thus “shifts problems in time and space, which, in the end, tends to intensify them.”

2. The “irrational exuberances” of the stock market, fed by monetary expansion of the past years, has created a big bubble. Historically, Blanque warns, bubbles have never been handled well, “and the blood reaches the river.”

3. Because the United States is over-indebted to Asia (which holds its Treasury bills), and runs a trade deficit with the region, “the current danger is essentially North American, not Asian.”


Clarín’s Scavo adds, as his conclusion: “Is it not time to get serious about a Bretton Woods II?”

Australia

Economics commentator Kenneth Davidson wrote a commentary attacking globalization, in the Melbourne daily The Age on March 30. Describing the Bretton Woods controls as restoring “real national sovereignty,” Davidson calls for “another Bretton Woods” to solve the problem of out-of-control financial capital, and attacks globalization as an excuse to roll back the welfare state and workers’ rights. Davidson points out that globalization is not new, and that in terms of trade and capital flows, the world under the 1800s gold standard era was just as much integrated as it is today. The difference, he says, is “the nature of capital flows. Then, capital movements were closely associated with real investment. Now, they are increasingly short-term, highly speculative and unrelated to the business of financing investment in trade and industry.”

Describing the economic chaos surrounding the Great Depression and World War II, Davidson writes: “The solution was the creation of the IMF, which imposed an international regime of regulated capital flows and fixed exchange rates, based on the U.S. dollar, to prevent destabilizing movements of speculative capital. These controls restored real national sovereignty so that individual countries could manage their own credit and the level of domestic demand, without fear of a run on their national currency.”

Davidson describes the 1971 abandonment of the Bretton Woods system as letting financial capital off the leash again, which created more pronounced boom and bust business cycles, bringing higher unemployment, greater inequality, etc. The existence of the welfare state in the West, he writes, has “arguably prevented” a complete social explosion, but “the welfare cushion is not available in East Asia.” Asking whether the previous week’s $124 billion Japanese budget stimulus will be enough to avoid recession in Japan and full-scale depression in the region, Davidson concludes, “Even more importantly, for how much longer will the world economy continue to limp along before the political will is created for another Bretton Woods and measures to tame financial markets?”

Interview: Lyndon H. LaRouche, Jr.

Save nations, don’t bail out the banks

The following is excerpted from a March 24 “EIR Talks” radio interview with Lyndon H. LaRouche, Jr. The interviewer is Tony Papert.

EIR: What are the prospects for the 22-nation Washington meeting April 16, on the world monetary system?

LaRouche: Well, there are some good signs, but overall I’d say, as of now, the situation is lousy. It looks like we’re going into the deepest depression ever, and a dark age in the next century, as it stands now. That is, if you were a betting man, as the man says, eh?

Now, I’m doing everything I can to change this. But, if you take me out of the situation, you take the effort that my friends and I are doing out of the situation, I can guarantee you that the Clinton administration will fail; it will fail to take the kind of leadership that is needed, required from the U.S. government to save the world in this crisis. The Titanic will sink; the Titanic being the present world civilization, which is heading right for the icebergs, and they can’t get the captain to change the direction. Only the President of the United States has behind him the potential forces to bring other forces to bear, around the world, so that collectively those forces, led by the President of the United States, could change this thing, and save the world system.

Otherwise, what we’re going into is the worst financial and monetary crisis in all known history of European civilization to date, that is, back, almost from Roman times. The only thing that’s comparable to this in the recent 1,000 years, or 600 years or so, is the Dark Age which occurred in Europe with the bankruptcy of the Lombard banking system. . . .

LaRouche’s policies must prevail

Now, the President, especially with Robert Rubin as the Treasury Secretary, seems inclined to do some of the many things which must be done, as a package, to deal with the present situation. There’s an increasing clamor around the world for measures in that direction. However, so far, at this point, I am the only international spokesman who has put forth a package which is adequate to the situation.

So the question of whether my voice is heard in shaping the agenda within the Willard Group meeting on April 16, is going to decide whether this planet goes into a deep, deep, deep economic depression, or not.
We’re looking at the trigger, the kind of depression—for people who want the scenario, the most probable one is the derivatives collapse: We have over $130 trillion equivalent of derivatives, the short-term obligations of a highly speculative side-bet nature, on the world financial market. Most of these are off-balance-sheet. This dominates the financial turnover in all markets, daily. This is several times, in terms of short-term obligations, the annual GDP of all nations of this planet, combined. And, therefore the whole system is bankrupt. . . .

