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Can the new skipper change the Titanic's course?

by Chris White

One thing's for sure: The next administration, taking over as it does on Jan. 20, 1989, is going to be made, or broken on the question of monetary and financial policy. Whatever might be its good intentions in areas such as U.S.-Soviet relations, or the war on drugs, or the Middle East, still, without fundamental changes in monetary and financial policy, changes designed to bring about a real economic recovery in the United States, spilling over into the rest of the world, nothing is going to work.

It also seems that this matter is going to be forced onto the new President's agenda earlier, rather than later in his tenure, perhaps even during the first weeks of his administration. The reasons for thinking that are provided by the stated intent of various of the figures prominent in the management of the international finance system, such as Michel Camdessus, the director general of the International Monetary Fund; Eric Roll from Warburg's in London; David Rockefeller, once of Chase Manhattan Bank; Felix Rohatyn of Lazard Frères; and others. This crowd, working through the international central banks—including the Federal Reserve System in the United States—have made it plain, since September 1988, that the new President would be rapidly confronted with a financial crisis, or a series of such crises, designed to administer what they call the "shock treatment" to force the incoming administration into line with their own dictates for savage, bone-crushing austerity inside the United States.

The corollary fact—that thereby this crowd is working on behalf of Russia's strategic designs for world hegemony, and knows it—does not seem to worry them in the least. Not as long as treason, against both the United States, and Western civilization as a whole, can be covered in the obfuscating rhetoric of financial and monetary so-called Orthodoxy—"we're not against defense, we just can't afford it any more." Yet, since the March 23, 1983 adoption by President Reagan of Lyndon LaRouche's design for the Strategic Defense Initiative, Russia's policy has been premised on using the deepening financial and budgetary crisis of the United States, to ensure that the economic recovery potentials embedded in the LaRouche design of the SDI are smothered at the outset.

Thus those, on the one hand proponents of "free trade" or the "magic of the marketplace," or like Senators Phil Gramm (R-Tex.), Warren Rudman (R-N.H.), and Ernest Hollings (D-S.C.), authors of the insane deficit reduction program, find themselves, knowingly or not, cast in the role of Russia's best agents of influence in the West. To the extent that their policy continues to prevail, then the West, dragged down by the degenerating United States, will continue into collapse, and the Russian barbarians will be left to pick up the pieces of a shattered world.

Without reversing the drift, or slide, in monetary and financial policy, that outcome is going to become increasingly irreversible. This may be hard to stomach for those like incoming Secretary of State James Baker, who have spent the last year using crisis management techniques to avoid a repetition of the kind of "accident" or "mishap" which on Oct. 19, 1987 wiped $1.5 trillion off the face value of U.S. equities, thereby doubling the amount that had already been lost since the end of August, the high point of the stock market bubble. Though Baker and company might well presume that the kind of "management" techniques employed with such apparent success over the last year, could be continued, to the same apparent effect, almost indefinitely, they would thereby merely demonstrate how insane they actually are. Baker, better than most, ought to know exactly what was involved in holding "the system" together over the last year, and therefore ought to know what the effects of the next "accident" or "mishap" will be.

The debt pyramid

There is probably in excess of $20 trillion worth of unsecured obligations pyramided globally against the U.S. credit system. More than half of this amount is made up of the on- and off-balance sheet liabilities of the U.S. banking system. The next Oct. 19-style "accident" is quite likely to wipe out, in a first pass, $5-7 trillion of the total. The determination as to when such an eventuality might come to pass is political.

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The fact remains, though, that under present policies, each day that passes brings us inexorably another day closer to that eventuality.

Triggers for the detonation of the $5-7 trillion are numerous. Among them: the dependency of the dollar exchange rate on the continued inflow of some $150 billion of foreign funds; the dependency of the four- or five-times bankrupt banking system on a Ponzi-scheme chain letter of securitized off-balance sheet liabilities to the tune of more than $7 trillion; the insolvency of the thrift system, threatening the $900 billion or so in mortgage securities issued by agencies of government such as Fannie Mae, Ginnie Mae, Freddie Mac, and others; the $1 trillion of so-called Third World debt.

