Roosevelt's intended policy at Bretton Woods toward the British, French, Belgian and Dutch colonies as they freed themselves.

The huge pound devaluation put great pressure on the dollar, already weakened by the near-abandonment of FDR's capital goods export policies, the resulting collapse of the U.S. goods trade balance, and inflation.

1971

LaRouche frequently attacked Arthur F. Burns, the politically conservative, but liberal Keynesian economist, Milton Friedman's teacher and mentor, head of Eisenhower's Board of Economic Advisors, and Nixon's Federal Reserve chair. As the last, Burns simultaneously raised the money supply rapidly during 1970-71, while pushing for wage and price controls, until Nixon imposed them in August 1971 after breaking the dollar's link to its gold reserve.

Those wage controls, and that Schachtian fascist policy toward the underdeveloped countries, were the major issues in Lyn's famous debate with Prof. Abba Lerner of [Queens College—ed.] in December 1971. Professor Lerner was considered the most brilliant of living Keynesian economists. In the debate, he supported Nixon's action; supported the wage and price controls; and finally, under the pressure of LaRouche's reasoning that this would lead to Schachtian fascism, Lerner supported Schacht by name, before an audience of hundreds of New York college students and teachers.

It has been noted that Lyndon LaRouche's reaction to the vindication of his economic forecasts and method by these events, was to organize his own intelligence system and launch an intelligence service, known as Executive Intelligence Review.

1976

Consider: *EIR*'s leading preoccupations in its first years in the 1970s in economic coverage were: toward the formation of the European Monetary System, the so-called "golden snake" of fixed exchange rates in the European Economic Area; toward creation of an International Development Bank—Lyn's concept adopted by the Non-Aligned Nations in 1976; toward the United States issuing gold-backed industrial development bonds at $500/ounce of gold.

What were these but LaRouche's organizing steps toward recreating Bretton Woods *as FDR intended it to function*. Since the beginning of what he called his "three phases of economic studies" in the 1950s, LaRouche's understanding of the urgency of FDR's goal, was fundamental to all his extraordinary forecasts.

Harley Schlanger

Nixon's August 1971 Announcement: An Eyewitness Account

Harley Schlanger is a board member of the Schiller Institute. He joined the LaRouche movement many decades ago, and has been a spokesman of Lyndon LaRouche in the United States for several of those decades. He helped to build the LaRouche Youth Movement beginning in the early 2000s, and today he continues to play a central role in educating people of all ages on LaRouche's ideas and insights into the current political situation on many media channels across the world, including his Daily Update video on The LaRouche Organization website. This is an edited transcript of his presentation to the second panel, "Earth's Next Fifty Years," of the August 14, 2021 LaRouche Legacy Foundation seminar, "On the 50th Anniversary of LaRouche's Stunning Forecast of August 15, 1971: So, Are You Finally Willing To Learn Economics?" Subheads have been added.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According to the vast majority of journalistic and historical ac-