

Can you, personally, survive this bust?

by Lyndon H. LaRouche, Jr.

July 18, 1999

The head of the Bank of England, Eddie George, has been caught running a theft-ring, stealing what is now approaching \$1 billion, or possibly even more, from his own bank. That fact, in itself, should warn you, that Eddie George must be expecting the world financial system, and your personal mutual fund account, to blow out and melt down very soon. If that is not enough to awaken you credit-card slaves from your dreaming, try the next set of facts about Eddie's gold scam.

Eddie's scam involved setting up a special, private market, for letting only certain cronies in on this raid on the Bank of England's gold reserves.¹ Tons of outsiders were eager to buy the gold at those prices, but were kept out. So much for Britain's "free market" policies. Eddie's cronies included some among the same batch of scavengers who were named in an earlier scam, the 1998 U.S. Federal Reserve bail-out of Long Term Capital Management (LTCM), as financial backers of professed "playing-field leveller" Vice-President Al Gore.²

But, that is not the end of the story. It becomes much worse. Leading bankers directing divisions of many of the world's biggest banks, are running world-wide scams, looting their own banks, in operations totalling to amounts nearly as big and bad, or worse than Eddie's pilfering of Bank of En-

gland gold reserves. Before these current, globalized swindles come to an end, it will be the taxpayers—including the U.S. taxpayers and ordinary bank depositors, who will have been cheated by the Bank of England and its Wall Street accomplices.

One of the toughest questions for honest accountants to answer, today, is, which, if any, among the world's leading banks might be, just possibly, actually solvent, among virtually all the others, which are not. For reasons which I shall point out to you in a few moments, the facts show, with absolute certainty, that the world's financial system, taken as a whole, is hopelessly bankrupt.

Against less than an estimated \$12 trillions-equivalent, and falling rapidly, of world trade as a whole, the largest component of world debt is not less than a still-zooming, estimated \$300 trillions-equivalent of short-term pure speculation, known as either "financial derivatives," or related kinds of financial trash-paper.

This derivatives bubble is currently expanding at a rate of not less than 70% per year, the rate of expansion currently necessary to keep the bubble from collapsing into the biggest financial crash in history. By early autumn, the rate of growth of that bubble needed to keep it from imploding, if it had not already crashed, would be skyrocketing far above the 70%-per-year rate, and still climbing like a rocket. The present situation in the world's financial system is comparable to the explosion of German Reichsmark hyperinflation, during the Summer and early Autumn of 1923. [Figure 1.]

Given the ratio of rate of growth, of hundreds of trillions dollar-equivalent of financial debt, to a few tens of trillions-equivalent real assets, world wide, and given the rate of skyrocketing of financial debt to presently collapsing assets against such debt-claims, the world's present financial sys-

1. What Eddie has done, is to sell the Bank of England's gold to his accomplices, at prices far below its value. The take on the margin of difference, runs into the equivalent of billions of U.S. dollars. See Richard Freeman and John Hoefle, "Eddie George's Strategy to Steal the Gold," in this *Feature*.

2. On the LTCM bail-out, and on the roster of carrion-crows working with Eddie George to loot the Bank of England's gold reserves, see John Hoefle, "Global Reverse-Leverage Collapse Is Underway," *EIR*, Oct. 23, 1998.



Eddie George makes a withdrawal from his own bank.

run under the cover of the “globalization” hoax, scams run from inside the world’s biggest banking and financial houses, this time on a “globalized” scale.

There is only one condition under which so many among the world’s leading bankers and private financial houses would, or could collaborate in running such schemes that openly, on that kind of scale. It occurs only when those swindlers are panicked by their knowledge, that the system is about to melt down; they are getting out with as much as they can, while the getting is still good. At this stage, it is only the proverbial poor suckers who are still duped into deluding themselves with the belief that they are “riding out the coming lucky correction.” Most of these bankers and leading financial houses are trying, desperately, to keep the public from facing the reality of the situation. Most among the swindlers who are denying the fact of the onrushing crash, are up to their lips in the same kind of financial sewage which they pretend, with their show of Nashville-Agrarian-style “genteel refinement,” does not exist.⁴

The most important fact to be learned from Eddie George’s scam, is that, in any situation

tem, the so-called International Monetary Fund (IMF) system, banks and all, is hopelessly bankrupt. Is that IMF, therefore, the same “proven expert” to which nations must turn, in utmost obedience, for advice?

So the story goes, on and on. Today, thoughtful leading bankers themselves are not certain as to which, if any, of the leading individual banks of the Americas or western Europe, if any, might actually be relative exceptions to the general rule. One of the big accounting problems, today, is the fact that, because of continuing deregulation mania within much of the U.S. Congress, and within relevant other agencies, no one knows how many tens of trillions of dollars-worth, or more, of unreported, off-balance-sheet derivatives and related debt, in addition to the estimated \$300 trillions figure, are actually hanging out there.

I can report, from personal experience over decades, that the basic principle in all of these scams, underlies the same methods used by professional swindlers in the case of numbers of the cases which I was involved in investigating, in both the U.S.A. and Canada, back during the 1950s, and later. This is the same kind of swindle, looting your own firm, through the magic tricks used, in former times, to run bunco operations through revolving doors in bankruptcy and probate scams.³ The difference is, these present, giant scams are being

resembling the quality of international crises now piling up, the issues of raw political power soon overwhelm, and replace all ordinary kinds of finance and politics. That kind of period in history, which the present financial crisis reflects, has always been a time during which the greatest political, military, and related upheavals have tended to erupt with suddenness, and with the greatest violence. As we approach the end of this calendar year, any attempt to continue what has passed for “politics as usual” during the recent decades, is about to be

proceeds of the loan, to cover delivery of merchandise, on credit, to customer “C.” Customer “C,” in turn, delivers goods, “under the counter,” to a retailer, “D.” “D” sells these at below average-retail (“discount”), mixed with sale goods for which “D” actually purchased and paid “C” and other manufacturers. “C” falls into bankruptcy; the bank loses; “D” runs off with the skim. Remember the famous “Salad Oil Swindle”? (Norman C. Miller, *The Great Salad Oil Swindle* [New York: Coward McCann, 1965]). As in arson as insurance fraud, there is collusion; there is theft at the expense of looted financial institutions. The second case is a legendary story from U.S. World War II days. A man employed in a high-security war-production plant came out of the plant, at his quitting-time, punctually each day. Each day, he was pushing a wheelbarrow full of sand. The diligent plant guards, becoming more curious with each passing day, searched through the sand with increasing zeal, looking for some valuable object concealed with the sand. After the war, one of the guards met the former wheelbarrow pusher at a local bar.

“Come on, Joe,” the guard said; “What were you stealing?”

Joe grinned. After a pregnant pause, he replied: “Wheelbarrows.”

Joe was using the same Plotto-scheme principle typically used by even the high and mighty. It is an old gag, but it continues to be used by swindlers of all shapes and sizes, like Eddie George today.

4. Like the Count Ugolino of Dante Alighieri’s *Inferno*.

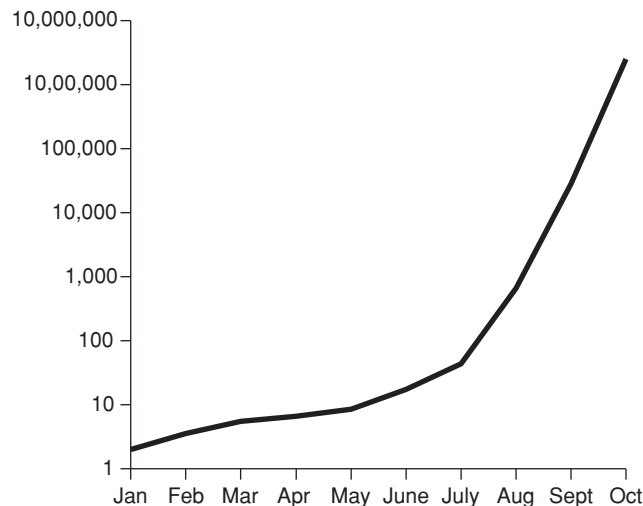
3. To get the idea of how this works, take the following two stories as typical of the principle involved in such swindles.

In the first case, banker “A” makes a loan to client “B.” “B” uses the

FIGURE 1

Hyperinflation in Weimar Germany, 1923

(trillions Reichsmarks outstanding)

Source: *Zahlen zur Geldentwertung in Deutschland 1914 bis 1923.*

blown violently from the world map of the decade or more immediately ahead.

In modern European history, such periods of crisis have always been foreseen among some of the influential people of those times, but, with rare exceptions, nations and their leaders have stubbornly refused to face clearly foreseeable consequences, until after those consequences exploded in their faces. Populations, and most of their leaders, cling to doomed old ways, even after global storms of extreme and protracted violence have begun to sweep the old world order from the political map. So, Europe was plunged into the follies of World Wars I and II, and into that Great Depression of the 1930s, which less foolish men foresaw, even before the ink was dried on the Treaty of Versailles, as “the economic consequences of the peace.”⁵

We can not afford to repeat those kinds of mistakes again; unfortunately, at the present moment, the U.S. establishment, like the governments and others in western Europe, seems to have a suicidal obsession, either out of raw political fear, or delusions, for clinging to the old ways which now threaten to wipe both today’s institutions and popular delusions from the map of world history. We might hope that the governments themselves would act to both change those institutions and rid themselves of those delusions, before it is too late.

It is possible, that you and your neighbors might, personally, survive the epoch-shattering crisis now rushing down

5. John Maynard Keynes, *The Economic Consequences of the Peace* (New York: Harcourt, Brace and Howe, 1920).

upon us all. The question is not, “Whether my money can survive?” The question is, “Will you and your family survive?”

In other words, that means, “Will I, my family, and our government, come out of this mess with the political power needed to create the needed *new money-system*, to replace the hopelessly bankrupt old one, the instant the crash of the present world system occurs?” People who ask the latter question, are sane; those who ask, “Then, where do I invest my money?” are probably not sane—at least, not at the present moment; we hope their mental health might be improved by aid of what I report here.

There are three things which you must know, if you are going to qualify as a potential survivor:

1. Why the global financial crash is now inevitable, and soon. Why the world is now overripe for the biggest bust in history, about now.
2. How you and the United States economy might survive the crash.
3. You must recognize and reject those popular delusions, those which have caused nearly all of you to continue to be fooled into acting as if you were political supporters of that mass financial lunacy which allowed this collapse of the system to become inevitable.

1. Why the crash is inevitable

Ask yourself, “Why is this crash inevitable?” There are two parts to the answer to that question.

