LaRouche's ninth economic forecast, one year later

by Christopher White

One year has now gone by since *EIR* published Lyndon LaRouche's ninth economic forecast, "The Coming Disintegration of the Financial Markets," on June 24, 1994 (also printed as a *New Federalist* pamphlet). Posed as a test of the sanity of such officials as the Bank of England's current governor Eddie George, LaRouche put forward in that writing the conclusive proof "that the near-term disintegration of the presently bloating global financial and monetary bubble is unstoppable by any means alternative to governments acting to place the relevant institutions into bankruptcy reorganization." Over the intervening months, Orange County, California, one of the wealthiest counties in the United States in terms of per capita income, has declared bankruptcy. And, now, following voters' rejection of a proposed 50¢ increase in the sales tax, the county faces imminent default on its obligations. Currency convulsions radiating out from the Republic of Mexico signalled the end of the liberal free market reforms which have made so much bloody wreckage of the world in the years since 1989. One of the City of London's oldest investment houses, Barings Bank, bankrupted itself. And still to come? The list goes on, but highlights would include: Japan's banks, saddled with over $400 billion of soured loans, standing on the edge of collapse; all of Britain's investment banks, victims of depositor runs in the aftermath of the Barings crisis; Britain's insurance market, Lloyd's of London, insolvent; and the bankrupt public finances of at least 10 countries in the industrial world.

It can be assumed that among the heads of state who assembled for the recent summit proceedings in Halifax, Canada, there were among them those familiar enough with the import of what LaRouche has had to say. Such knowledge, whether they agree or not, can be contrasted with the briefly touted achievements of that summit of the Group of Seven countries. Among those achievements was the establishment of a special fund to deal with potential repetitions of this past Christmas's Mexican peso devaluation fiasco, and the aftermath thereto. This fund is to be based on a doubling, from $28 to $56 billion, of a facility within the

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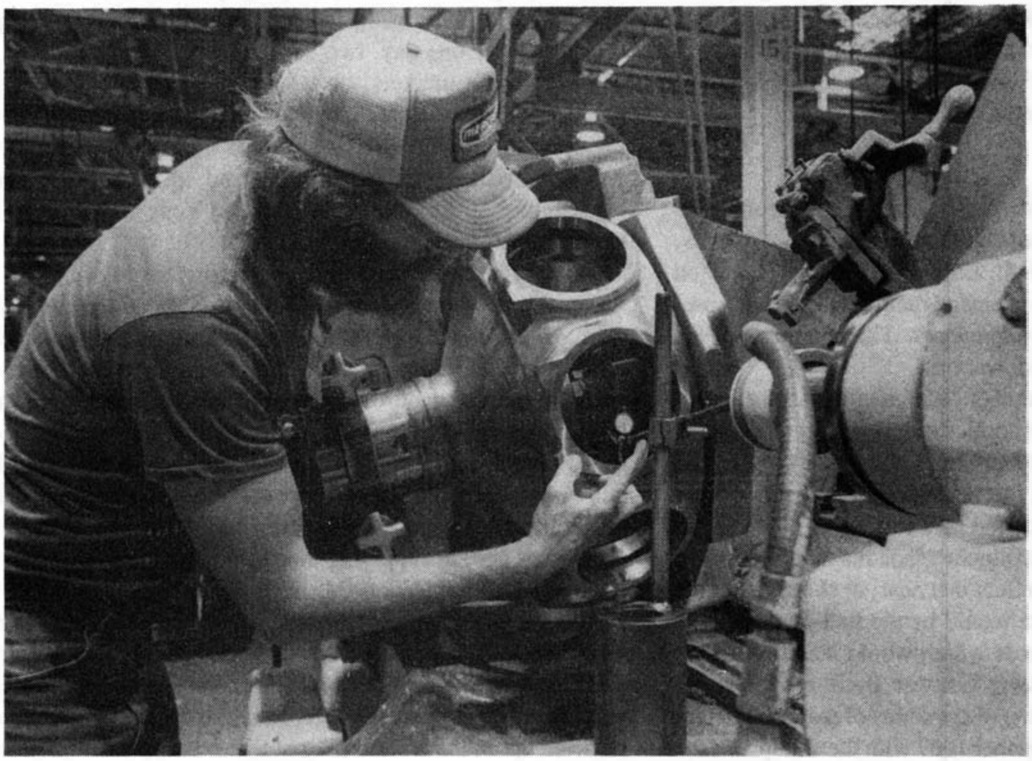


A precision machining and special development technician checks dimensions of the propjet fan hub. Such productive workers now constitute less than 30% of the total U.S. labor force.

International Monetary Fund.

As far as the public proceedings went, this doubled financial facility was about the only recognition the assembled heads of state and finance ministers gave to the deepening international financial and economic crisis. But behind the scenes, it is well enough known that different kinds of discussions, driven by altogether different views of the current situation, are going on.

The proposal to set up such an emergency fund represents the thinking and assumptions of one of the elements of that behind-the-scenes discussion, namely, the insistence that there is no systemic economic and financial crisis, but rather episodic problems, whose periodic eruptions can be dealt with by administrative means. The proposed fund is to be combined with the development and adoption of a set of "early warning" indicators which are supposed to provide qualified administrators with the necessary notice to act in advance of the eruption of such crises as last winter's Mexican explosion. Since the composition of such indicators will be known, it is tempting to ask who on earth would expect the proposed $56 billion to be adequate to stem the tidal flood of flight capital that will surely be triggered as the adopted indicators start flashing their warning lights.

Early warning indicators? One could imagine someone, waking from the sleep of the dead at the sounding of the Last Trumpet to ask, "Did the alarm go off? Where's my breakfast? Am I going to be late for work?" Who needs such early warning indicators now? They ought instead to look back over LaRouche's forecasting record of the last nearly 40 years, and ask themselves what is different about his method of approach, and the one they and their like still seem content to rely on. It is all fine and good having indicators. As long, however, as there is some correspondence between the indicator and what is indicated, and as long as the user knows what is supposed to be going on. No one in their right mind would use a street map as a guide to cooking dinner. But, when it comes to financial and economic matters, it seems that is the kind of thing most of us choose to do, every time.

