

It's a delusion to think we can 'save the system'

by Marcia Merry Baker and John Hoefle

As 1996 ended, all the "vital signs" of the global financial and monetary system showed signs of a terminal crisis. But the most serious threat to national interests at present, is the persistence of the belief that the dying system can be salvaged, somehow.

Outgoing Senator Sam Nunn (D-Ga.) and his bipartisan collaborators at the Commission on American's National Interests, formed in 1996, are outspoken advocates of just such a course. Their warnings and recommendations received international prominence due to an article in the Nov. 25 issue of *Aviation Week and Space Technology*. If their view is not overturned in the weeks ahead, it will be a policy disaster for the United States, and the world.

What is the alternative to the chaos that would inevitably attend the blowout of the bankrupt global monetary, financial, and trade structures? A "new Bretton Woods" is what's needed, meaning new financial structures to facilitate production, trade, and national security.

Indicators of the coming blowout

Among the measures of the gigantic size of the bubble of world finance, is the enormous rate of turnover in various forms of speculation. What follows are some preliminary *EIR* estimates for 1996, based upon partial-year data. These are imprecise numbers, but they are indicative:

- **Derivatives:** The financial derivatives holdings of U.S. banks increased by some 25% over 1996, to around \$21.5 trillion. Adding in the derivatives held by investment banks and insurance companies should bring the U.S. total to some \$32-35 trillion, up from some \$25.7 trillion at the end of 1995, and \$23.6 trillion at the end of 1994. Worldwide, the notional

value of all derivatives is likely somewhere around \$100 trillion. *EIR* had previously estimated, very roughly, that world derivatives stood at some \$75 trillion at the end of 1995.

- **Gross Domestic Product:** U.S. GDP should end the year at about \$7.7 trillion, up about 5% from \$7.35 trillion at the end of 1995; it stood at \$7.1 trillion at the end of 1994.

- **Credit market debt:** Total credit market debt in the United States, including financial and non-financial sectors, should end the year at about \$20.4 trillion, an increase of about 10% from the \$18.6 trillion at the end of 1995; it was \$17.3 trillion at the end of 1994.

- **Money supply:** The U.S. M1 money supply number (currency, travellers' checks, demand deposits, and other checkable deposits) dropped during the year, from \$1.15 trillion at the end of 1995, to \$1.08 trillion at the end of October.

- **Stock markets:** The Dow Jones "Post-Industrial" Average is at near-record highs, up some 1,400 points—27%—for the year. The market capitalization (the sum of all stocks of all companies listed) of the New York Stock Exchange was \$7.4 trillion at the end of November, \$1.4 trillion—23%—higher than the \$6.0 trillion at the end of 1995, and \$3 trillion higher than the \$4.4 trillion of 1994. The value of shares traded on the New York Stock Exchange (the sum of all shares actually traded during the year) should end the year at about \$4 trillion, up 30% from the \$3.1 trillion in 1995, and well over the \$2.5 trillion in 1994. Worldwide, the *Financial Times* world stock index gained about 25% during the year.

- **Financial turnover:** With derivatives and stock markets growing in the range of 25% in 1996, it is likely that world financial turnover exceeded \$1 quadrillion (\$1,000 trillion), perhaps by a significant amount.

The Nunn report: 'Prevent collapse!'

In July 1996, a report was issued, titled "America's National Interests," by the Commission on America's National Interests, which was formed in connection with the Harvard Center for Science and International Affairs, the Nixon Center for Peace and Freedom, and the RAND Corporation, for the stated goal, "to help focus thinking on one central issue: What are U.S. national interests today? In the short run, we hope to catalyze debate about priority U.S. national interests during this season of Presidential and Congressional campaigns. We also hope to contribute to a more focused debate about core national interests as an essential foundation for the next era of American foreign policy."