First, in theory, an *uncontrolled crash* might have been prevented—last September–October, for example, if the President of the U.S.A., acting in cooperation with a significant number of other perfectly sovereign nation-states, were to have put the present international financial and monetary system, suddenly, into government-controlled bankruptcy reorganization. In that case, an uncontrolled form of world-wide “crash” could have been prevented. In practice, so far, no prospective head of state of the U.S.A. or western Europe, except for this Democratic Presidential pre-candidate, has the combined inclination, knowledge, and guts to do such a thing; and, I am not President—at least, not yet.

Therefore, if President Clinton does not act as I would have acted, soon, it is the big, chaotic panic of a bust which we must look forward to, soon. As long as that is the case, a wildly uncontrolled global financial crash, is inevitable for the near future. Whether before New Year’s Day 2000, or not, is still in doubt. Either way, controlled or uncontrolled, the crash will occur soon, and, among other things, it will bankrupt every greedy sucker who feared that he might get out of

the market “too soon.” Many among the big names, like Eddie George’s cronies, are in the process of bailing out, now.

For the second part of that answer: under the condition I have just described, the crash is inevitable, because there is no way in which the present global financial system could continue to exist, except under the kind of government-supervised bankruptcy-reorganization I had wished President Clinton might have launched last September. With nothing better than that one, only existing real alternative available, the world’s present financial system is hopelessly bankrupt. Nothing could save it. We could save the world’s economies, but we could not save neither the present world financial system, nor the present monetary system. Only fools would attempt to bail out either of the latter two institutions.

The crash is already on

That financial crash of which we are speaking, is already here.

Up to this moment of writing, there have been many recent crashes, including that of June 10-11, 1999. The new period of global financial collapse, which began with the outbreak of the Brazil crisis (which fools claim that George Soros helped to prevent), never stopped. It has taken the form of a series of increasingly frequent financial crises.

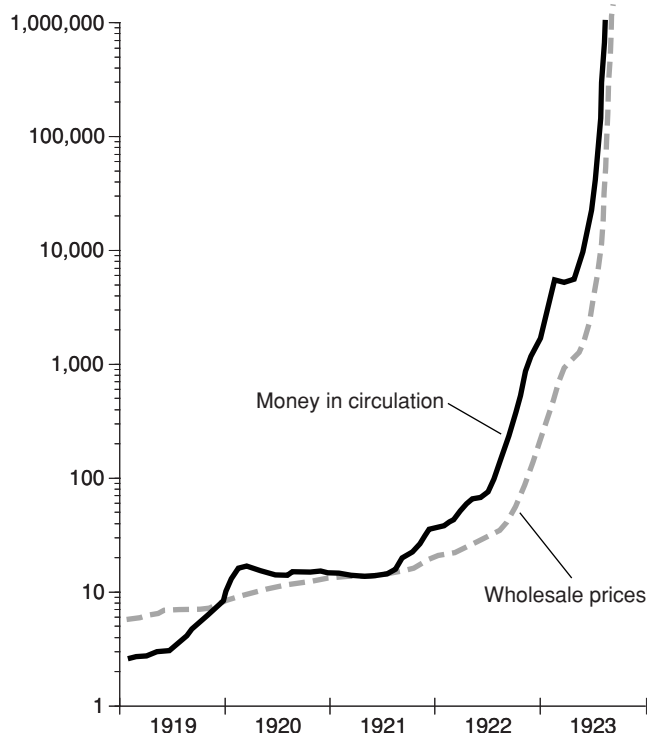
So far, overall, the new round of collapse of the world financial system which erupted in February 1999, has not yet assumed the form which people commonly associate with their more or less distorted image of the 1929 stock-market crash. Nonetheless, the real crash is already here. It has been here since February 1999.

Up to the present moment of writing, the February-July phase of the ongoing blow-out, has taken the following form. Imagine that you are walking across what you had thought to have been solid ground. Then, you experience an eerie feeling, as the ground around you seems to turn soft and wobbly, as you might expect from past experiences of earthquakes. Gradually, what you had thought was solid ground, seems to turn into quicksand. It becomes more and more dangerous. That is another form of a generalized financial crash, one of the worst kinds.

Soon, that will change. At some point soon, you will recognize that we have reached a condition comparable to the verge of the Autumn 1923 disintegration of the Weimar Germany Reichsmark. When that comes, it is more likely to erupt in a form recognizable as more of a “nuclear-style meltdown,” than the so-called “1929 style” of crash.

The reason for the present weeks quicksand effect, is that every leading institution of relevance is in a very special kind of “crisis management” mode. As Eddie George’s looting of the Bank of England typifies the situation, these institutions are dumping financial and other assets left and right, even at fire-sale prices, turning every financial asset, if possible, into either hard assets, or as much cash as they can squirrel away for the day after the collapse of the entire system has

FIGURE 2
Germany and hyperinflation, 1921-23
(index 1913 = 1)



Source: Knut Borchardt, “Wachstum und Wechsellagen 1914-1970,” in Hermann Aubin and Wolfgang Zorn (eds.), *Handbuch der deutschen Wirtschafts- und Sozialgeschichte*, Stuttgart: Klett, 1976, vol. 2, p. 699.

touched bottom.

At the same time, the same institutions are lying wildly, promising that there will never be an actual crash. That is being said just to keep the proverbial suckers — such as mutual funds investors, and duped members of the U.S. Congress — quiet.

This combined effort, by the so-called crisis managers, to squirrel away cash and hard-commodity assets, is in the process of producing an effect comparable to what happened in the Summer phase of the 1923 Weimar Germany Reichsmark hyperinflation. The attempt to maintain squirreled monetary assets, is at the point of generating a hyperinflation in hard commodity assets, like the Summer and Fall of 1923 Germany. [Figure 2.]

What is happening world-wide, as of this moment, is that the relevant institutions are locked into that increasingly frantic sort of crisis-management mode, which has itself become the cause for the new phase of the ongoing quicksand-style crash. Crucial is the frantic traffic launched in the effort to prevent what is called “the Yen carry trade” from blowing out the system in a thermonuclear implosion. That effort to

“crisis-manage” the Yen carry-trade bubble, has been transformed from what had been foolishly believed to have been an at least temporary solution, into the new form of the crisis. The crisis-management “medicine” has become a more terrible danger than the disease whose effects it was supposed to control. [See box.]

Given, that terrifying present situation, the good news is, that government would be capable of protecting, intact, the pensions and modestly sized savings of ordinary people, and will keep needed local banks operating, even if those banks are hopelessly bankrupt, and kept alive only as needed social institutions of localities, under government-directed bankruptcy reorganization.

The good news is, also, that the power of the U.S. Federal

Government, acting under the “general welfare clause” which is the fundamental law of our Constitution, is the basis for preventing waves of foreclosures on residential housing and similar situations. Apart from those actions, every other financial claim will either be wiped off the books (at least \$300 trillions worth world-wide), “frozen,” or subject to a schedule of renegotiations.

It is past time that each of you faced up to that reality. Get out of the dream-world, and into the real world. Do it now.

Later, here, I shall identify the delusions of every fool who thinks that the world’s financial system is “a zero-sum game.” Anyone who believes that financial crashes occur because “some people talk us into it,” are not economists; they are mental-health cases, and definitely not healthy ones. That

What is the ‘yen carry trade’?

In August 1995, the Bank of Japan drastically slashed interest rates to 0.5%, and the Japanese government, in cooperation with the U.S. Treasury and Federal Reserve, forced the yen sharply lower in order to avert a collapse of the Japanese economy and a meltdown of the Japanese banks. Since that time, high-risk hedge funds have indulged in a gambling practice known as the “yen carry trade.” The gambling involves massive yen borrowings in what the speculators have chosen to regard as a “one-way bet.”

By all market insider accounts, the hedge fund most exposed in Japanese yen borrowing has been the offshore Tiger Management LP, which runs the Tiger and Jaguar funds out of Curaçao, Netherlands Antilles, also the home of George Soros’s Quantum Fund.

The funds would borrow yen by the carload from Japanese banks, and then turn around and use the cheap yen, often costing little more than the official 0.5%, to buy dollars with the borrowed funds. The dollars were then used to make leveraged bets on U.S. or other stocks and bonds, which often paid 5-8% or more. So long as the yen showed no sign of becoming strong again, the billions of dollars in Japanese yen credits of these hedge funds could always be repaid at a huge profit.

That was the game that blew up in Tiger’s face on Oct. 7, 1998, when the fund lost at least \$2 billion in one night, representing a loss of 10% of its assets, said to be \$20 billion at that time. This loss occurred when the yen rose dramatically against the dollar, as a consequence of the Long Term Capital Management (LTCM) debacle, and of course, Tiger had bet the wrong way. Tiger was forced to liquidate large stock and bond positions in New York, and

across Europe, in order to buy yen to cover its Japanese loan obligations.

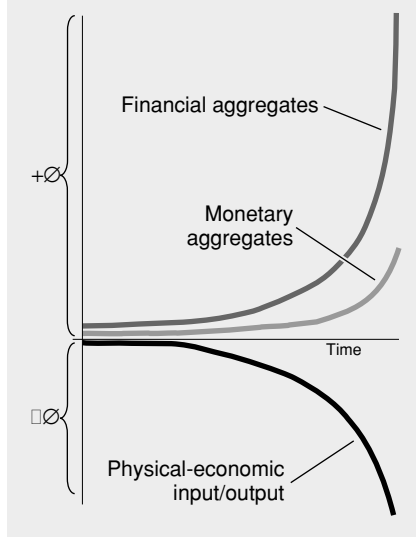
After the LTCM debacle in October 1998, Tiger and other hedge funds got out of their yen loans, bleeding profusely in the process. When, in February 1999, the Bank of Japan effectively pushed interest rates to zero in an attempt to jump-start the depressed Japanese economy, the lure of yen borrowing for dollar speculation became “irresistible” to Tiger and other hedge-fund speculators. By spring 1999, Tiger and the same hedge funds were gambling on the yen-dollar again.

By May, the Japan Center for International Finance reported that the “yen carry trade” held by overseas hedge funds had risen to \$8 billion, up from \$3.5 billion in April. The funds were betting that the Japanese economy would continue to collapse, and the yen with it, falling to 127 or lower. They were by no means alone; this was the universally held illusion.

In addition, the major culprits, the banks — which had lent billions in unsecured off-balance-sheet credits to LTCM to leverage its speculative bets on Russian GKO bonds to Japanese yen — quietly began to resume lending to hedge funds in April and May. The roulette wheel was starting to spin wildly again, with all eyes on the yen. (See also our accompanying chronology.)

When the Japanese government’s Economic Planning Agency released astonishingly strong first-quarter Gross Domestic Product growth data on June 10, showing nearly 8% annual growth in the economy, the hedge fund bets on a weaker yen exploded. The yen soared on the news of the data. Tiger Fund and the other hedge funds which had gone back into the Japanese yen carry trade casino, faced sudden ruin when markets opened on Friday, June 11. To cover its yen carry trade losses, Tiger was forced to panic-sell its holdings in U.S. and European bond markets, and convert its dollars and euros into yen. — *Bill Engdahl*

FIGURE 3
A typical collapse function



discussion comes later in this report, under the heading of psychological factors responsible for the financial crash. That said, now look at the facts about the crash itself.