There are still people around who insist that LaRouche is off the wall. There are others who agree with him: though not all for the same reasons. Among them, the Götterdämmerung crowd of modern chaos theory, who insist, that out of the coming collapse will emerge their new order, as well as those who do agree with LaRouche, but don't think it politic to be seen and heard in such agreement in public. And then, there are the advocates of early warning systems, who insist that there's really nothing wrong with the financial system that changes in management and administrative methods won't be able to fix, and keep on fixing.

What LaRouche said in his "Ninth Forecast" was, as he told various relevant Russian scientific institutions during the last week of April 1994: "The presently existing global financial and monetary system will disintegrate during the near term. The collapse might occur this spring, or summer, or next autumn; it could come next year; it will almost certainly occur during President William Clinton's first term in office; it will occur soon. That collapse into disintegration is inevitable, because it could not be stopped now by anything but the politically improbable decision by leading governments to put the relevant financial and monetary institutions into bankruptcy reorganization."

LaRouche's record

Over the course of 40 or so years as an economist, LaRouche had produced just eight forecasts of critical events, prior to publication his ninth. Each such forecast, made on the basis of his LaRouche-Riemann method, has been subsequently confirmed by developments. The summary of his forecasts, by date, is as follows:

1) During the late autumn of 1956, he forecast the imminence of a major U.S. economic recession triggered by the bursting of the post-1954 bubble in consumer credit. The recession, known later as the "Eisenhower" recession, was acknowledged to have occurred later in 1957.

2) During 1959-60, LaRouche made his first long-range economic forecast, to the effect that near, or shortly after the middle of the 1960s, there would be the first of a series of major monetary disturbances which would lead toward the collapse of the then existing postwar Bretton Woods exchange rate system. The first of the series of major monetary upheavals erupted in November 1967 with the collapse of the British pound. The official breakup of the Bretton Woods system began on Aug. 15, 1971, when Richard Nixon broke the linkage between the dollar and gold, to let the U.S. currency float freely.

3) Campaigning for President in November 1979, LaRouche warned that the interest rate increases initiated by Federal Reserve Chairman Paul Volcker would lead to a devastating recession beginning early in 1980. And, so it did.

4) In February 1983, during the course of exploratory back-channel discussions conducted with Moscow on behalf of the Reagan administration, LaRouche told his Soviet government interlocutors, that if his strategic defense proposals were to be rejected, strains on the economies of the Comecon nations would be such that that economic system would collapse in about five years. The forecast was repeated in *EIR*'s July 1985 *Special Report,* "Global Showdown." The collapse occurred during the second half of 1989.

5) During a spring 1984 televised election broadcast, LaRouche warned of the outbreak of a collapse in the U.S. banking and savings and loan sectors.

6) In May 1987, in his first and only stock market forecast, LaRouche warned of a stock market collapse beginning Oct. 10, 1987. On Oct. 19, the Dow-Jones index fell 508 points, the largest one-day loss in its history to date.

7) On April 12, 1988, LaRouche described the phenomenon of the "bouncing ball" as the key to following relatively short-term fluctuations of the U.S. economy. The ball would keep on bouncing, but its overall trajectory would continue downwards.

8) On Nov. 23, 1991, LaRouche warned during his election campaign, that we were in the grip of a global financial "mudslide." "Many people," he said, "have been looking for a definitive one-day, two-day, three-day financial crash, perhaps on the markets. . . . What they are seeing is the Great Mudslide of 1991." And, so it went, from the continuing collapse of Tokyo's Nikkei index through 1992, to the currency crisis of the fall of 1992 and spring of 1993, to bankruptcies of financial institutions in Venezuela, Germany, Spain, Canada, the United States.

That record can be set against the pretensions of those, for example, who are now discussing setting up their "early warning indicators" of future crises, such as the one that erupted in Mexico last December. How many of them forecast that development before it occurred? *EIR* did, back in April 1994. Why would anyone think that methods which failed before would function now? But, what about a record which has been proven to be consistently right, where all others have been proven to be consistently wrong?

A year ago, in supplying the proof that, short of government action to put responsible institutions through bankruptcy reorganization, a global financial collapse had become unavoidable, LaRouche wrote that he was supplying not only a sanity test, but also a morality test for officials, and the voters who elect them to office. For, if his warnings were to be acted upon, the Ninth Forecast that he has put his 40-year record behind, would not have to occur.

A method of a different sort

LaRouche's record is based on a method of a different sort than the others. We'll see it again now, if the early warners get sufficient time to put together their package of indicators. They'll have numbers on current account balances and trade balances, government revenues, expenditures and deficits, wage income and expenditures, interest rates, and currency valuations. And they'll take their statistics, and they'll say something like, for example, in one case, "Ha! trade deficit too big, economy growing too fast, cut wage income, investment, and government expenditures to slow down growth," or, in another case, "Ha! trade surplus too big, economy growing too fast, cut wage income, investment, and government expenditure to slow down growth." Opposite symptoms, same medicine, just as for Mexico and Brazil last year.

They'll take statistics of monetary and pricing aggregates, and they'll do correlations between the statistics they've assembled, and they'll say what has to be "adjusted," "cut," "restructured" to bring their correlations back into whatever they consider to be statistical balance. That's the method of using a street map as a guide to cooking dinner. You may end up with something on your plate, but you can be pretty sure it won't be what's on the map.