Crisis management methods over the last year increased the overall magnitude of the problem, and shifted the maturity spread within the total of outstanding dollar-denominated obligations toward the short-term side. For example, the effort to delay the thrift crisis until after the elections: Federal Savings and Loan Insurance Corporation notes were issued to finance takeovers of insolvent thrifts, but for every $1 extended in the form of such notes, up to $20 were extended in the form of government guarantees, estimated at about $200 billion in August and September. On the latter, there are now, after Oct. 19, 1987, more than $1 trillion in certificates of deposit of less than one year's maturity drawn on the banking system; it is estimated that about $350 billion of this pile has to be rolled over every three months.

The game goes on as long as the mass of outstanding paper continues to expand. At the point that the stampede begins, out of paper and into cash, hard commodities, or other physical assets, the whole mass will come tumbling down. The timetable will be determined, in part, by accounting settlement periods, such as the end of the tax year, quarterly settlements within the financial community, effects on the pile of paper as a whole of increases in borrowing and refinancing costs, all of which increase the demand for cash, and plain old-fashioned political in-fighting.

Crisis two decades in the making

Present crash potentials are the terminal phase of a crisis in the monetary and financial system that has been developing since the run against the British pound in 1967. Between that eruption of currency crisis and Richard Nixon's Aug. 15, 1971 decision to take the dollar off the gold standard, the postwar Bretton Woods system shattered. Since Aug. 15, 1971, the drift has been to maintain the fiction that the existing monetary arrangements are viable, by sacrificing the production of industry and agriculture, productive employment, living standards, and, among two-thirds of the world's population, the basis for existence itself. There were, from 1975, the Rambouillet agreements on floating exchange rates and the International Monetary Fund's genocide policy. These wiped out sub-Saharan Africa. There was the 1978-79 "controlled disintegration" policy, as it was known, embodied as Federal Reserve chairman Paul Volcker's high interest rate policies. This produced recession in the advanced-sector countries, and the 1982 explosion of "the debt bomb" in Ibero-America. Then there was what Donald Regan and Walter Wriston called "creative" or "innovative" financing, which, through financial deregulation and changes in the tax law, in favor of real estate and other forms of speculation, unleashed the bubble which burst at the end of 1987.

At each phase in this process, the decision was made to attempt to buy time for the monetary system, by increasing the looting against the physical economy and human populations. The 1982 decisions typify the whole. At that time, LaRouche warned of the eruption of what he called the "debt bomb," and submitted proposals, known as "Operation Juárez," aimed at reorganizing the monetary and economic relations between the United States and the states of Ibero-America, to permit the growth of both. The proposal was rejected in favor of the "creative financing" innovations, under which Ibero-America, importers of U.S. capital goods and equipment, went more or less overnight into the opposite profile, shipping out whatever could be moved to service debt, while the banks, no longer in the business of lending, began to generate the "securitized" paper chain, which from nothing in 1982, burgeoned into $7 trillion by 1987. Back then, LaRouche told those who rejected his design for reorganization that they might thus buy their system five years, but only at the ultimate price of making the delayed crisis much worse.

The crash of 1987 signaled the beginning of the reckoning. The delay won in 1988, like that achieved in 1982, only ensures that the reckoning will be much worse, and not this time, five years away.

The problem is the commitment, for longer than a generation, to preserve the apparent integrity of the financial system, at all costs, without respect to any other consideration. That is the knee-jerk reaction the Soviets have exploited so skillfully, against the fundamental interests of the West, since 1983.

Those who have administered that policy commitment never appear to have asked themselves what the purpose of a monetary system might be. Some, like the central bankers and their friends who intend to break the will of the incoming administration, would argue that the monetary system is the means by which control is exercised over governments and populations. Others, who generally end up in government, rather than higher up the totem pole, like the *nouveau riche* crowd from California, or the Donald Regans, see monetary policy as a means for converting the accumulated wealth of generations into the green stuff with which some are able to line their pocketbooks, without respect to how that wealth was developed, or what the consequences of the liquidation might be.