How this collapse was organized

Since approximately 1966-1967, the world economy under the International Monetary Fund, has been following a three-pronged track, just as I have described this by my now world-famous "Triple Curve." [Figure 3].

The top curve shows a running average of trends in growth, a hyperbolic curve now zooming into the steepest part of its upward slope. That, the approaching world-wide financial crash, is the big financial "balloon note," whose growth has been sending the Dow-Jones skyrocketing over the broad sweep of the 1988-1999 period to date.

The upward curve just below that, not as steep as the financial curve, describes the trend in expansion of money supply. This trend has been dominant since the aftermath of that Trilateral Commission/New York Council on Foreign Relations program, called "controlled disintegration of the economy," which was introduced by Federal Reserve Chairman Paul A. Volcker, over the interval 1979-1982.

It is the type of measures introduced since the enacting of the wildly insane Garn-St Germain and Kemp-Roth laws, which have caused a cancerously growing financial bubble, which, in cahoots with the Federal Reserve System, have propelled a self-feeding rate of expansion of the money-supply.

To see the result of that, look at the way the pattern of deregulation measures since Garn-St Germain and Kemp-Roth, has fed an increasingly highly-leveraged growth of this

vast, ever-blooming financial bubble. This bubble is a copy, in principle, of the famous Tulip bubble of the Seventeenth Century, and the two John Law-style bubbles which bankrupted much of France and England during the early Eighteenth Century. It is similar to the debt-bubble which plunged mid-Fourteenth-Century Europe into a prolonged "new dark age." The difference is, that the present bubble is global, and more deadly than any other financial bubble known in earlier world history.⁶

Next, look at the bottom of the three curves, the one curving downward: *the long-term trend in decline of real physical-economic incomes and outputs of the U.S. economy, since 1966-1967.*

The measures of deregulation of basic economic infrastructure, banking, transportation, and agriculture, which the Trilateral Commission introduced through the Carter Administration, in 1977-1981, were followed by that savage sort of Wall Street-directed financial deregulation, a legalized scam which has continued to follow the pattern set by Garn-St Germain and Kemp-Roth. These combined measures of Carter Administration and post-Carter deregulation, have been reinforced in their effects, by a continued acceleration of the "post-industrial" utopian program launched globally in 1972.⁷

The spread of the policy of "post-industrial" utopianism, which the Carter Administration unleashed in full inside the U.S.A., has gutted our nation's maintenance of its basic economic infrastructure, agriculture, and industry, replacing that production of real wealth upon which continued human existence depends, by the inedible economic hot air of "services" and "information."

The Carter Administration's Trilateral deregulation program, followed by the Republican drive for Garn-St Germain and Kemp-Roth models of financial deregulation, set the trend for the process of step-by-step disintegration of the U.S. real economy. This disintegration has continued to unfold, and accelerate, during the entire 1977-1999 period to date.

Now focus attention upon the bottom of the three curves. The downturn represented by this curve, reflects the way in which the growth of the monetary and financial bubbles has accelerated the per-capita collapse of net real national income and physical net output of the U.S.A., over the course of the 1966-1999 period to date. [Figures 4-7.] A similar pattern has been seen throughout all of the Americas, in Africa, and in western Europe and Japan, during most of the same two-

6. For that reason, our financial and monetary officials are rightly identified today as "bubblers."

7. Canadian oligarch Maurice Strong launched the program as General Secretary of the 1972 Stockholm conference on the environment, where he warned about the alleged onset of global warming, the devastation of forests, the loss of biodiversity, the polluted oceans, and the population explosion. See, Scott Thompson, "Maurice Strong Discusses His Pal Al Gore's Dark Age 'Cloak of Green,'" *EIR*, Jan. 29, 1999; Michele Steinberg, "The Conspirators in Gore's Cabinet," *EIR*, Feb. 5, 1999.

FIGURE 4

U.S. machine tool production

(billions 1982 constant \$)

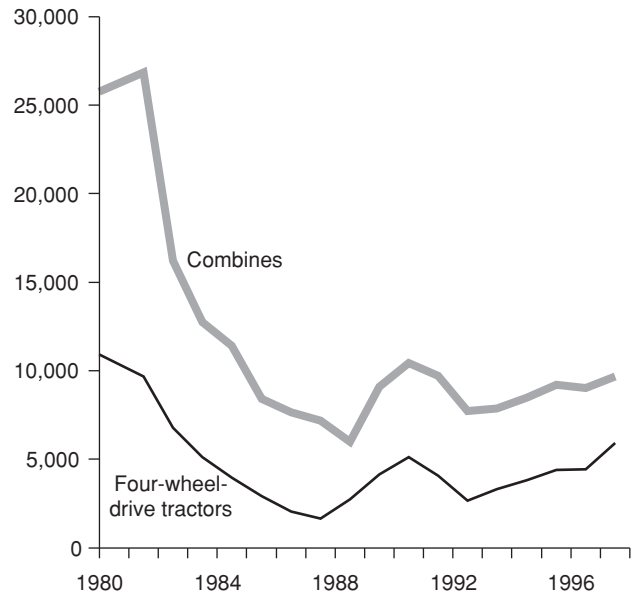


Source: Association of Manufacturing Technology, *The Economic Handbook of the Machine Tool Industry*, various years; various sources; *EIR*.

FIGURE 5

U.S. shipments of four-wheel-drive tractors and combines, 1980 to 1997

(number of units shipped)



plus decades as a whole. [See “Triple Curve” article, in this *Feature*.]

This third, downward curve, draws attention to the most important side of today’s real economic problem. Follow my description of how this side of the process has worked. After that is clear, return to the relationship among the three curves considered as a single physical-economic function.

The Bush Leaguers raped our economy

The current, skyrocketing rates of mergers and acquisitions, globally, reflects a continuing trend of economic cannibalism, launched by Garn-St Germain and Kemp-Roth, through “junk bonds” and related measures, over the entire 1982-1999 interval to date.

Admittedly, the present, permanent national-debt crisis of the U.S. government, was created through Trilateral Commission policies rammed through under President Jimmy Carter. However, it was foolish Kemp-Roth, which caused Carter’s national-debt bubble to zoom upward; this created the foundations of the present global “derivatives bubble.” Kemp-Roth did this, by dumping the principles of the Franklin Roosevelt-modelled, Kennedy investment tax-credit, in favor of slashing the tax rates on purely parasitical forms of financial capital gains. Seeing how Kemp-Roth set this pattern, will help you to understand why the current rise of the Dow-Jones index depends upon destroying what remains today of the real economy of the U.S.A. and other nations.

The fact that the rate of mergers and acquisitions on a

world scale, has skyrocketed at the rates seen during the first half of 1999, is one of those crucial facts, like Eddie George’s gold scam, which warns sensible people that the world’s financial system is at the verge of a melt-down—something with similarities to the model of a thermonuclear detonation.

The object of such junk-bond-style mergers and acquisitions, like the looting of the U.S. savings and loan industry by Trilateral Commission veteran and Vice-President George Bush’s cronies, is to take over and loot banks and other industries, for the purpose of stripping away their salable assets, and leaving the emptied husk, as they did, on the doorsteps of those financial orphanages known as our bankruptcy and criminal courts.

They said the merger would make the economy better, by “trimming away fat”; actually, what the junk-bond raiders stole, was only what they considered “flesh and bone.” Like Seventeenth- and Eighteenth-Century pirates seeking financial respectability in fashionable English countrysides, these modern emulators of the bloody old sea-raiders, used the “financial income-stream” generated by junk-bond-style and similar looting, to float highly leveraged financial capital gains on markets, thus transforming themselves from legally redeemed, sea-going night-riders, into persons, like the cronies of Britain’s former Prime Minister Harold Wilson, claiming knightly honors as steadfast pillars of the financial community.

FIGURE 6

Industrial energy consumption per household

(millions of BTUs)

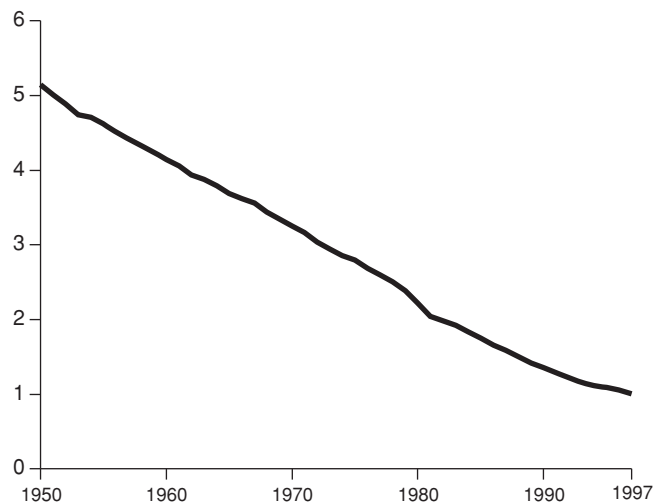


Sources: U.S. Department of Energy, *Monthly Energy Review*; U.S. Department of Commerce, Bureau of the Census, *Population Surveys*, various years.

FIGURE 7

U.S. railroad mileage

(miles per 1,000 households)



Sources: Association of American Railroads; U.S. Department of Commerce, Bureau of the Census, *Population Surveys*, various years.

Looking at these effects of Garn-St Germain and Kemp-Roth together, shows quickly how those pieces of legislation dovetailed, to bring about the way in which that big swindle has worked, since 1982, up to the present time.

If we compare the combined effects of Carter Administration deregulation plus Garn-St Germain and Kemp-Roth, with what a post-1981 economy would have looked like under the Kennedy Administration's investment tax-credit and related pro-agro-industrial growth policies, we can quickly calculate a prosperous U.S. economy emerging from the Kennedy policies, as opposed to the catastrophic results produced by the combination of Nixon's post-August 15, 1971 "floating exchange-rate" folly and the combination of Carter Administration and Kemp-Roth-type follies of the 1980s.

If we take into account essential costs of maintaining pre-existing levels of national productivity, which were taken off the books at various points since August 1971, and if we take into account the degree which the U.S. economy has limped along through its use of a "floating exchange-rate system" of traffic in international financial loans, to loot other nations, such as those of Central and South America, the U.S. national economy has not enjoyed a profit in net real output since about 1971.