In the past period, especially since the events of October and early November, the policies of the Federal Reserve System, and, to some degree, the U.S. government, too, as well as the policy of Japan and others, have been to go into a kind of hyperinflation which few of us alive still are old enough to remember, that of the 1921-1923 financial crisis collapse in Germany, the Weimar hyperinflation.

We are now going into a spiral of attempted bailout of unpayable debt, which is similar to the effect of the Versailles Treaty on the post-Versailles Germany, that is, the 1921-1923 collapse. The IMF, essentially, is acting like the Versailles Treaty debt. And even Keynes, who was not a very good economist, correctly warned of this result at the time of the Versailles Treaty, talking about the economic consequences of the peace, this kind of tragedy.

So, as long as the IMF is able to run a rampage around the world, and dictate these silly ideas which it gets from the Mont Pelerin Society and things like that, the same thing we’re getting from Gingrich and from the Heritage Foundation in the United States; as long as that goes on, the pressure is to bail out the banks. And the only way to bail out the banks and the financial markets, to keep them from collapsing, is to pump in massive amounts of liquidity. Every time you pump in liquidity, you increase the instability in geometrical proportion. And that leads to a hyperinflation in which the amount of money that you require to keep the system from collapsing tomorrow, keeps galloping ahead at geometric rates. And that’s what happened, of course, in the case of the Weimar hyperinflation. That’s what’s happening on the New York market now, the financial market now. That is what the Japanese government is doing right now. That is what the IMF, in effect, is ordering to occur around the world.

‘Reverse financial leverage’

So, if, at some point, because of the hyperinflationary effects, that somebody doesn’t put that extra amount of cash in, what happens? You introduce into the market what is called reverse financial leverage. Now, reverse financial leverage in a hyperinflated market, like the present one, with these derivatives, wild derivatives—Remember, several times the obligations of the world’s banking systems are implicitly, through the derivatives bubble, many times greater than the total GDP of all nations combined. That means that essentially, with maybe a rare exception here and there in number, that every banking system in the world is implicitly bankrupt.

Once a reverse chain reaction occurs, reverse financial leverage occurs, you have an implosion of the financial system, based on people being unable to cover their obligations on these short-term obligations. That would wipe out most of the New York City banks. That would effectively bankrupt the New York Federal Reserve System, insofar as its banking base is concerned.

Now, that kind of thing, if it starts to go, an implosion of that type on a bubble of this kind, could, within a period of two to three days, as little as two or three days, could blow out the entire world financial system. In other words, you could be standing on a street corner talking about the Wall Street stock exchange, New York Stock Exchange prices on Monday, and by Wednesday and Thursday, there could no longer be a New York financial market. It’s that kind of hurricane, that kind of tornado of implosion sweeping through the system. And we’re on the edge of that right now.

That’s where we stand.

The point is that you must not bail out the banks. You must put them through bankruptcy reorganization, the way we would with any ordinary bank in bankruptcy. Don’t try to bail out what can not be bailed out. As Bob Rubin said, not a nickel for the banks! You must not do that. You must not put government reserves, and other reserves into trying to bail out banks.

What you do, is you step into the bank. You decide what has priority, what are the greatest social obligations, such as pensions, and savings, and so forth. You must save those at the expense of those creditors whose investment, or whose claims are based on speculation, and wipe out the speculators.

So, that’s what you have to do. If we do that—We’re going to have to do that anyway. There’s no way we can avoid that. If you’re a speculator, if you’re engaged in derivatives, the governments have to wipe you out financially. They have no choice. Because the alternative is to send the whole planet into a Dark Age.

You are trying to take play Monopoly money, and cash it at the bank. And you’re demanding that you get your interest, your so-called interest in the bank protected by the government. No. That was Monopoly play money which you brought to the bank, and we’re not honoring it. You’re just going to have to eat your losses, buddy!

We have to make sure that governments are stable, that nations are stable, that the savings deposits of ordinary citizens are protected, and that our businesses continue to function, our industries, our farms, our commercial traffic continues to function. That the food arrives at the grocery store, that people can buy it there, that sort of thing. That medical care is available. All the things that are necessary to maintain life. Our obligation is to people first. And I think that Bob Rubin has expressed that, which is commendable on his part, as far as I’m concerned.

But, that’s the kind of crisis we’re in the middle of.