

Finance tremors discredit LaRouche critics, again

by EIR Economics Staff

After a brief respite from the multibillion-dollar derivatives losses of the first quarter, financial markets around the world felt renewed tremors of imminent doom the third week of June. The DAX index of the German stock market fell 4% on June 20, while the FT-SE 100 index of the London stock exchange fell 3%, with similar declines recorded in the bourses of Amsterdam, Italy, and Japan. In the United States, the New York Stock Exchange recorded three consecutive days of declining paper values, driving the Dow Jones Industrial Average down 3%.

Even more telling, the U.S. dollar fell to its lowest level ever against the yen, even breaking through the important psychological barrier of 100 yen to the dollar on June 21, before being driven back up slightly by intervention from the Bank of Japan. The dramatic collapse of the dollar against the yen forced an emergency meeting of the Japanese cabinet, after which Chief Cabinet Secretary Hiroshi Kumagai declared, "This movement deviates from fundamentals . . . it is too speculative." In another press conference later, Finance Minister Hirohisa Fujii declared, "I think [the fall of the dollar relative to the yen] was largely speculative and a drastic fluctuation. . . . We will take decisive steps."

The *Frankfurter Allgemeine Zeitung* flatly declared that a bond crash was in process on June 20. The same day French Prime Minister Edouard Balladur told the French weekly magazine *Le Point* that he fears that "the enormity of uncontrolled daily [financial] transactions could result in a major international financial crisis."

Roland Leuschel, head of the Banque Bruxelles-Lambert, was even grimmer. "The countdown to the crash has begun. . . . We are today paying the price for the creation, during the last two years, notably in the United States, of the most significant financial bubble in human history," Leuschel told the French daily *Le Monde* on June 22.

Even the City of London was raising a cry of alarm. This has been "the steepest bond market fall since 1914" in British Gilts, leading London bond broker Stephen Lewis told the London *Daily Telegraph* on June 22. Lewis noted that British government bond prices have fallen by 22% since January, as a result of an unremitting liquidation of bond holdings in all major markets. The next day, the head of S.G. Warburg, George Magnus, told *Le Figaro*, "It is unlikely that we can escape an accident on the markets."

LaRouche's timely ninth forecast

These comments of near-panic come less than one week after American System physical economist Lyndon LaRouche formally issued the ninth forecast of his 40-year career, viz.: Barring a very unlikely forced bankruptcy reorganization of the leading financial and banking institutions, the world financial and monetary system is doomed to complete self-destruction, most likely before the present term of President Bill Clinton ends (see our *Feature* in the June 24, 1994 issue). Asked on June 22 if the events of the third week of June amounted to the financial disintegration he had forecast, LaRouche replied, "It's coming, but exactly when is uncertain. There is no sign that this is what I've described as the Big One, that is, when the entire financial system disintegrates."

"Of course," he continued, "one should always qualify that to say that if the governments would do what seems unlikely politically at present, that is, agree to put the entire international financial and monetary system into bankruptcy reorganization (like Chapter 11 for a private company in the United States), we could stop it. But that is the *only* thing that will stop it. Regulation would be useful now, but it won't stop it. It will simply enable us to control it a bit better.

"It is not yet a sign of the Big One, that is, where the

whole thing disintegrates.”

Behind the scenes, financiers and regulators are grudgingly admitting that LaRouche is right again, and talk about a “qualitative phase shift” that occurred in June. One high-level source in Europe told *EIR*, “There has been a qualitative change from even a month ago in the attitude of the G-7 governments about the value of unrestrained financial markets. The era of such free markets is over. This [speculation] has simply gone too far in their view. The recent collapse of government bond markets since February is so bad it is weakening the very fabric of government. Interest rates on government debt has risen to levels where governments cannot finance current deficits easily. This is a genuine phase change.”