Both ignore the relation between the economic activity on which human existence depends, and monetary processes. In insisting on the primacy of the monetary system, they

TABLE 1
FDIC vs. actual bank failures, 1988 and 1987

	1988 (thru 12/15)				1987			
	FDIC		Actual		FDIC		Actual	
	Number	%	Number	%	Number	%	Number	%
Texas	113	57%	211	67%	50	27%	64	31%
Oklahoma	22	11%	24	8%	31	17%	33	16%
Louisiana	11	5%	12	4%	14	8%	14	7%
Colorado	9	5%	11	3%	13	7%	13	6%
Subtotal	155	78%	258	82%	108	59%	124	60%
Other	43	22%	56	18%	76	41%	81	40%
NATIONAL	198	100%	314	100%	184	100%	205	100%

position all of us, willing or not, as passengers on some conveyor belt. We may stroll around in any direction we want, but unless the direction of the conveyance is changed, or the apparatus turned off, we are all going to end up in the same disaster, no matter how we might think we got there, just like the passengers on what was known as the unsinkable *Titanic*.

Where the solution lies

In principle, these kinds of problems were solved, and not for the first time, 200 years or so ago. Solved, in the sense that the philosophical approach by which mankind might organize itself to escape from the form of monetary domination known as usury, was embodied in the Preamble to the U.S. Constitution, and embedded as law in the sections of Article 1 which allotted to the federal government the power to create money and credit, raise taxes, and regulate commerce. The intent thus outlined was further elaborated in Alexander Hamilton's reports, as Washington's first Secretary of the Treasury, on the National Bank, and on manufactures.

Since the Renaissance of the 15th century, it had been established, thanks to the work of Cardinal Nicolaus of Cusa and his collaborators, that the potential which separates man absolutely from the lower beasts, as a creator responsible for the perfection of creation as a whole, in the image of the living God, is best fostered on the basis of the culture of vernacular languages, organized in the form of a state. The Renaissance design was implanted onto the shores of this continent, thanks to the work of Benjamin Franklin and the European collaborators and successors of Gottfried Leibniz.

The Preamble to the U.S. Constitution is the distillation of that effort, "to form a more perfect union, establish justice, insure domestic tranquillity, provide for the common defense, promote the general welfare, and secure the blessings of liberty to ourselves and our posterity." Opposite to what prevails now—when the view of humanity that underlies conduct in monetary and budgetary affairs assumes not only that "it costs too much" to provide for our posterity, but also that it costs too much to provide for the living—the purpose here is to improve that which is bequeathed us, for the generations which will come after.

Monetary policy ought then to be the instrument of that higher objective. Human history provides the proof as to how this might be done. Man has progressed, from the capacity to support a couple of million, at a maximum, baboon-like hominids, to 5 billion today, with the potential to support, at higher living standards than today, 50 billion over the two generations ahead, and up to 100 billion another generation or two down the road. The increase has been made possible by the assimilation of technological improvements, which by increasing the productivity of human labor, enable more productive people to be supported per hectare.

Monetary and taxation policies are the means by which the state ought to organize the flow of technological improvements which transform the organization of human existence for the better.

Either we return to that kind of approach, and junk the failed policies of the last generation and more, or this country, and the civilization which depends on it, will be adjudged to have been morally unfit to survive.

The institutions of government, as the Constitution provides, must reassert their lawful power to create money and credit. In U.S. practice, this is usually done by the Treasury's issuance of gold-reserve secured notes into the banking system. Under the present degeneration of monetary and credit systems, the government is in effect the only available such source of credit. So, its powers ought to be used to provide the $2 trillion or so which it costs to run the economy over a year. The credit ought to be directed, at nominal interest rates—like the 1.5% during World War II—into fostering industrial and agricultural production and improvements in

basic infrastructure.

Internally, this kind of approach, by putting the workforce back into wealth creation through production, reverses the decline in tax revenues which lies as the unaddressed root problem of the current flap about the government's budget deficit. Externally, it permits the negotiation of new patterns of economic cooperation, through the creation of new markets in the Southern Hemisphere, and through a commitment to space discovery and colonization, which will unleash the successive transformations of the technological base that will permit the sustenance of the 50 billion or so humans who should be living on the Earth in 30 years. The productivity increases which flow from the adoption of such a course have the included benefit of ensuring that the growth of the whole process is self-financing.