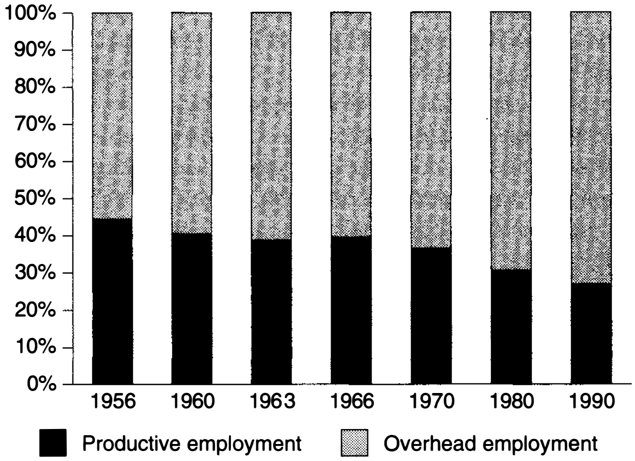
Monetary and pricing aggregates do indeed enter into economics, but not as primary data for consideration above all else.

LaRouche has started, since the 1950s, from the assump-

FIGURE 1

U.S. workforce—ratio of workers in overhead vs. productive employment, 1956-90

(percent of total labor force)



Sources: *Historical Statistics of the United States,* Bureau of the Census, 1975; Department of Labor, Occupational Employment Division, and Bureau of Labor Statistics, *Monthly Labor Review*; Department of Education, National Library of Education; Department of Health and Human Services, Bureau of Health Professions; American Nurses Association.

tion that economy is essentially human activity, to be made intelligible for human beings with the same scientific tools that distinguish mankind absolutely from the lower beasts. Ask the others to submit, from out of their early warning indicators, a proof of the uniqueness of human existence, to thereby demonstrate that human knowledge can be consciously developed for application in the pursuit of human activities. They will not be able to do it, no more than would a witch-doctor come up with a cure for cancer. And, if they can't say what is unique about human beings and human existence, neither can they have anything human to say about economy, or economics. They must converge on the view that LaRouche said would be directed against the then so-called developing countries, and increasingly against the advanced sector countries, when in 1959-60 he said that the austerity policies of Hitler's Economics Minister Hjalmar Schacht would be the establishment's policy response to the monetary turmoil he forecast for later in that decade. Since they can't argue what human beings are, they will have to follow the practice of their assumption that man is no different than any of the lower beasts. Further, if they can't say what it is about human beings that makes human economy unique, they've got no way of knowing whether an economy is doing well, or whether it might be on the verge of collapse.

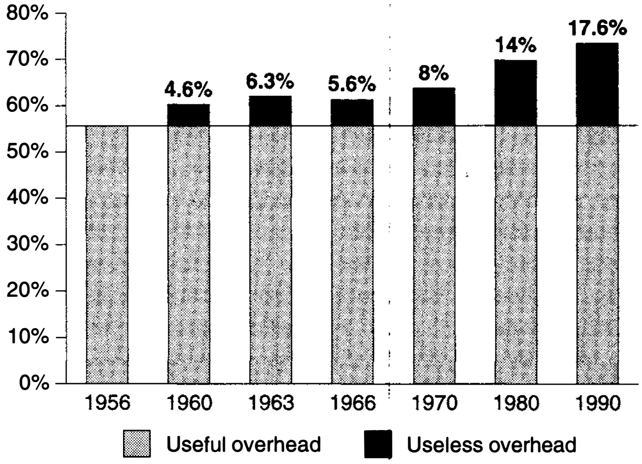
The development of man

Let's take the time-frame since LaRouche began his economic forecasts, back in 1956, to discuss further these two aspects. First we'll compare two sets of ratios. In **Figure 1,** we are comparing the evolution of the division of labor of the

FIGURE 2

Useless overhead employment in the United States, 1960-90

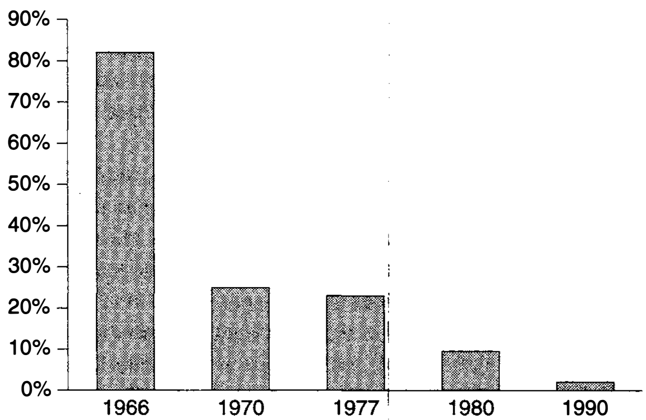
(percent of total labor force)



Sources: See Figure 1.

FIGURE 3

Falling value of U.S. merchandise trade as a percent of U.S. foreign exchange transactions, 1966-90



Sources: Bank for International Settlements surveys (1986, 1989, 1992); U.S. Federal Reserve surveys (1977, 1980, 1983); GATT.

United States labor force in selected years since 1956. In **Figure 2,** we focus more closely on one aspect of that evolution, namely, the growth of non-productive forms of employment, above the proportion so employed in 1956, when LaRouche began to issue his forecasts. In **Figure 3,** we express the value of U.S. merchandize trade as a percentage of U.S. foreign exchange transactions for 1966-90.

First, though, step back a bit. Until the Council of Florence (1439), under the influence of Cardinal Nicolaus of Cusa, set into motion the Golden Renaissance formation ofthe modern nation-state, based on the development of mankind's unique creative capability to advance and assimilate scientific ideas, the characteristic of previous forms of human society had been that 85-90% of the population would be occupied in producing the food, and other primarily rural products, that would permit themselves, and the remaining 10% of oligarchic rulers, and their associated flunkies, to live. The 85-90% were to be treated as the beasts of burden. This arrangement has been the characteristic through recorded human history of that form of human society known as oligarchic.