Look at changes in the per-capita market-basket of purchasing power received per employee for a forty-hour work-week, compared with 1966-1970 levels. Look at savage cut-backs in maintenance of essential basic economic infrastructure, since 1971. Look at the catastrophic cut-backs in quality of education, in hospital-bed-days, and other essential ser-

vices. Look at the increase in commuting time per week forced upon employees roaming ever further to increasing number of places of employment, per capita of labor-force. Look at the increased ratio of household debt to personal net income, per capita and per household. Look at the productive capacity and employees lost to "out-sourcing" and related looting of the earning-power, and physical productivity of the U.S. economy as a whole.

Look at the range of those domestic U.S. industrial facilities, which were indispensable in enabling the U.S.A. to put a man on the Moon in 1969, which have not existed any longer since years, even decades. [Figures 8-10.]

In part, the downward trend of a formerly successful U.S. economy, a downtrend institutionalized under Nixon and Carter, was to a significant degree a result of sheer stupidity about economics now widespread among the present generations' leading political and financier circles. It has also been, most emphatically, the result of sheer ideological lunacy, of the wild-eyed, utopian monetarism of the Mont Pelerin Society, lunacy of the Thatcherite variety.

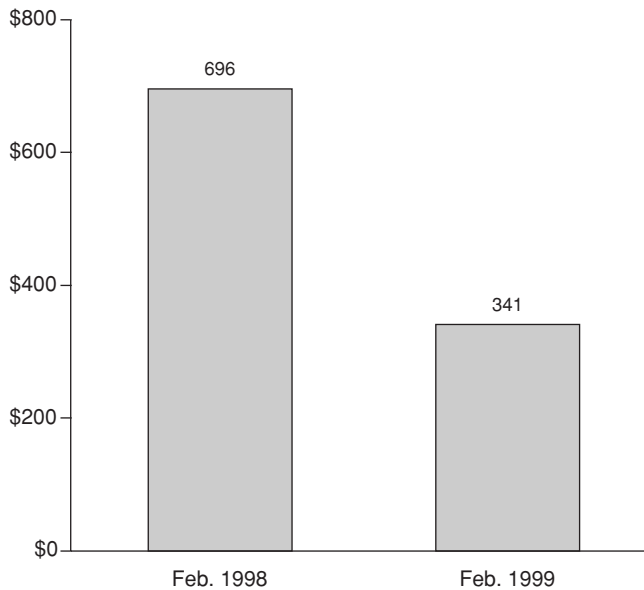
That combined effect should call to our attention, the fact, that Mrs. Thatcher's record in economic matters, like that of Senator Phil Gramm, shows that the fact that certain politicians are nasty, does not necessarily mean that they are also intelligent. One should not be surprised that the results of putting such political figures into power, is usually a lot of nastiness, but, as Thatcher's long reign as Britain's Prime Minister also shows, very bad economic performance.

So, the Bush Leaguers, and other Trilateral Commission

FIGURE 8

U.S. machine tool consumption collapses 51%, February 1998 vs. February 1999

(millions \$)



Source: Association for Manufacturing Technology; American Machine Tool Distributors Association; *EIR*.

figures of the 1970s and 1980s, raped the U.S. economy, and set us up for the increasingly catastrophic state of world financial affairs since the Mexico crisis of 1994-1995.

2. The solution

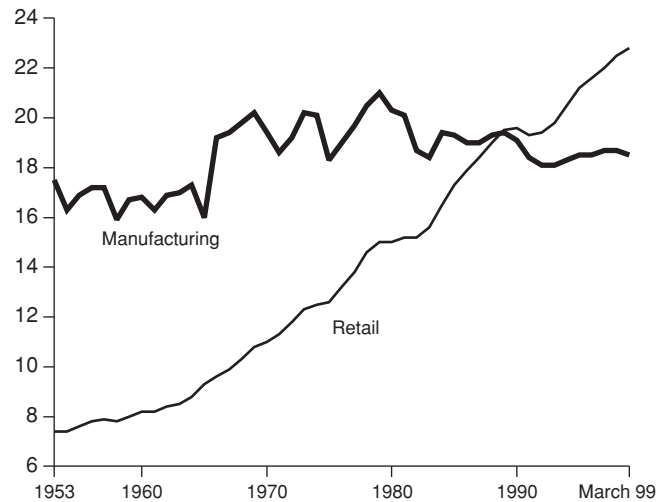
The key phrase, which brings justified hope to any nation suffering a general financial collapse, is the sound of those reassuring words: "After all, now that the system has collapsed, we can safely say that it was all really nothing more than just a lot of paper." Similarly, with the wondrous words, "You're all just a pack of cards!" Lewis Carroll's fictional Alice escaped to the safety of reality.

There is a lesson to be learned by Americans (and others) from the relative success of Russia's recent Primakov government, up to the point Primakov was ousted. The savage, IMF-directed looting of Russia during most of the past six years, had reduced that nation's economy to such a depleted state, that financial assets as such mean relatively very little today. As Primakov's government briefly demonstrated, by its notable few months of relative economic successes from doing nothing more than a few very sensible and obvious things, Russia has no choice, if it wishes to survive, but to forget about its ruined financial system, and the ruinous delusions

FIGURE 9

U.S. retail employment vs. manufacturing employment

(millions of jobs)



Sources: Bureau of Labor Statistics, U.S. Department of Labor, *Employment and Earnings*, various years; *Handbook of Labor Statistics*.

of its so-called "liberals." Amid the ruins of the bankrupt, liberally destroyed present economic system, Russia is forced now to abandon the foolish advice of the bankrupt IMF system, and to rely instead, essentially, on the remaining, built-in physical-growth potentials of its physical economy.

The same will soon be clearly true for the United States, as it now proceeds, pathetically unprepared, to enter the next century.

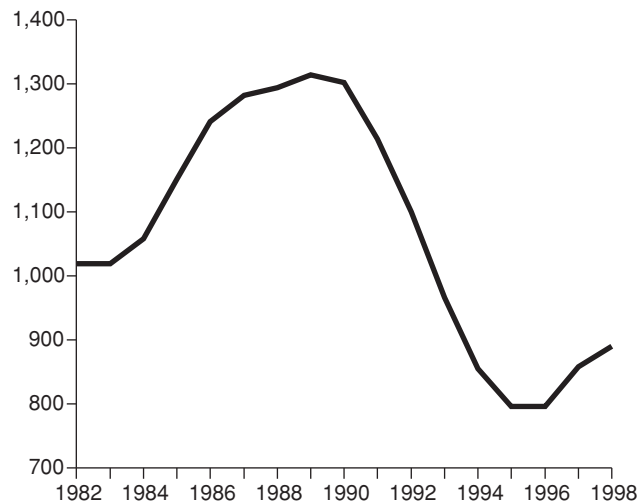
Whether you are presently ready to believe it, or not, the fact is, that we in the United States are entering a situation not unlike that which struck Russia over 1992-1999 to date. Sooner than most of you will wish to believe, that fact will be brought home to you very soon. Then, you will curse the day that anyone ever suggested it would be better to have a "post-industrial society." Once you have finished your outbursts against the "post-industrial" freakishness, you will take a deep breath, and smile in relief. You will then smile, because you have realized that our situation need not be a hopeless one. "After all, it was just a lot of paper. Forget that paper, and now get on with our lives."

The solution is elementary in principle. Put all that foolish, failed paper into appropriate forms of government-supervised bankruptcy proceedings, set up a new credit, monetary, and financial system quickly, as Treasury Secretary Alexander Hamilton did so successfully. Get employment in real, physical output expanding quickly. Things will soon get better than they have been in decades. The key is: Don't cling to that sinking ship. It was only paper, and you were drowning in it, anyway.

FIGURE 10

U.S. aerospace industry employment

(thousands of workers)



The measures to be taken

Therefore, certain facts must be stated to each of you, personally, as plainly as possible. As President Franklin Roosevelt understood he must say that, at a point of great, frightening national crisis, then, so I must say to you today: In the face of this global financial crisis, “we have nothing as much to fear, as fear itself.” Therefore, someone must address you now so, again, as this terrible crisis is unfolding. For reasons which should not require much explanation, the responsibility for saying the things needed to allay your fears, lies, for the moment, with me. It is I, for special reasons of the moment, who must explain certain things which I am best qualified professionally to say, both to you as citizens, and to the relevant officials of our government.

What I must say, will seem frightening at first. I must say it nonetheless, because it is the truth, and because you have the right and need to know the truth. Only when you see, that, terrible as the crisis is, there are happy solutions available, can you be kept free from the chaotic sorts of fears which might cause our nation’s people and government alike, to be driven by fears into doing those sorts of desperate and foolish things which must be avoided.

Therefore, I must identify the problem. Admittedly, the truth is frightening. Nonetheless, you must hear that truth; my purpose is to show you the safe and calm way to walk out of something analogous to a burning theater. If we are to allay that greatest danger, “fear itself,” we must face consciously the problem we are committed to solving.

For a benchmark, in planning the needed economic recovery, look back to an example from post-World War I Germany, up to the interval of Adolf Hitler’s legal coups d’état of January 1933 and June-August 1934. Look at a Germany

ruined by Versailles conditions similar to those recently imposed upon Russia by the IMF, that during 1992-1999 to date. Look at the 1923 Reichsmark hyperinflation, but concentrate now on two events from the interval 1931 through that London-directed, January 1933 coup d’état against the von Schleicher government, through which London, aided by the New York firm of Brown Brothers, Harriman, brought Hitler to power in Germany.

Look first, at a secret, 1931 Berlin, very high-level meeting of the pro-American System Friedrich List Society. At this meeting, at the prompting of economist Dr. Wilhelm Lautenbach, a recovery proposal was introduced and adopted, secretly, by the leading inner circles of Germany’s patriots.⁸ This recovery proposal began to be implemented under patriotic, anti-Hitler Chancellor Kurt von Schleicher. Had the Schleicher government, and its economic-recovery policies, not been overthrown, in favor of Adolf Hitler, by a British circle using von Papen, the recovery programs of the Schleicher government in Germany and of President-elect Franklin Roosevelt in the U.S.A., would have been largely identical in effect.⁹ The Hitler regime, and the prolonged great Depression, the ensuing World War II, and the Nazi death-camps, would never have occurred.

Later, aspects of the same policies presented by Lautenbach in 1931, were adopted, with U.S. agreement, by German bankers under the leadership of Deutsche Bank’s Hermann Abs. The result was the exceptionally successful “German economic miracle” of reconstruction, as associated with the now still-existing Kreditanstalt für Wiederaufbau.¹⁰ The uniquely successful methods used, in these cases, was a consistent reflection of what is known world-wide as the American System of political-economy, the system associated by name with Alexander Hamilton, Mathew Carey, Friedrich List, and Henry C. Carey.

These are the methods, the proven precedent for success, which must be adopted again, to overcome what would be otherwise the worst, most prolonged economic depression in modern world history. Any sane person, who wishes to survive, will now absolutely rely upon insight into the fact, that nothing other than those proven, superior methods of economic recovery must be adopted and used afresh.