For the last 25 years or so, every time the opportunity has been presented to adopt such a course, the contrary path has been chosen. The crisis which is coming over the next months will not permit the luxury of that inherited practice. Either the old ways are junked, or the collapse of the financial system will bring down everything, in the worst catastrophe mankind has perhaps ever seen.

About the tables: The FDIC divides bank collapses into two categories: "failure" and "assistance transaction." A "failure" is where the bank is closed by the Comptroller of the Currency or the corresponding state agency, and is then turned over to the FDIC for disposition. In an "assistance transaction," the insolvent bank is technically not closed, but is instead sold to a third party, who receives a bailout from the FDIC to cover the bad assets of the acquired bank. The distinction between lies mainly in the minds of the lawyers, accountants, and bureaucrats.

EIR *failure count includes both the FDIC categories, plus "Other failures" such as the Federal Land Bank of Jackson, Mississippi, which is not a commercial bank under the auspices of the FDIC, and two Colorado "industrial banks," which also lie outside the auspices of the FDIC, but were significant bank failures.*

The main discrepancy between the FDIC and EIR *counts, however, shows up in commercial banks directly under FDIC auspices in Texas. Until recently, Texas was a "unit banking" state, where branch banking was prohibited. The major Texas banks took the form of large holding companies, which owned a number of subsidiary banks, each with its own charter. Two of the larger Texas bank holding companies collapsed in 1988, First RepublicBank Corp. and First City Bancorp. First City Bancorp., a 61-bank holding company, was insolvent and in desperate need of help, but it was considered "too big to fail" by regulators and banking industry officials, so it was put on a life support system until a buyer could be found. In June 1988, when the FDIC-assisted sale of First City and its banks went through, the FDIC counted the event as a single assistance transaction.*

First RepublicBank was also "too big to fail," but the government was forced to close FRB's banks to preclude a rash of lawsuits against the buyer, NCNB. At the end of 1987, First RepublicBank Corp. was the largest bank holding company in Texas, with 72 subsidiary banks. At some point during 1988, thanks to a change in Texas banking law, First RepublicBank began to consolidate those individual banks into a limited branch banking system, such that by the time it was officially declared insolvent, the company had only 40 member banks. In March 1988, to stem a ruinous run on the bank, the FDIC gave First RepublicBank $1 million, and publicly guaranteed all of the bank company's deposits and most of its debts. At this point, EIR *counted all 72 First RepublicBank banks as having failed.*

TABLE 2

Bank failures in 1988 by state

	1988 (thru 12/15)			1987		
State	FDIC	Assistance Transaction	Total	FDIC	Assistance Transaction	Total
Texas	113	5	211	50	12	62
Oklahoma	22	2	24	31	2	33
Colorado	9	0	11	13	0	13
Louisiana	11	1	12	14	0	14
Minnesota	7	1	8	10	0	10
Kansas	6	2	8	8	0	8
Iowa	6	1	7	6	0	6
California	3	0	3	8	0	8
Florida	3	0	3	3	0	3
Missouri	2	0	2	4	0	4
Utah	2	1	3	3	0	3
Alaska	1	1	2	2	0	2
Ohio	1	1	2	1	0	1
South Dakota	1	1	2	2	0	2
Arizona	1	0	1	0	0	0
New York	1	0	1	1	0	1
Nebraska	1	0	1	6	0	6
Indiana	1	0	1	3	0	3
Montana	1	0	1	3	0	3
Michigan	1	0	1	0	0	0
North Dakota	1	0	1	2	0	2
Washington	1	0	1	0	0	0
Delaware	1	0	1	0	0	0
Wyoming	1	0	1	4	0	4
New Mexico	0	1	1	4	0	4
Kentucky	0	1	1	1	0	1
Arkansas	0	1	1	0	0	0
Illinois	1	1	2	2	0	2
Mississippi	0	0	1	1	0	1
Total U.S.*						
EIR	198	20	314	184	19**	203
FDIC	198	20	218	184	19	203

*Totals for 1987 reflects the total for all states, while Table 2 only lists those states that had failures in both 1987 and 1988.

**Only 14 of the 19 total are listed.