The Council of Florence institutionalized, for western culture, and thus the whole world, the Christian conception that all human life is sacred, because all men are created in the living image of God. As the basis in law for the foundation of the nation-state, this idea of man permitted the development of institutions which could replace the prior oligarchic order.

Now, the 85-90% of the population, which, in all predecessor societies had been condemned to beast of burden chattel status could be free to contribute to mankind's development. From the first such nation-state, Louis XI's France, such conceptions radiated across the globe, unleashing a process never before seen in history, in which man's population increased from a maximum of around 400 hundred million to over 6 billion today. The proportion of the labor force required to produce agricultural primary necessities fell from over 85% to under 10%. Thus, over 90% of the labor force could be free from agricultural-type labor to contribute elsewhere, and in other ways. Ideas, developed from the circles of Cusa's Council of Florence, and Louis XI, through Leibniz and his associates in the seventeenth century, to the makers of the American Revolution, assimilated as technology into the division of labor, increased human productivity and transformed the basis of human existence in ways never seen before.

This process helps to indicate what uniquely distinguishes the human species from all lower species. Man alone has transformed himself, and the conditions of his existence, to increase his potential to increase the power of the species over so-called nature. Over the course of his existence, from the baboon-like hominid of the Pleistocene capable of merely supporting a handful of million, such increases in transforming power have produced a three-orders of magnitude increase in the population density of the species. No other species has that capability.

The Golden Renaissance marks a breaking point in that process, in that the idea of man in the image of God then institutionalized provided the unique basis for the acceleration of that rate of increase, as reflected, for example, in Gottfried Leibniz's late-seventeenth-century outline of the scientific principles to be employed in the creation of the economy of the heat-powered machine.

It is an utter absurdity to consider that the process of mankind's growth, and the development of the ideas which have made that growth possible, have no bearing on discussion of economy. It is complete lunacy to think that any system of statistics derived from monetary aggregates could account for the transformations humans have created their history. It is complete idiocy to suppose that any system of statistics could capture anything of that process at all.

That said, turn back to the graphs. Figure 1 is based on dividing the total labor force into two principal segments. That part which contributes directly or indirectly to maintaining and improving the basis for human existence, and that part which, relative to the first, represents non-productive overhead. In the first, productive portion, we have included workers involved directly in the transformation of nature, farmers, miners, manufacturing operatives, workers in construction, transportation, and other hard infrastructure such as utilities; the teachers and health care workers, who contribute by maintaining the cultural and related potentials of the population; and the scientists and engineers, who develop the ideas which are transformed into increased human power through the work of others. This is the part of the workforce which uniquely produces wealth. The overhead section includes administrators, whether from government or business; sales functions; and so forth, and the unemployed, who provide services to the wealth-producers and their families, but do not contribute directly to wealth production themselves. They are instead "kept" as it were, out of the surplus, or profit that is produced by the wealth producers.

Now consider: In 1956, when LaRouche produced his first forecast of the forthcoming 1957 recession, the ratio between the two stood at 44.4% on the productive side, 55.6% for the overhead.

Assume then that this ratio was not just arbitrary, but rather reflects an outcome of the entirety of the process from the European settlement of North America, and the founding of the republic, though Lincoln's War for the Union, to Franklin Roosevelt's organizing of the "arsenal of democracy" to fight and win World War II. An outcome in which ideas associated with the conception of growth which has made mankind's history possible, have fought to advance against those who still wish to turn back the clock on the effects of the Council of Florence. This outcome is reflected in, for example, the near 40-fold increase in the population over the 200 years of the republic's existence, and in the reduction of the relative social cost of feeding that population from some 85% of the labor force to around 8%. Through such a process the means were created to build the cities which housed the populations which created the industries, and the infrastructure which made that succession of transformations possible.

In other words, assume that ratio between productive and non-productive workers reflects something of the creative power employed in the shaping of human history and human existence. Then follow the course of that ratio over the intervening 34 years.

The decline of the productive workforce

The 1957 recession LaRouche warned of reduced the productive component by 4% of the labor force as a whole, or 10% of productive workers. The years from 1960 to 1966, which marked the bounds of LaRouche's second forecast, saw the productive side of the ratio stagnating, with a slight uptick in 1963 reflecting John F. Kennedy's short-lived efforts to reverse the "Eisenhower recession." The last years of the decade of the 1960s, which saw the eruption of the terminal crisis of the postwar Bretton Woods system, saw the productive part of the ratio decline by another 3% of the workforce as a whole, or 9.2% of the productive labor force. Then compare the transformation from 1970 to 1980, the year after LaRouche's New Hampshire forecast of the effects of the Volcker-Carter interest rate policy—another 6% drop relative to the workforce as a whole, or 16.5% of the productive workforce. That shrinkage is concentrated in the years after 1978. Then follows, between 1980 and 1990, the year before LaRouche's "mudslide" forecast, the elimination of another 12% of the productive workers, down to just under 27% of the workforce as a whole.

This is the backdrop to the succession of LaRouche's forecasts. Take the whole process from 1956. What do we see? That the productive part of the workforce, reduced from 44.6% of the labor force to 26.8% by 1990, has been slashed by 40%. What does that mean?

First, to maintain the same level of per-capita output, relative to the population as a whole, that prevailed in 1956, the productivity of the remaining productive part of the workforce would have to have increased by 1.66 times. That has not happened. In 1956, one worker could support a family with one wage packet. By 1990, only 10% of households of married couples were supported by the labor of one wage earner. Household size had fallen from over 3.3 per household to under 2.7. But the process—a 40% decline divided by 36 years, roughly 1% a year—has not been uniform, but has been defined by relatively abrupt shifts, each of around 10% or more, and each concentrated into a relatively short time frame. These step-function-type declines in the summary ratio of the functional division of labor in turn reflect the occurrence of the breaking points which LaRouche warned of in his succession of economic forecasts.