This forced change in thinking is evident even in London, with reports that the die-hard free market Bank of England is “very alarmed” at the scale of the ongoing collapse in government bond markets worldwide since January. A City of London expert told *EIR* that “Chancellor of Exchequer Clark just suggested he has shifted from a staunch free market Thatcherite view, to increasingly favor some controls on this derivatives-led financial mess. . . . As well, the Bank of England privately is very alarmed at the precipitous collapse of the U.K. bond market. They fear to say anything public for fear that other G-10 central banks are not yet ready to agree to what they propose, thus running the risk of failure—which would panic markets even more.”

‘There never has been such a bubble’

But this type of perception management by the Bank of England, or anyone else, has run its course, LaRouche stressed. “There has never been, in the history of mankind, a bubble anything like this, and the crash which is in progress, is different than *anything* in the entire history of mankind—it’s bigger, it’s worse,” he explained.

“The mudslide has picked up speed. The attempts to stop the mudslide with dams like the Brady measures, the Greenspan measures—these things have been overwhelmed. We are now at the point where there really is *no effective defense*, no line of resistance, at which this could be stopped in such a way as to keep the present financial system going . . . reverse leverage is operating. That is, a bubble of this type, which is purely speculative, has no positive relationship to the economy. That is, the fact that the financial aggregates increased, which people will say, ‘That’s a sign of an upturn,’ is absolute nonsense. It’s just puffing up a balloon. But the balloon depends upon sucking the blood out of the physical-economic basis for what might be called a primary income stream.

“Now, when the economic basis becomes shrunken, very small, relative to the size of the bubble, the bubble’s appetite is too big for the base . . . and you get to a point where you can no longer throw in new measures of swindles to keep this bubble growing. When a bubble of this type no longer grows,

it collapses; and it collapses under a logic which is called reverse leverage.

“The nature of the thing is that when the collapse really sets in, when it’s not a marginal fluctuation (and you can get a lot of fluctuations before it actually pops), but when it pops, the reverse leverage accelerates in a way which is comparable to a chain reaction in a chemical explosion or a thermonuclear explosion.

“Then one bright day—and this is the threat we’re facing—you’re standing there, you still have a financial system on the morning of that day—like, say, the past Monday, for example, could have been such a date, potentially. Then, one day later or two days later, there is no longer a banking or monetary system. It has broken down, it has disintegrated, because nobody can exactly figure out who owes whom, and who’s going to be doing business. It happens with that kind of explosive velocity, like a thermonuclear explosion. And that’s what we’re headed for.”

LaRouche pointed out that there are only two alternatives. “Either you act now, to put the thing into financial reorganization, that is, put the Federal Reserve into federal financial reorganization, put the New York banks into federal financial reorganization, put the entire transaction system under federal reorganization, just to freeze things, to stop the disintegration. And then build a new system immediately—which *we can do*.

“Or, if you don’t do that—which unfortunately I fear that governments are too weak-kneed, cowardly, and stupid to do—then you’re going to get the alternative, which is that the collapse will occur . . . not through preemptive financial reorganization; but rather through an explosive disintegration process, where one morning nobody has a pension any more; nobody has a bank account any more, or if they have it, they can’t get at it, because the whole system has disintegrated.”

The only good thing about the process, LaRouche notes, “is that my authority on the analysis of how this bubble is coming into place, is vastly increased internationally; and my enemies, who depend upon the financial power that this bubble represents, are being politically weakened. That means the enemies of President Clinton; that means the friends of Henry Kissinger and so forth. These people are *imminently* threatened with a great weakening of their political power, as the base of their political power—this financial system—is undermined. . . .

“I don’t think that what we’re seeing is the Big One yet. I think this is just a warning. It’s a shoe dropping, warning us that something big could be coming very soon. But it’s big enough so that people who two weeks ago were ridiculing what I had to say, are no longer ridiculing what I had to say.

“You can’t prevent the collapse of the system,” he concluded. “This system is finished. The banking system, the monetary system, the IMF system, the Federal Reserve System in its present form, *is as good as dead*. It’s just a question of when the death certificate is going to be written.”