Among the members of the 21-person commission are Senator Nunn, the former chairman of the Senate Armed Services Committee; Robert Blackwill, who served on the National Security Council for President George Bush, and who is a member of the London-based International Institute of Strategic Studies; Brent Scowcroft, Bush's former national security adviser; Richard Armitage; Sen. John McCain (R-Ariz.); Andrew Goodpaster; and Dmitri Simes.

The 60-page report listed as fourth among the top five "U.S. vital national security interests," the following: *Prevent the catastrophic collapse of major global systems: trade, financial markets, supplies of energy, and environmental.*

"In its foreign economic policy," the report said, "the United States has only one truly vital national interest: the avoidance of the collapse of the international trade or financial systems. Because of the interdependence on connections between the worldwide network of large money-center banks and accumulated payment obligations, the failure of one large bank anywhere could reverberate throughout the global financial system, triggering the failure of many banks and the simultaneous collapse of multiple markets. Similarly, a collapse of the world trading system akin to the Great Depression would threaten vital U.S. national interests. . . ."

What should, therefore, be the policy reaction to prevent these well-founded warnings from coming true? The report recommends various remedies intended to *keep the system going*, along the lines that "the United States must be vigilant in its monetary policies and in promoting prudent international financial regulations."

Even as 1996 saw mini-crashes on financial markets, and whipsawing of commodities prices—especially food staples—nevertheless, political quarters associated with the "America's National Interests" group maintained that the current system can be saved.

On Sept. 28, 1996, Nunn made his "valedictory address" to the U.S. Senate, on security and strategic matters. In the speech, entitled "Surveying the Strategic Landscape," he spoke of his participation in the bipartisan effort, and said that the commission's report "brings needed clarity to the discussion of our national interests." It distinguishes among "vital, extremely important, important, and secondary inter-

ests. These distinctions are essential to the task of establishing national priorities, and building public support for foreign and defense policy. Despite the common use of the term 'vital interests' to describe everything from soup to nuts, the report defines truly vital interests—only those conditions that are strictly necessary to safeguard and enhance the well-being of Americans in a free and secure nation."

Nunn began his list of national vital interests with the question of military threats. He said: "It should come as no surprise, that preventing and deterring the threat of nuclear, biological, and chemical weapons attacks on the U.S. is the top of the list of vital interests. According to the report, other vital interests are to prevent the emergence of a hostile hegemony in Europe or Asia; to prevent the emergence of a hostile major power on U.S. borders or in control of the seas; to prevent a catastrophic collapse of major global systems (trade, financial markets, energy supplies, environment), and to ensure the survival of U.S. allies. Other objectives, such as preventing the use of nuclear, chemical, or biological weapons outside our borders or countering proliferation, are extremely important, but not vital, interests. Similarly, combatting terrorism and avoiding major conflicts in important geographical areas, are extremely important, but do not threaten the American way of life."

However, while Nunn is right in his acknowledgment of the strategic importance of a financial breakdown, he completely mis-locates the danger of such a collapse. His assessment does not grasp the crucial fact that, if the government adopts the right emergency measures for financial reorganization and for re-activating the real economy, a financial collapse represents no "strategic danger" to the United States or the world at all; quite the opposite.

However, if the de facto bankrupt, speculative financial system is artificially kept going for a certain time, at the expense of living standards and the real economy, this represents, indeed, a *mortal strategic threat* to the nations concerned.

LaRouche hits 'denial of reality'

In a Dec. 8 statement, Lyndon LaRouche responded to Senator Nunn's speech, saying: "The futile attempt to prevent a catastrophic collapse of the major financial markets could, very soon, destroy the U.S., as well as most other countries, but also destroy, utterly shatter, the Presidency of Bill Clinton. . . . You have around the Clinton administration, as elsewhere in the country and internationally, an hysterical, wishful denial of reality, on the question of the financial and economic crisis. The Clinton administration has begun to believe its own propaganda on 'improvements' in the economy, of which there are actually none. As a matter of fact, the U.S. economy is an absolute disaster, as virtually every other economy in the world is. The confidence that the financial market problem can be 'managed,' is a delusion which can destroy the U.S. government."