And, further, the process as a whole can be defined as the systematic reversal of more than 200 years of America's history, since the Constitutional Convention, and of the process since the Council of Florence in which the particular 200 years of American republican history are embedded. That in turn means that the last 40 years of U.S. history represent a systematic violation of the known principles which have underlain mankind's historical progress as a whole. The further reduction of the society's productive capacities, through asset-stripping looting, has been chosen as a course of action at each such breaking point juncture, in favor of the propagation of an anti-human financial system based on speculation and parasitism. LaRouche's forecasts since 1956 have been based on the application of his method to the interplay between these economic and financial-monetary processes. This in contrast to his opponents who, not knowing what on earth the principles of human economy might be, attempt to predict a future course of events, from the growth of that which is inimical to continued human existence.

Figure 2 assumes that the 1956 proportion of overhead workers to productive workers is a tolerable allowance for the functioning of the economy, and scales the succeeding rations of overhead employment to that allowance. Just as with an individual corporation, overhead in the economy as a whole is "paid for" out of gross profit, and, just as with an individual corporation, the ratio between overhead and productive costs in the economy cannot vary much from 50% to 50%, without eliminating the net profit which is the basis for investment in the future advance of the particular company or economy. Reinvestment of profit, in such a way as to cheapen the costs of production through increasing worker productivity, and thereby also the cultural and skill levels of the general population, has defined through a succession of revolutionary, and lesser technical changes, the pathway the growth of the human species has taken over the 500 years since the Council of Florence.

Extract that profit, through looting and asset-stripping, for other parasitical purposes and economic policy becomes the instrument of a killer disease, not of the furthering of human well-being. The growth of overhead above the 1956 allowance therefore represents, in part, the looting process by which the economy has been destroyed. It is a ration which is "taken out," as it were, from gross profit and the cost base which produces the profits, at the expense of the shrinking productive capacity, but is not replaced through net new investment.

Now compare the growth of that representation of the looted portion of economic potential over the 40 years. At 7% in 1956-60; at 2.8% in 1960-63; at −0.1% in 1963-66; at 4.5% in 1966-70; at 9.6% in 1970-80; and 15% in 1980-90. Note that the rate of extraction of loot from productive potential of the economy is actually increasing. Compare that increasing rate with the decline in the productive portion of the workforce. The combined destruction of the productive potentials of the economy, as represented in the changing composition of the division of labor, and the accelerating growth of the effects of parasitism and speculation within the division are what ensure that the present financial system will collapse.

That can be said without reference to financial matters as such. For the financial system is ultimately nothing but a network of claims against the wealth produced by the labor of human beings. There is no other source of wealth. Reduce the productive power of the labor force and population, and, clearly, one is also thereby setting a limit to the growth of the financial claims which ultimately must be settled against wealth production. Pyramid the financial claims, while simultaneously reducing productive capacity, and the bounds which circumscribe the limits of such looting will be drawn ever tighter.

So far we have not said anything about money values, about monetary aggregates or any of the "indicators" that one would expect to end up in the assembly the Group of Seven leaders want put together. But we have shown how the 40-year process of economic decline, which LaRouche has forecast through its successive phases, is reflected in these two parameters of economic activity, as the violation of conditions that are necessary to maintain human existence.

Figure 3 introduces financial considerations and permits that approximation to be set against another ratio, which will approximate, in first instance, the monetary side of the process. Here we have the relationship between U.S. merchandize trade (the dollar value of imports plus exports) and foreign exchange transactions. The foreign exchange figure is estimated, for 1977, 1980, and 1990, by multiplying the Federal Reserve's estimated daily volume of foreign exchange traded by 224, the number of "trading" days in a year. Numbers for 1970 and 1966, in the absence of official statistics, were estimated by taking the ratio between foreign exchange trade and the dollar size of the Eurodollar market in 1977, and applying that ratio to the size of the Eurodollar market in the earlier years.

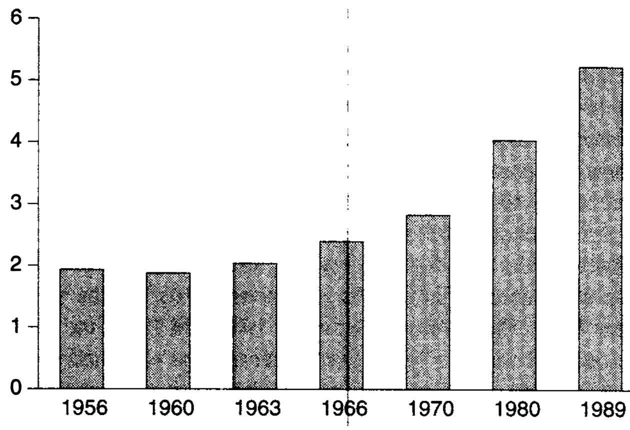
We are thus looking at the relationship between all foreign transactions using the dollar, and those transactions implied by the volume of trade. U.S. exports can be paid for in foreign currency converted into dollars, and imports with dollars converted into foreign currency. If the only currency transactions made were those which involved international trade in goods, the ratio between the two would be 1:1. There are non-trade-related foreign currency transfer, of course. But, leaving that aside, the more the ratio retreats from 1:1, the more non-trade-related currency transactions there are. As this ratio nears, and surpasses the 50% level, the more of a problem it is going to be, because it means that a country has abandoned control of its currency, and, by implication, its credit system. This transformation can therefore be taken as an indicator of the growth of purely speculative financial transactions.

Thus one can estimate that 82¢ of every dollar transaction in 1966 involved trade in goods, whereas in 1990 2.1¢ of every dollar currency transaction involved the trade of goods.