Remember: “It is only paper” that is falling now. That paper is the global economic cancer that is threatening the life of the United States, and also the world in general. Remove the cancer, to save the patient. Introduce the immune factors of economic policy needed to prevent that cancer of worthless speculative financial paper from growing back.

8. Michael Liebig, “Lautenbach’s Program for German Recovery,” *EIR*, Jan. 8, 1999.

9. Michael Liebig, “Recovery Program Could Have Blocked Hitler’s ‘Legal Coup.’” *EIR*, March 5, 1999. Speech to the Schiller Institute’s Presidents’ Day conference, Feb. 14, 1999.

10. Lothar Komp, “How Germany Financed Its Postwar Reconstruction,” *EIR*, June 25, 1999.

The first step, is to have a consortium, of several cooperating governments, each assert their perfect national sovereignty, and, declare, as their first joint action, the effectively global nullification of all forms of gambling debts such as “junk bonds” and “financial derivatives.” That action, sweeping about \$300 trillions-equivalent of purely parasitical, current debt from the world system, is the indispensable first step upon which escape from history’s worst economic depression depends, absolutely, now. That debt, and related nominal financial assets, are to be swept away as if retroactively, as if they had never existed.

Clearing away that purely parasitical debt, in that way, is the absolute precondition for the survival of nations, including the U.S.A., today. A government which lacks the guts to do precisely that, in concert with a power-bloc composed of like-minded other governments, is in fact no government at all, and that would be made very clear, very soon, after the failure to seize the moment of opportunity to do what is absolutely necessary as a first step.

Following the declaration of the nullification of those categories of debt, the more or less simultaneous next step, is to organize a general, governments-directed bankruptcy-reorganization of other forms of indebtedness. In the case of the U.S.A. itself, the point of reference from which this is to be done, is nothing different than the 1789 U.S. Federal Constitution, especially the fundamental law of the U.S.A., as embodied in the Preamble of that Constitution, especially its so-called “general welfare clause.” Other nations are well-advised to emulate this feature of the U.S. constitutional model.

On this account, there are two broad principles of practice to be served. First, the constitutional integrity of the U.S. Federal government itself must be defended by all of its patriots. Without that constitutional integrity of that perfectly sovereign authority, nothing else which is now essential would be feasible. Second, the methods used to conduct the financial reorganization of the hopelessly bankrupt U.S. financial sector, must be conducted in ways which best serve the constitutional mandate of the “general welfare clause.”

That means, as U.S. Treasury Secretary Hamilton elaborated this policy, the integrity of the principal amount of the U.S. sovereign debt, principally the balance of the principal amount on the official debt of the U.S. Treasury, must be maintained.¹¹ Everything else is negotiable under government-supervised bankruptcy reorganization, that in ways which are in accord with the U.S. sovereign interest and primary internal constitutional obligations.

The latter consideration means, that every other aspect of financial reorganization must be subordinated to two objectives. First, the preconditions for an early and rapid gen-

eral recovery of essential forms of physical production and distribution must be satisfied. Second, the general welfare of, especially, the weakest and most vulnerable portions of the population, must be defended as a matter of course. Consider the second requirement, first, before turning to other matters.

Insofar as personal savings, health-care provisions, and pensions are concerned, these claims must be met in full, up to some reasonably specified maximum amount for each individual case. Similar considerations apply to the working capital of socially essential institutions, including privately owned business institutions whose regular and orderly functioning is essential to the orderly maintenance of the well-being of the local populations. These and related provisions are given priority under what may be fairly described as “anti-chaos” measures. It must be the object of bankruptcy reorganization, that normal functioning of households and communities must be continued virtually from proverbial Day One of the placing of the national economy under the protection of generalized bankruptcy-reorganization.

Otherwise, the general rule for initial phases of generalized financial-bankruptcy reorganization, is to freeze everything else in sight, and to organize a controlled release of funds, either as loans or otherwise, against the principal value of sums relegated to frozen accounts. The general rule, is that useful production and distribution of needed physical goods, must be uninterrupted, and that essential institutions remain standing and functional, even if they might be judged as insolubly bankrupt. Keep things which must function, functioning, and sort out the financial accounts at leisure.

Take the case of bankrupt local banks, for an example.

A local bank is a place of deposit for local citizens and local firms, and an instrument through which loans and other essential financial services to the community are administered. Thus, even in the case the local bank were totally insolvent, its function and related operations must (usually) be continued as if it were a fully sovereign institution. The preferred object of bankruptcy reorganization of such banks, is to keep the bank alive and functioning as a working institution of the local community, and, hopefully, to restore it to financial independence through some process of financial reorganization.

In other words, the policy must be, to keep all essential features of national functioning and community life working, as if without missing a step, in the transition from a state of seemingly hopeless national financial bankruptcy, into a fully functioning society with a fully functioning economy, but an economy stripped down, for the moment, to bare essentials of continued defense of national security and of the general welfare.

Organizing economic growth

The United States, as a national economy, is, like most of the other nations of the world, presently financially bankrupt.

11. Alexander Hamilton, *Report on Public Credit*, in *Papers on Public Credit, Commerce and Finance*, Samuel McKee, Jr., ed. (New York: Columbia University Press, New York, 1934).

It is bankrupt, in part, because of a parasitical form of financial bubble; but, it is also bankrupt, because, in net effect, it is not currently producing enough to meet even its own internal needs. So far, we have focussed on the first cause of that condition of bankruptcy. Now, we must address the second.

Focus upon the third, the lower, of the three curves of my Triple Curve representation, as shown above, of a typical collapse function. As measured in real, physical-economic, rather than the merely nominal, financial, yardsticks of our super-polluted present financial system, the U.S. economy has been declining over the course of the recent thirty years. This decline began, during 1966-1971, as a relative decline in the net rate of real economic growth. After 1971, and, especially since 1976, there has been a persisting net absolute collapse of the economy over the entire period 1977-1999 to date. This point is made clear, when we examine the sundry ways, by means of which the U.S.A. has used the present, post-1971 form of the IMF system, the so-called "floating-exchange-rate" system, and globalized financial deregulation, as a way of looting other nations to bail out a self-inflicted U.S. national economy itself.

The use of a fraudulent system of IMF-coordinated "international financial loans," to loot the nations of Central and South America, repeatedly, over the 1971-1999 interval, is typical of the looting operation involved. The use of "outsourcing," as a way of looting nations such as Mexico, to subsidize the U.S. economy, while also destroying the economy and productive employment of the population living inside the U.S.A., is another relevant example. Such is the looting-process run, essentially, in cooperation between the world's dominant financial system, the London-centered British Commonwealth system, London's junior financial partner, Wall Street, and what U.S. hero General Smedley Butler exposed as Wall Street's usurpation of control over the U.S. military establishment.

In short, even if we eliminate the crushing debt-burden caused by the cumulative follies of U.S. policy over the recent thirty years, we have not eliminated the fact that we are currently producing at levels, which have been driven down, during the recent thirty-odd years, to a point way below that needed to maintain the kind of average standard of living and per-capita productivity, which we had achieved during the middle to late 1960s. Getting rid of the financial parasite, is indispensable, but not sufficient. Additional measures of economic recovery are needed, even merely to bring the nation back up to break-even levels of physical-economic input and output.

Let us look at this problem in the simpler way any reasonably literate and intelligent U.S. citizen might understand what we are talking about here.

Go back to the early years of the U.S. post-war economy, 1946-1955. Then, compare relevant figures from that period with the Kennedy economic recovery, 1961-1963, from the Eisenhower period's slide, under Arthur Burns' influence,

into a deep, stubbornly prolonged recession, 1956-1960.¹² Look at the periods 1946-1955, and 1961-1963, as setting a bench-mark of comparison for studying the relevant downturn in the U.S. economy since 1967-1972. Use this bench-mark as a way of gaining rule-of-thumb qualities of insight into the qualitative degeneration of the structure of employment of the U.S. labor-force since 1967-1972, most emphatically during and following the ruinous effects of the interval 1977-1982.

For this purpose, we are obliged to place the emphasis on categories of composition of the raw employment of the total labor-force. After 1972, Gross National Product and National Income statistics, are polluted, increasingly, by effects of the pyramiding of fictitious capitalization, and, therefore, of the costs attributed (i.e., as incurred by) to that capitalization. After 1982, the official U.S. government and Federal Reserve statistical reports are so transparently, but chaotically faked for purposes of "political spin," that such official sources no longer represent an even approximately accurate time-series. An insightful study of structural composition of employment of the total labor-force, is therefore the best first-approximation indicator of the relevant changes to be considered here.

Two aspects of overall patterns of employment must be kept in mind. First, there is the matter of employment in direct generation of output; second, there is employment related to the maintenance and increase of the physical-economic form of capital-intensity of production and its output. In the capital goods sector, the machine-tool sector is of crucial importance, and the smaller-sized machine-tool-design sector, and equivalent kinds of capital-goods-related functions, the most crucial.

Those noted qualifications listed, compare the composition of employment according to the broad following categories. Development and maintenance of basic economic infrastructure (hard), basic economic infrastructure (soft)—such as health-care and education, transport of physical goods, agriculture, manufacturing, services performed by the physical-science and engineering professions, employment categories which were traditional prior to 1967, and those which have blossomed as side-effects of "post-industrial" fads of the recent thirty years. [Figures 11-12.]

The changes shown by such comparison of structural changes in composition of employment, point to the reasons why, first, the U.S. economy is presently operating way below physical-economic breakeven levels, by comparison with 1966-1971, and, second, what kinds of changes must be made to reverse that decline.

This, in itself, is an area of major topics of policy deliberations. Therefore, what I shall offer here are merely some cru-

12. The deep Eisenhower recession, is defined, more narrowly, as from February 1957 through mid-1958. However, the recession of 1957 was triggered by a lunatic consumer-credit bubble of 1956, and the effects of the recession were continued beyond the Summer of 1958, into election-year 1960.