Compare the changes, by time interval, since 1966, with the comparable changes in the ratio by which overhead employment exceeds the 1956 allowance. From 1966 to 1970, the years in which LaRouche said in his 1960 second forecast, currency turmoil would sweep away the postwar Bretton Woods monetary order, the ratio fell from 82% to 25%, or the speculative component in international financial transactions increased 3.28 times. From 1970 to 1977, there was rough stability, a 1.08 increase in the speculative component. From 1977 to 1980, the interval which includes LaRouche's forecast of the effects of the Volcker-Carter interest rate policy, this more than doubled to 2.4 times, and from 1980 to 1990 it nearly doubled again to 4.5 times.

Trade flows, whether positive or negative, do not precisely mirror the functioning of the economy. After all, it is conceivable that a country could run a trade surplus, while

FIGURE 4
U.S. waterborne commerce, 1956-89
(tonnage per capita of combined imports and exports)



Source: U.S. Census Bureau, *Statistical Abstract of the United States.*

simultaneously being looted of everything movable within its economy. Equally, a country whose trade was in balance need not by that token alone be a country which is also self-sufficient, and capable of producing what was required to meet all its internal requirements. That has been, and is, the history of colonial relations down to this day, as the example of China still attests. However, it is worth pointing out, that between 1956 and 1970, the United States did run a trade surplus. In 1956, exports exceeded imports by almost 16%, in 1960 by 11.3%, in 1963 by 11.4%, in 1966 by 4.8%, and in 1970 by 0.6%. But in 1980, under the Volcker-Carter recession, this was transformed into a 7.5% deficit, and in 1990 into a 13.5% deficit.

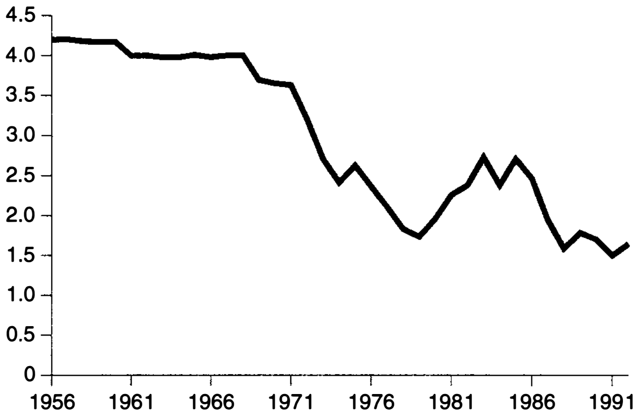
Also to be noted, over the 34-year interval from 1966, while the non-trade-related component of foreign exchange transactions increased some 40-fold, the dollar valuation of trade increased some 16 times. In contrast, as **Figure 4** shows, the physical volume of such trade merely doubled over the same time interval. The dollar value of the trade thus increases eightfold, and the foreign currency transactions five times faster again than the ostensible monetary inflation in the dollar value of the physical goods exported or imported. This, set against the decline in productive capacity represented by the decomposition of the division of labor, begins to show how the parasite has been consuming its host, or a how a merely speculative financial system was transformed into a bubble unprecedented in human history.

Economy decoupled from monetary flows

The next series of graphs show this process in different aspects. They represent, successively: the history of the dollar over the near 40-year period in which LaRouche has been making his forecasts (**Figure 5**); the price of crude oil (**Figure 6**); and then, some selected indicators of the purely financial

FIGURE 5

Deutschemarks per dollar, 1956-91

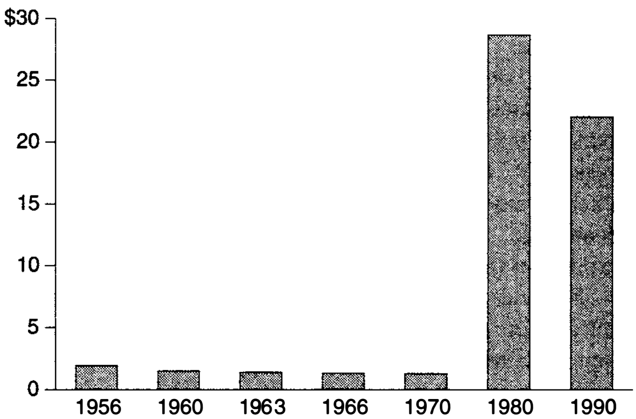


Source: International Monetary Fund, *International Financial Statistics.*

FIGURE 6

Petroleum prices, 1956-90

($ per barrel of average crude)



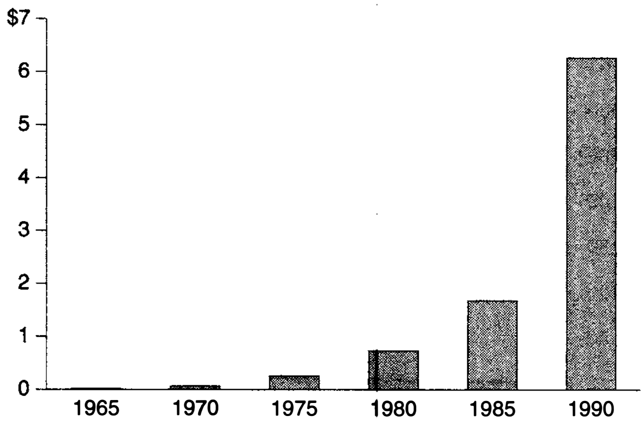
Source: International Monetary Fund, *International Financial Statistics.*

side of the process by which the financial system was turned into a speculative casino, and then into a bubble. There are portrayed: the growth of the offshore Eurodollar market, representing those financial claims against assets which are effectively outside the control of any national authority (**Figure 7**); the growth of that activity which is euphemistically called "mergers and acquisitions," which became notorious in the 1980s as the asset-stripping of productive resources and potentials through leveraged buyouts (**Figure 8**); net new investment funds raised for finance and real estate (**Figure 9**); and lastly, the growth of derivatives, those pernicious instruments whose so-called value is tied to the pricing of something else, whether more or less directly, or indirectly, as in the leveraged versions of such transactions (**Figure 10**).