FIGURE 11

Number of paychecks required to pay off household debt

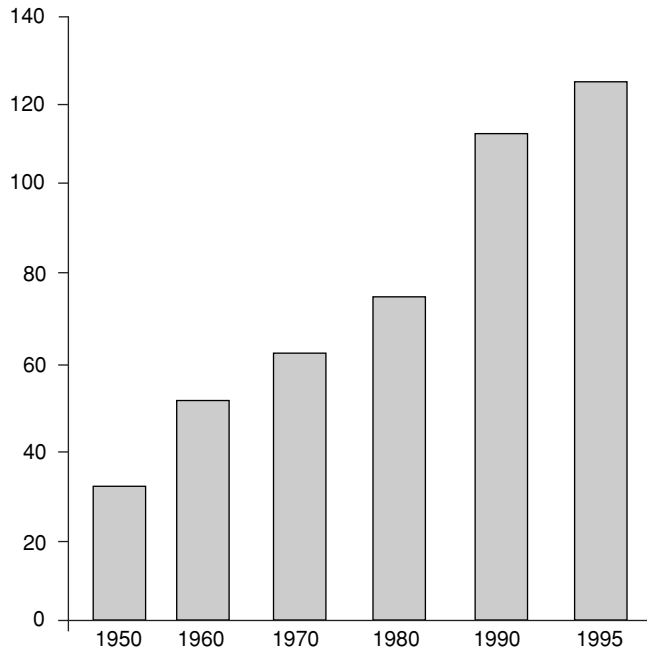
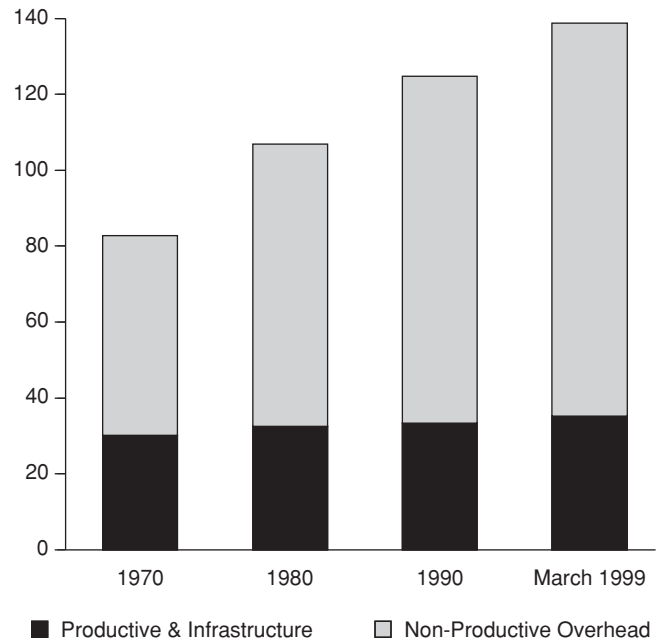


FIGURE 12

U.S. labor force, 1970-99; non-productive overhead grows

(millions of workers)



Sources: Bureau of Labor Statistics, Department of Labor; U.S. Department of Education; American Medical Association.

cial illustrations of the policy-issues which a genuine physical-economic recovery involves.

A genuine economic-recovery policy requires that government adopts certain general policy objectives governing its role in fostering a relatively rapid, feasible rate of net physical-economic growth, above what might be described as a “break-even” level of structural composition of labor-force employment. In general, we must emphasize a leading role of expanded development of presently much-depleted basic economic infrastructure in fostering a “New Deal” style of employment-driven physical-economic recovery, an increasing ratio of capital formation in agriculture and manufacturing, and increasing levels of employment in manufacturing, especially in high-technology enriched capital-goods products. This also means an emphasis on greatly increased power generation, and emphasis upon capital-intensive and power-intensive modes of advancement of technology in product design and modes of production.

It means, on the other side, a slashing of employment in parasitical categories such as so-called financial services and other post-1967 changes in the nature and relative quantity of employment in unskilled, or low-skilled services.

Government has two general means, in addition to consultation, to foster such changes in structural composition of employment. One is public policy respecting flows of credit; the second, is taxation policy. The Kennedy investment tax-

credit policy supplies a useful standard of comparison for defining a useful sort of tax policy: a tax policy premised upon an appropriate notion of the preferences dictated by clear national interest.

To conduct such a recovery program under the conditions we must foresee for the beginning of the coming century, there must be a clear understanding of the difference between issuing money, and issuing credit. Through the proper application of public credit for fostering programs of economic growth in the national interest, the progress payments made in connection with those programs generates an increase in the income and tax-revenue bases of the national economy. This expansion of the income and tax-revenue base expands the platform for launching an enlarged flow of credit. On the condition, that the programs selected for such assigned priorities, have the effect of increasing national income, both per capita and per square kilometer, a self-feeding spiral of real economic growth can be sustained indefinitely.

As part of this, the responsibility of a recovery policy by government must be, not to foster the recovery of levels of employment in relatively undesirable categories of the present structure, while fostering increases in employment in the relatively most desirable categories, those which contribute relatively the most to the scale and rate of productivity of

output of the nation's physical economy, per capita and per square kilometer.

We have done that before, several times in our nation's history. We can, and must do it again.

3. Zero-sum brains

Now, you must look inside yourself, to discover there, inside yourself, those bad habits of thought which might cause you yourself to contribute to ruining our nation's chance of survival.

Did you know, that Alan Greenspan, the Chairman of the Federal Reserve System, has bragged publicly that he is clinically insane?¹³ Did you know, that many among the world's leading bankers and other financial houses, are also victims of the same form of clinical insanity which Alan Greenspan has claimed to be suffering?¹⁴ Did you know that many of the highest-paid stratum of people in Wall Street, are suffering the same form of mass insanity exhibited by those caught with their derivatives down, when LTCM crashed, last September? This is not a case of a new variety of "sexually transmitted diseases." Although apparently infectious, the disease is purely psychological. The form of mass insanity suffered by each and all of these fools, is best identified as "the zero-sum brain" syndrome.

All of those persons to whom I have just pointed, as clinically insane, were trapped by their own delusions, as "true believers" in a world which does not exist. All were caught, financial red-ink-handed, in a lunatic cult, known as the Black-Scholes formula, the Nobel Prize-winning insanity for which Robert C. Merton and Myron S. Scholes were awarded the 1997 Nobel Prize in economics.¹⁵ This was the formula

13. E.g., Alan Greenspan, testimony before the House Subcommittee on Finance and Hazardous Materials, Committee on Commerce, March 3, 1999, titled "On Investing the Social Security Trust Fund in Equities": "The transfer of Social Security assets from U.S. Treasuries to equities would not, in itself, have any effect on national saving. Thus, the underlying economic assets in the economy would be unchanged, as would the total income generated by those assets. Any increase in returns realized by Social Security must be offset by a reduction in returns earned on private portfolios, which represent, to a large extent, funds held for retirement. Investing Social Security assets in equities is, then, largely a zero-sum game. To a first approximation, aggregate retirement resources—from both Social Security and private funds—do not change."

14. I refer to a list of leading world banks and their associates in the operations of the Long Term Capital Management (LTCM) hedge-fund, which was bailed out—at your expense—with the help of Alan "your money" Greenspan's Federal Reserve System, during September 1998. Banks known to have been caught in the LTCM crash include: Bankers Trust, Bank of Italy, Barclays, Bear Stearns, Chase Manhattan, Citigroup, Crédit Agricole, Crédit Suisse First Boston, Deutsche Bank, Goldman Sachs, ING Barings, J.P. Morgan, Lehman Brothers, Merrill Lynch, Morgan Stanley Dean Witter, Paribas, Société Générale, and UBS. (This list includes all banks that participated in the bail-out, and a few who didn't, but had money in LTCM.)

15. John Hoefle, "One Derivatives Disaster After Another; Will They Never Learn?," *EIR*, Oct. 9, 1998.

which engineered the collapse of the Long Term Capital Management hedge-fund.

"So what?" a representative of the Nobel Prize committee said, in effect, when this result of the Merton-Scholes award was pointed out to him by *EIR*. He claimed, that the Nobel Prize committee had never intended, that admirers of Merton's and Scholes' formulations could have been so dumb, as to overlook the fact that the Prize-winners' mathematics is only an academic game, which does not correspond to the real world.

Even after the experience of the LTCM collapse, last year, this year, June 10-11, to be exact, and, more recently, this July, have rolled around. Leading hedge-funds and their bankers have been freshly exposed by these recent developments, as having played the same financially suicidal game, bigger and worse than ever, which they had played, with such nearly fatal results, in the Spring through Summer of 1998.

In other words, all those victims of the zero-sum-brain syndrome, fell prey to their own personal clinical insanity. At last report, most among both the world's biggest banks, and the central bankers of most nations, are even more insane today, than they were in August and September of 1998. There are no signs that their mental health is about to improve.

Unfortunately, most investors in mutual funds, when the funds go down, will also have to be diagnosed as victims of the same form of mass insanity.

So far, this form of insanity is controlling not only those bankers and financial houses. Up to this moment of writing, the governments of the G-7 nations, like the International Monetary Fund and World Bank, are being controlled, politically, by this same, currently fashionable, Wall Street style in lunacy.

The biggest chunk of contributors to the Year 2000 Presidential pre-candidacies of both George W. Bush and his patsy, Vice-President Al Gore, come from the same big Wall Street set of "irrationally exuberant," "zero-sum gang-bangers" involved in the LTCM and similar—past, present, and future—hedge-fund catastrophes. These are also among the biggest contributors to right-wing conservative congressional campaigns, and so on and so forth.

The facts are, that the situation is much worse than those facts, by themselves, would indicate. Much of the pro-deregulation legislation being pushed through the Congress now, has been, in effect, bought and paid for by the same pack of Wall Street loonies caught in the LTCM crash. Being the kind of Democrat who is bought and paid for by the same Wall Street desperadoes' influence, is what Vice-President Al Gore has called "The Third Way."

Everything the U.S. and other G-7 governments did, from the Washington, D.C. September conference, on, has shown itself to be a case of colossal folly by each and all of the governments and monetary institutions complicit in those agreements. They each and all agreed to continue to run the world economy according to the rules of the game invented by the world's biggest lunatics, the zero-sum game. As a

result, the crisis is far more hopeless today, than it was in October 1998; the real economy has shrunk at the fastest rate in the past thirty years; only the financial bubble and the fools have become bigger.

So, when the present world financial system goes down in a bust, as it will soon, it will be that form of mass clinical insanity which will have been chiefly responsible for the crash.

How do you define insanity?

Pause, for just a moment, at this point. Some readers will object: "Okay, so, I admit: those guys were living in a fantasy-world. Lots of people spend a lot of time occupied by their variously childish or adolescent styles in fantasy-life; that doesn't mean that all of them are necessarily insane."

True! Then, what is the difference between a bit of dabbling in fantasy, even a lot of it, over the course of the day, and being actually insane? The difference between day-dreaming and insanity, is that the day-dreamer still benefits from being capable of distinguishing between fantasy and reality, even if he has to be pushed, sometimes, into reluctant admission of that fact. When the dreamer resists all reasonable efforts to bring him back to reality, his influence within society should be considered as that of a functionally insane person, such as Alan Greenspan.

Admittedly, there are border-line cases, cases which have not yet crossed that border line, into outright insanity. Consider some commonplace, functional types of border-line cases.