FIGURE 7

Growth of the unregulated Eurodollar market, 1965-90

(trillions U.S. $ equivalent)

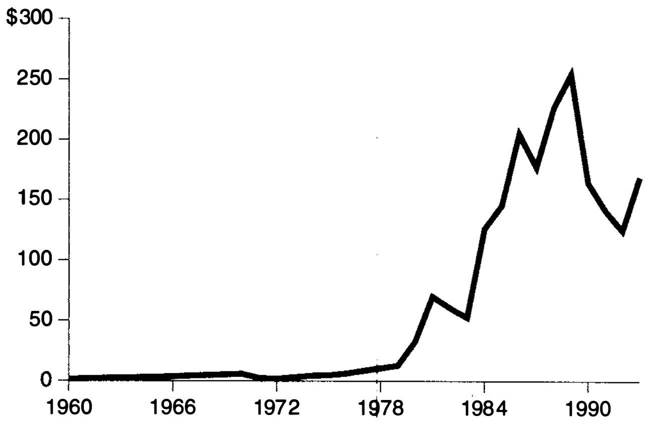


Source: International Monetary Fund, *International Financial Statistics.*

FIGURE 8

Money in U.S. mergers and acquisitions, 1960-93

(value of funds involved for businesses of all types, billions $)

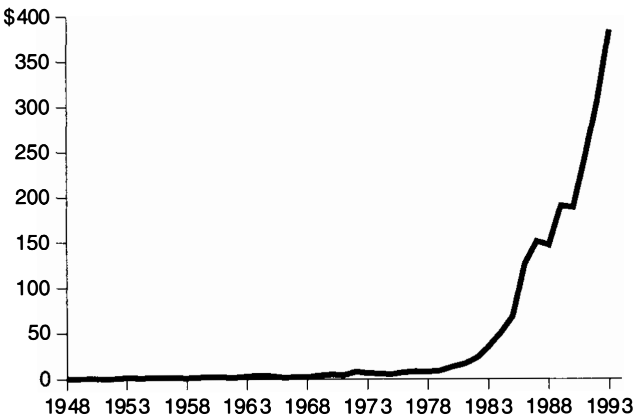


Sources: U.S. Census Bureau, *Statistical Abstract of the United States,* 1989-93; Mergers and Acquisitions Publishing Co. Database.

This graph series can be compared with what we have seen above, in regard to the shifting composition of the division of labor, the decline of the productive part of the workforce, the growth of that part of the non-productive workforce beyond the allowable 1956 level, and also against the growth of foreign exchange speculation as such.

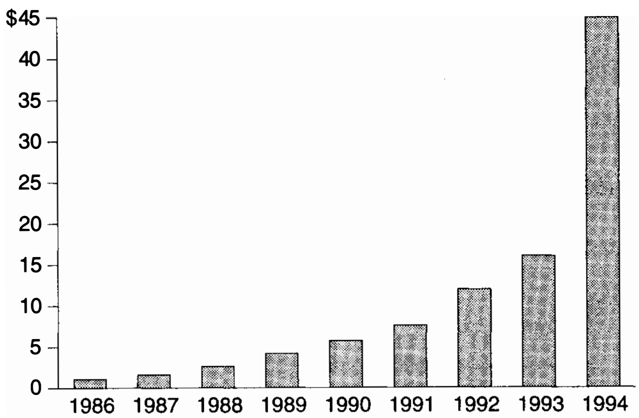
First, look at all the graphs in succession. Notice that there is a clear break in each one of them in 1970. We can therefore distinguish two different worlds out of this process. Those two different worlds correspond to what LaRouche

FIGURE 9
New financing raised for finance and real estate, 1948-93
(billions $)



Source: U.S. Federal Reserve, Federal Reserve Bulletins.

FIGURE 10
Growth of financial derivatives worldwide, 1986-94
(notional principal amount outstanding at year end, trillions $)



Source: Bank for International Settlements.

forecast in 1959-60 to be the upcoming crisis in which the institutions of the postwar Bretton Woods monetary system would be dissolved. There is the fag-end of the Bretton Woods system, prior to 1970, and then the deregulated Frankenstein's monster that was to become the basis for successor arrangements through the Azores and Rambouillet monetary conferences of the early 1970s, out of which the present Group of Seven developed.

Prior to 1970, the characteristics were, a stable currency, a constant gold price in dollars (currency valuations were pegged from the reintroduction of convertibility for major currencies in the 1950s to gold), a falling oil price (more than 30% in the 14 years between 1956 and 1970); contrast that apparent stability with the increases in the Eurodollar market, in mergers and acquisitions, and the growth investment in finance and real estate, during the same years before 1970.

The offshore Eurodollar market increases sixfold, approximately, from 1966 to 1970; mergers and acquisitions double between 1960 and 1966 and then nearly double again by 1970; money raised for finance and real estate increases by 40% between 1956 and 1960, by 25% between 60 and 63, and then 1.6 times between 1966 and 1970.

Compare these changes with what then occurred between 1970 and 1980 and again between 1980 and 1990 under conditions of floating exchange rates and subsequent successive applications of the free-marketeers' policies of deregulation. The changes: Gold price increased 17-fold by 1980; the oil price 22 times between 1970 and 1980; mergers and acquisitions, 5.5 times; the Euro-market, doubling and more than doubling again. Then, a further fivefold increase in merger and acquisition activity over the 1980s, a 14-fold increase in new financing for finance and real estate over the same 10 years. Finally, the takeoff in derivatives over the interval since 1986, which, increasing from nothing, or thereabouts, to $45 trillion worldwide in the space of a mere eight years, is of a character entirely different than anything seen before.