Take the case of high-powered super-salesmen, for example, whose ability to lull buyers into admiring the salesman's show of "deep conviction," is responsible for the sad ending likely to be suffered by the mutual funds or other sort of customer.¹⁶ That sort of salesman, while he is selling, blocks reality out of his, or her mind. He, or she, constructs what is adopted as a persuasive fantasy. The target of this attempted seduction is intended to perceive, that the sales representative is so much "in love" with the prospect, that the customer is persuaded that such a loving and important person would never do his customer wrong.

Such sales types (the legendary type who might sell ice-cubes to the Eskimos in winter-time) will often express their view, if only privately, that "I could not sell" unless the selling were motivated by such a fantasy-life. ("Don't pop my fantasy-bubble, or I won't be able to sell in the morning, and, then, we'll all go hungry!" such a poor fellow may scream at his wife.) Away from the selling territory, they come back to

16. Decades ago, during the 1950s and 1960s, I did a series of precautionary studies of this sort of salesman behavior, in an effort to weed out this common cause of avoidable customer complaints against the firms employing the relevant sales personnel. Companies which were too easily impressed by the front-end side of the sales performance of such representatives, often let themselves be blinded into the medium- to long-term costs of the after-effects of the same salesman performance they had admired at the time the sale was initially closed.

some sense of everyday real life, if only in small matters, but such returns to reality do not occur without the hangover-like emotional effect of sobering up after a fantasy-binge.

Similar patterns are to be observed in the cases among even learned professions whose professional activities, performed as personal services, involve resort to the salesman-like musterings of the "bedside manner," as this is practiced by those among today's professional, truth-hating perverts known as "facilitators." We shall turn attention to a very special importance of this problem of a "services"-oriented economy, a bit later here.

The salesman-type I have described, is highly neurotic, but that does not, by itself, signify that he or she is actually insane. The cross-over to clinical insanity, occurs at the point the fantasy-ridden individual, such as Alan Greenspan, Professor Milton Friedman, Zbigniew Brzezinski, or Jeffrey Sachs, makes the cross-over, away from recognition of the existence of a real world, to dwell entirely within a mind-set which is inherently of the form of a destructive fantasy-life. The operative term is "destructive."¹⁷

Alan Greenspan's zero-sum mind

In this case, as typified by Alan Greenspan, we are focused on a special form of a process of crossing-over from the sickly state of a mind which is richly polluted by its fantasy-life, to outright insanity. We are focussed on the specific clinical form of insanity identified as the case of "the zero-sum mind."

As the case of Eddie George's gold scam makes the point, under conditions of severe stress, such as a general financial crisis, this pathological syndrome tends toward outright criminal insanity. The form of such insanity—and criminality—on which we are focussed, is the gambler's mind-set, as typified by the lunatic belief that a national, or world economy, is something so characteristically inhuman—better said, so anti-human, so essentially fascist—as a variety of what von Neumann defined as a zero-sum game. That is the focus of my subject here.

As in much of the ordinary neurotic's childish or adolescent forms of fantasy-life, the fantasy-ridden person is a *symbol*-minded creature, like the putative inventor of the zero-sum game—who happens to have been, not that mastermind who recently claimed to have invented the "Internet," Al Gore, but the late John von Neumann. Like most childish fantasies, the symbol-minded idea of the zero-sum game, may become, like its cousin, the assembled masses at an Adolf Hitler Nuremberg rally, highly complicated in detail of its

17. The significance of the qualifying term, "destructive," is that if a bad habit shows no destructive effects, the victim of an illusion lacks the kind of evidence which would force him to recognize the factual moral or other sort of wrongness of his ostensibly harmless form of errant habitual opinion. It is when an habitual opinion persists in opposition to clear evidence of destructive, or self-destructive results, that the red line separating ordinary delusions from functional sanity is defined in practical terms.

organization, but is a product of a state of mind, like that of Wall Street's master-minded Al Gore, which is in no way capable of profound and truthful, actually human thought. All symbol-minded fantasies of this childish or adolescent type, have the characteristics of games which children and sports-fanatics "make up." Sometimes, such fantasies become complicated, but they are always superficial, nonetheless, never part of the real world.

The linear mathematics of LTCM's Black-Scholes formula, is such a game. It represents a form of constructing a chain-letter form of bubble, a fantasy-life. That linear fantasy-life serves the deranged mind as a substitute for the real world. This is one of the factors which, all too often, causes so-called "pure mathematicians" to turn obviously insane and withdrawn, even at a young age when they should be outgoing, witty, and pleasantly frisky. In the case of John von Neumann's behavior, when he was confronted personally with the disproof of his life's work by Kurt Gödel, the lifelong burden of his enraged reaction, from that point on, through the remaining decades of his tormented life, typifies the psychosis-tending personality disorders not rare among such cases.¹⁸

The same pathology is reflected among young computer programmers and related specialists, or among avid addicts of a game of the form of Go. Video games are high-risk behavior, on this specific account. In those games, the pre-programmed engagement of childish passions is led toward the point, that the addicted personality becomes emotionally dissociated from the real world. One might compare such behavioral situations to those risks of desensitization to be overcome by a mind living within the life-support system of a time-capsule, or, exposed to the "cabin fever" of long-term interplanetary flight.

Indeed, typical psychosis is a model of the state of mind which such pathological environments—such as "sensory deprivation"—tend to induce among what would have been, otherwise, more or less healthy personalities. Look at the case of Wall Street's symbol-minded economists from this vantage-point.

The axiomatic distinction of various such problems of this same general class, whether as the root of psychosis, or merely

18. Von Neumann sat in the room where mathematician Gödel presented a conclusive proof, exposing as a fraud Bertrand Russell's principal theorem of linear mathematics. This was the merely conjectured theorem, which Russell disciple von Neumann had adopted as his life's work. "Johnny" von Neumann took Gödel's good news with a sweet smile, but, later, privately, admitted, and exhibited his bitter hatred against Gödel's success. "Johnny" reacted to this set-back, by leaving serious mathematics, for the favorite mathematical sport of Paolo Sarpi's household lackey Galileo, the linear mathematical theory of gambling games. "Johnny" spent the remainder of his life chiefly in dedication to proving that every economy, even the workings of the human mind itself, could be reduced to terms of curve-fitting models based upon methods for solutions for systems of simultaneous linear inequalities. From this came such derivatives as the fatal folly of the Black-Scholes formula. Another Russell disciple, and Hilbert reject, Norbert Wiener, showed similar fits of obsessive rage when crossed on similar points of Russell-like doctrine.

pathological forms of fantasy-life, is the substitution of mere symbols for physical reality. This sort of pathological syndrome appears commonly on one, or both of two levels. It occurs in a relatively more subtle form, in the tendency of the cognitively illiterate, to substitute blind faith in the reality of those mere symbols known as sense-impressions, for physical reality. It appears in the more radical, more vicious form, as in the case of the person whose study of formal mathematics leads him into a state of virtual psychosis, where the use of mere symbols is carried to the extremes of the modern logical positivist, such as von Neumann, or Merton and Scholes, with whom empty symbols are substituted for even sense-impressions.

In economics, the common expression of such Lockean empiricist's or logical positivists' tendencies for psychotic forms of behavior, is the substitution of money for physical-economic reality. Typical of the pathological extreme to which this pathological state of mind is carried among the population in general, is the legendary, rather commonplace case of what is so obviously a mentally unbalanced housewife, as she who retorts, "I don't have to worry about what happens to the farmers. I get my milk from the supermarket"—or, "my bread from the Internet." She has substituted mere symbols, the notion of cash, or perhaps only a credit-card, at the counter, the "magic of the marketplace," for the human production of reality. She is exhibiting a more extreme

The Way Out of The Crisis



A 90-minute video of highlights from *EIR's* April 21, 1999 seminar in Bonn, Germany.

Lyndon LaRouche was the keynote speaker, in a dialogue with distinguished international panelists: **Wilhelm Hankel**, professor of economics and a former banker from Germany; **Stanislav Menshikov**, a Russian economist and journalist; Schiller Institute founder **Helga Zepp-LaRouche** from Germany; **Devendra Kaushik**, professor of Central Asian Studies from India; **Qian Jing**, international affairs analyst from China; **Natalya Vitrenko**, economist and parliamentarian from Ukraine.



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form of the insanity, which impelled formerly wealthy stock-traders to jump from Wall Street buildings back in 1929. For what did they jump—for Hecuba, perhaps? For symbols on paper! For the sake of pieces of paper which had suddenly revealed to their symbol-minded possessor, that they were still, after all, nothing but paper. That is the form of clear-cut insanity on which I am focussing your attention here.

In economics, von Neumann's notion of a zero-sum game, begins with the purely arbitrary, and false assumption, that economy, whether in the mode of barter, or monetary exchange, starts with some fixed magnitude. Thereafter, one person's gain is presumed to occur only as someone else's loss. What is outlawed by von Neumann's deranged mind, is the notion that the buyer may gain from the productive use of that which is supplied by another, that the economy is caused to grow by the productive use of that which may be purchased. That, thus, in such exchanges between A and B, neither A nor B loses, but both may enjoy a gain which might appear in their accounts as profit, without diminishing anything which is the other's.

Thus, the characteristic mental derangement of an Alan Greenspan, is the assumption that derivatives can not be bad, because what one speculator might lose, is offset more or less exactly by what some other speculator has gained.

Your escape to sanity

What is the alternative to such forms of symbol-mindedness? Where is the reality lurking behind the illusions which each generalized financial collapse, such as 1929's, exposes as having been "nothing but paper falling"? The point to be made is, in essentials, one I have presented, repeatedly, in earlier locations. Therefore, it is sufficient to summarize the core of the argument here.

Money is nothing more than *a medium of exchange*. It has no inherent propensity to grow of its own accord. The fact that a charge may be made for the loan of mere money, does not mean that mere money actually earns a profit in the sense of causing, of generating such profit in the real world existing outside the domain of mere paper.

The common academic use of the word "utility," as that usage was introduced by certain British and Viennese economists, is essentially a hoax, a fraud. The fact that money has a usefulness as a medium of exchange, does not imply that money itself commands any gain other than compensation for the actual costs of printing and circulating the stuff in ways which a medium of exchange may, as merely a medium of exchange, facilitate employment, production, and trade. Money has no sane claim to any pre-assigned or other "natural" rate of profit, rent, or interest. Money itself could not produce anything which would generate such a margin of gain in the real—that is, physical—economy.

Money is never more than a political fiction. In any sane national economy, money is circulated as a legal medium of exchange solely by the sovereign authority of some sovereign

nation-state.