In the bubble phase, financial assets built up on the basis of earlier asset-stripping and looting, together with their compounded interest, are rolled into new classes of financial investment. Even as the financial and physical assets on which those claims were previously based is destroyed. Meanwhile, the wealth-producing capacity continues to shrink. Between 1980 and 1990 the speculative processes that had built from the collapse of the Bretton Woods system took on a life of their own, in a self-feeding frenzy uncoupled from any direct economic constraint, such that it is no longer possible to say, as it might have been 20 or 30 years ago: If the following is done in the financial domain it will translate into the following economic effects, or vice versa, that such a growth in real manufacturing activity will permit such an extension of credit. The two are no longer related, though pricing mechanisms, whether goods or credit, or anticipated earnings, in the same way.

The answer is straightforward

So, put money, and monetary considerations, aside. This arrangement, which has characterized the world increasingly since the assassination of President Kennedy, and massively since 1970, is doomed. The question ought to be, how can it be replaced, what is necessary to return the country and mankind to the path that has been successfully and repeatedly proven viable since the Golden Renaissance. The question ought to be instead, what is needed to ensure human reproduction?

The answer is straightforward: the output of useful goods and services, such as food, clothing, housing, education, health, and so on. Such useful goods and services are not optional. They are necessary requirements, defined by the standards set, e.g., educational qualifications of a productive worker who can usefully contribute to the existence of the generations that are to come. Through that approach we can establish what the costs of reproducing society, in terms for example of labor equivalents, or energy equivalents. We're not talking about how these things might look in someone's financial statistics. Taking up these matters from the standpoint of the reproduction of human existence is to take them up as matters of life or death importance for all of us. Against this the bubble, and its proponents, represent the culture of death.

The required output of such useful goods and services can be systematized in the form of market baskets of consumers' and producers' goods. (See LaRouche's 1984 book, *So, You Wish To Learn All About Economics?* New Benjamin Franklin House, New York, 1984.) Such requirements can then be used, as we used the ratio of productive to non-productive workers of 1956, to assess past and future economic performance. We can thus define a society's economic performance in terms of its ability to reproduce itself, in an improved way.

Such a standard would take us beyond the functional division of labor of 1956 which we have been using as a yardstick, by introducing the question of productivity. Given such a division of labor, how capable is a society of producing the means of its own existence? We took the per-capita standards of 1967 to determine this, assembling a listing of some 225 products which are consumed by either households and people, or producing industries, and a selection of construction projects, housing, schools, hospitals, offices, and so forth, to determine what the levels of consumption of goods were back in 1967, what the bill of materials required to produce such a listing of products might be, and the extent to which the ability to produce that array of products has changed since 1967.

The requirements thus defined can be expressed, for example, in terms of the numbers of workers required to produce the requirement, or in terms of the shortfall of such workers. The following two graphs encapsulate the result. We're capable of producing less than half of what we would have considered to be, perhaps, a decent standard of living just 28 years ago. Forget about these bloated financial structures whose demise is already ordained. Reverse the destruction of society's productivity which made the speculation and the bubble possible, and it will readily be proven that life can and will go on. We would have to more than double employment in manufacturing, assuming current technologies, to produce a comparable market basket of producers goods to the one taken for granted back in 1967 (see **Figure 11**).

The same parameters can be defined by sector. The graph shows operative employment requirements to meet production of 1967-style market baskets for the textile, shoe, steel, and non-electrical machinery industries (**Figure 12**). The percentages are the magnitudes by which employment would have to be increased to meet the production level required.

FIGURE 11
Employment of operatives as percentage of actual requirement

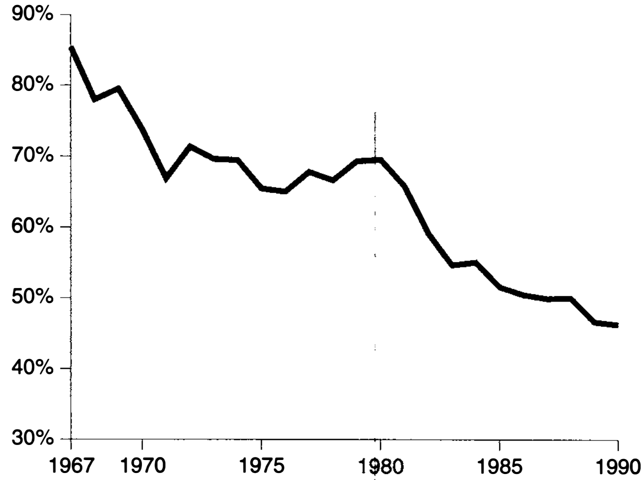
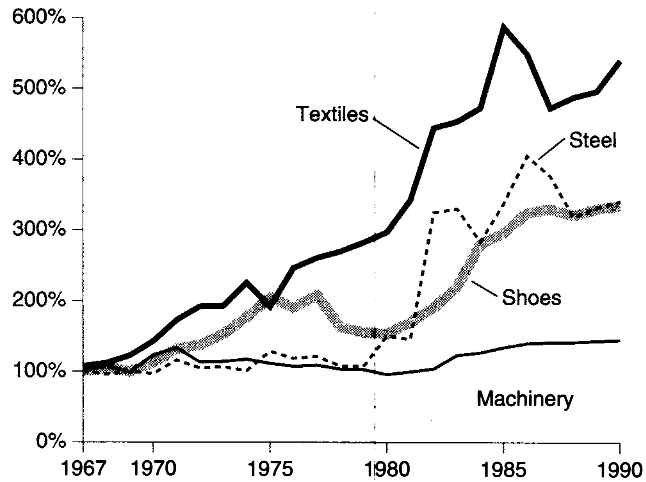


FIGURE 12
Percent of actual workforce required to produce 1967-style market basket



Think now where the forecast of financial disintegration is coming from. It is coming from the only authority who has built up an accurate forecasting record over the span of eight previous forecasts and nearly 40 years. Isn't it about time to stop worrying about what the experts, or neighbors will say, and start to face up to the fact that LaRouche being consistently right, while others have been consistently wrong, means that what he says is going to happen, and what ought to be done about it, is something you should take very seriously?