In the history of the U.S.A., the first such issuance of money was by the Seventeenth-Century Massachusetts Bay Colony. The manner of creation and use of that currency is explained by Cotton Mather,¹⁹ and also, later, by Benjamin Franklin.²⁰ It was issued solely to serve as a medium of exchange, issued to promote trade, and therefore increase volumes of production of useful goods.²¹

Such sovereign issue of currency is created for circulation by that sovereign government, which pledges its political power and authority to give negotiable value to that currency. It is the power, and willful commitment of that state to defend the value of its currency, that by means including sundry protectionist measures, which establishes and maintains the currency's value in terms of physical goods. The purpose of the issuance of such currency, is not to promote trade; it is, as in the case of the Massachusetts Bay Colony, to promote an increase of production by facilitating trade. It is this production, not the mere trade in produced articles, which underlies the value represented by money in trade.

The proper form for issuance of money is, in the first instance, as credit extended by the sovereign government. This credit is issued to promote useful employment, development of basic economic infrastructure, increase of the scale of agricultural and industrial employment, and so on. The issue of state-created credit for purchases on government account, or as loans, must then be supported by the issue of currency at the place where the credit issued in the form of a government contract (such as a check) is presented for cash payment.

The usefulness of money placed in circulation, as a medium of exchange, will usually ensure that the added amount of such money put into circulation will be but a fraction of

19. Cotton Mather, *Some Considerations on Bills of Credit* (Boston, 1691). See H. Graham Lowry, *How The Nation Was Won: America's Untold Story* (Washington, D.C.: Executive Intelligence Review, 1988), p. 40.

20. Benjamin Franklin, *A Modest Inquiry Into the Nature and Necessity of Paper Currency* (1729), reprinted in Nancy Spannaus and Christopher White, eds., *The Political Economy of the American Revolution*, second edition (Washington, D.C.: Executive Intelligence Review, 1996).

21. These arguments by Mather and Franklin represent the precedents for the use of money under the U.S. Federal Constitution. This was in contrast to the money-systems of Europe. It must be taken into account, that, by definition, no parliamentary form of government constitutes a sovereign republic. Parliamentary government of the European model, even to the present day, is a relic of feudalism, not a product of the establishment of sovereign nation-state republics corresponding to the model of the U.S. 1789 Federal Constitution. The parliaments developed as popular encroachments upon the authority of the preexisting form of state power. The relationship between the state power of the United Kingdom, exclusive to the monarchy itself, and the elected parliament, overturned at the pleasure of the monarchy, is typical of European parliamentary systems generally. Thus, the traditional currency and central banking systems of European parliamentary governments have a different legal basis than are consistent with our original Federal Constitution.

the total production and circulation of goods effected through the original emission of government credit. That customary relationship breaks down only when some crisis of the financial system, such as that under way today, intervenes to produce a contrary effect.

The intrinsic worth represented by that currency will never be anything other than a reflection of the volume and rate of increase of productive employment and output of produced goods in that national economy, per capita and per square kilometer.

Take the case of current disputes over the funding of reconstruction of the war-ravaged Balkans. What is said on this subject by sundry G-7 governments and relevant international institutions, is insane babble, when compared with the actual requirements for such a reconstruction program. The idiotic babble assumes the form of the expressed, ignorant assumption, that the launching of a reconstruction program estimated at a certain amount in results, requires the issue of a corresponding amount of money advanced as contributions.

In reality, any sane reconstruction program is financed not by loan of money, but by issuance of created state credit, credit created by the various assisting and assisted governments involved. The credit is issued as letters of state credit, not money, to those parties which contract to fulfill the relevant elements of the reconstruction program. These issued credits will be supported, eventually, by minimal interest-rate loans, of maturities of up to between twenty and thirty years maturity. Much of the state credit issued to launch the reconstruction program, will be offset by the long-term loans charged to recipient economies, or to the privately owned enterprises and other assets which are created as benefits of the reconstruction effort.

The role of Germany's Kreditanstalt für Wiederaufbau, in steering the exemplary success of post-war reconstruction, is a model of the way in which repeated rollover of a relatively small amount of initial issue of state credit, can produce a very large amount of resulting reconstruction.

So much for the matter of currency and credit itself. We are now free to address the heart of the matter.

The fundamental principles underlying the function of all economies, are peculiarities of human individual and social behavior inhering in those qualities which set the human species absolutely apart from, and above all other living species. This distinction, is that non-deductive quality of cognition through which, among other results, mankind is able to generate validated discoveries of universal physical principles. It is these discoveries of validatable universal principles, which enable the human species, uniquely, to increase its power within and over the universe. This increase is reflected, inclusively, in increases of man's increases in his own demographically expressed physical power to exist, as reflected in demographic characteristics of both family households and populations in general, and in the increase of man's power over nature, per square kilometer of the Earth's surface. These

increases are expressed in terms of what I have defined as *potential relative population-density*.

Thus, the essence of economy is expressed primarily in terms of the increase of man's physical power over nature. The rate of gain of that power, as measurable primarily in per-capita and per-square-kilometer terms, is the source of true profit. It is the rate of that gain, relative to the previously established scale, which represents a definable physical-economic value, independent of the notion of a money-value.

Thus, the value of milk is expressed both as the importance of milk to the changing physical-economic characteristics of the population as a whole, and as the cost of producing and maintaining the farming operations which produce that milk. Or, the value of public education, is the rate of increase of the productivity of the population as a whole, as measured in physical-economic, rather than monetary terms.

For example, the most significant portion of the total physical-economic activity of a modern economy, is the development and maintenance of the basic economic infrastructure of the surface-area taken as a unified whole. By the nature of that task, competent such development and maintenance could not occur, except as a direct economic activity of the government, rather than private entrepreneurship, or by government-regulated public utilities. This state role in the economy, is thus the largest and most highly capitalized section of healthy modern national economies.

The so-called private sector, is more or less indispensable, because the generation of technologies depends upon the leading role of those specific types of entrepreneurs who translate scientific and technological progress into those designs and modes of production which are the cutting edge of realized rates of growth of productivity. Yet, without basic economic infrastructure's functional development of the land-area in which entrepreneurial gains in productivity are to be realized, productivity gains will be stifled, just as good seeds may be ruined for lack of pre-developed crop-growing fields.

It is the physical relationship of the population as a whole, to its own perpetuation through the development of the productive land-area as a whole, which is the domain of real economy. The driver of that domain, is the development and employment of the cultivated cognitive powers of the individual person. It is in this way, that the modern sovereign nation-state excels far above any other conceivable form of social organization, in promoting the maintenance and improvement of mankind's power in, and over the universe.

The rest is only paper.

Between the cracks

Why must empiricists such as John Locke, or positivists such as John von Neumann be considered as necessarily functionally insane? It is not that such empiricists and positivists might prove to be insane sometimes. In certain crucial respects, any empiricist or positivist is intrinsically insane,

when such beliefs and practices are judged in functional terms. The reason for this curious coincidence lies, so to speak, between the cracks of both sense-impressions and symbols.

The issue is the same I have addressed in earlier locations, the form of delusions consistent with the absurd belief that that universe itself is organized according to the false, but popular axiomatic belief, that the physical universe can be accurately represented mathematically according to the assumption that causality is organized in a way which is congruent with the notion that everything is linear in the infinitesimally small.

Thus, when the empiricist screams, "But, I have the facts!" he is engaged in perpetrating the deception that the phenomena which he chooses to refer as "facts," are linked together physically by a principle of simple linearity in the infinitesimally small. In other words, his fraud lies in the screaming fact, that he is playing the childish game of "connect the dots." The dots to which he refers, may be real phenomena, but his fraud lies in the fact that he is insisting that you buy his wild presumption that those dots are necessarily connected by straight lines.

In economic science, the important facts are not objects, but those *changes* in the picture of the economy brought about through those kinds of changes in human behavior which are not limited to, but typified by scientific and technological progress. This idea of change is typified by the statement, in economic science, that the primary empirical fact is the study of increases, or decreases of the physical-economic productive powers of labor, per capita, and per square kilometer. It is the *connection* among those changes themselves, not a connection among the dots of sense-perception, which is the primary subject-matter of economics as Gottfried Leibniz defined it, as a branch of physical science.

Therefore, you must ask, "What is that connection?" The connection is the unique power of the cultivated individual human mind, to generate an experimentally validatable discovery of a universal principle, such as a universal physical principle. It is the increase of mankind's power in and over the universe, through the applications of minds cultivated in a relevant accumulation of mastery of these validatable principles, which is the only source of mankind's increased physical-economic productivity. That is the only source of true economic growth, the only source of true, physical-economic profit.

Thus, it is the private entrepreneur, functioning as a master of the work of machine-tool design, working closely with the frontiers of scientific progress in universities, who typifies the quality of entrepreneur of the most crucial importance for the success of an economy organized according to what Hamilton, among others, defined as the American System of political-economy.

As I have indicated in earlier locations, the picture of the connection among the "dots" of physical-economic progress,

is by no means the linear connection superstitiously adopted as Euclidean geometry, or arithmetic. The connection assumes the geometric forms of a Gauss-Riemann hypergeometry, or what Riemann defined otherwise as his notion of a multiply-connected manifold among validated universal physical principles. The connection defined by such a manifold is a regular form of non-constant curvature, in other words, an axiomatically non-linear curvature. But, that as such is a subject for another place on another day. It is sufficient that you know that those who call themselves mathematicians, or mathematical physicists, and who propose to "connect the dots" in a linear way, as von Neumann did, are not dwelling in the real universe.

What is to be stressed here, at this point, is the following.

The relationship among money-prices is in no way congruent with the relations among real elements of the processes of physical-economy. It is not the supermarket which produces the milk, it is the farmer. The attempt to deduce milk from a theory of supermarket prices, is the behavior of a certifiable lunatic.

Similarly, the assumption, by the followers of professed satanist Bernard de Mandeville and Friedrich von Hayek's Mont Pelerin Society, of the existence of an "invisible hand" of evil mysteriously generating the benefit of a "magic of the marketplace," is the religious worship better suited to be performed by witches, not a representation of the processes of cause and effect in the real world. The only "invisible hand" which should concern you, is Wall Street's hand hidden in your pocket.

If you wish to have something which works as intended, design, build, and operate it to do so. The same principle applies to national economies. The difference between a building or a highway, on the one side, and an economy, on the other, is that the performance of an economy depends upon the cultivation of those cognitive powers of the individual human mind, by means of which mankind discovers not only experimentally validatable universal physical principles, but those Classical-artistic and related principles of statecraft, by means of which a society does what no manufactured object, nor lower form of life can do, make those discoveries of universal principle, by means of which mankind's power in, and over the universe is increased to such included effects as generating a genuine physical-economic profit.

It is building the protectionist policies of the American System of political-economy, around this principled conception of the unique contributions supplied by a suitably cultivated form of the individual human mind, which is the best existing known principle governing the way a successful form of economy works. That is something an immoral swine like John Locke, or a deranged positivist like John von Neumann, could never accept. We better accept it; we have reached the point, that that is the only premise upon which our nation, this civilization, might survive the great financial collapse which is descending upon us all now.