

Editorial

Reversing the Systemic Collapse

As Lyndon LaRouche made clear in his webcast on Nov. 16, the first step that must be taken in order to solve *any* of the problems of U.S. foreign policy, and U.S. economic policy, is the removal of Vice President Dick Cheney from office. Only that kind of surgery will free the Congress, and permit the control of the Administration, sufficiently to allow the necessary radical changes in direction.

A look at the way in which the economic and financial crises are crashing in on the United States and world economy in these last few weeks, should underscore the urgency of getting over the Cheney obstacle, so that emergency corrections can be made.

Start off with the latest *trade deficit* announcement by the U.S. Department of Commerce, which showed an unprecedented deficit on the part of the “world’s leading economy,” now on course for an annual deficit of over \$700 billion. This goes together with the shocking figures announced by the Treasury Department a few days later: a \$102 billion net capital inflow into the United States in the month of September. Put together with the three previous months, this rate of inflow shows that the U.S. financial economy is being kept afloat through the influx of \$4 billion every business day! The fact that a larger portion of that inflow comes from the speculative dealers called hedge funds, indicates how fragile this arrangement is. It can’t last forever.

Speaking of hedge funds raises the question of the rampant instability in that sector, which is very visibly on the minds of the international banking community. Emergency meetings dealing with derivatives and hedge funds have been frequent occurrences in the last few months, where worries are openly expressed.

A special insight into persistent worries by central bankers these days was given by Philipp M. Hildebrand, board member of the Swiss National Bank (SNB). At a public event in Berlin on Nov. 9, he elaborated on the theme “Financial Market Stability and Hedge Funds.” He noted that hedge funds now account for a significant part of the global trade in high-risk corporate bonds, emerging market bonds and credit derivatives. Further increasing the “systemic risks related to hedge fund activities” is the use of sometimes extreme forms of lever-

age by such funds. The simple form of hedge fund leverage is credit granted by the large investment banks. However, there are more complex leverage mechanisms employed by hedge funds: financial derivatives.

Hildebrand then warned: “In view of the different forms of leverage it can not be ruled out that a single or even a group of hedge funds reaches an extreme degree of leverage, as in the case of LTCM in the year 1998.” Central bankers are very worried about this issue, in particular due to the linkage between hedge funds and the global banking system. The “most dangerous” situation would occur, once a “wide-spread credit crisis coincides with a worldwide liquidity crisis on capital markets.” The extreme degrees of leverage in the hedge fund industry are therefore “the Achilles heels of the international banking system,” Hildebrand stated. “In plain words, it cannot be ruled out, that in case of fraudulent risk management at a large international investment bank, a hedge fund crisis could spread to a single or, in the extreme case, even to a number of large banks.”

As if to underscore Hildebrand’s worries, the two weeks subsequent to his remarks saw new dangers arising in two sectors which could very well detonate a hedge fund/banking crisis: the bloated real estate bubble in the U.S. and Europe, and the U.S. auto sector. Signs of slowdown in the growth of the U.S. housing bubble are now everywhere, causing a quiet panic. And the rampant talk of a likely bankruptcy of General Motors, combined with a possible shutdown of production capacity in the United States, is producing major tremors.

Economically, as well as financially, the world economy is at a point of no return. The proliferation of disease, the takedown of health care, the dismantling of essential machine tool capabilities and destruction of its workforce, all are portending a Dark Age, even prior to an all-out financial breakdown.

Fortunately, a solution-concept is at hand, in the proposals put forward by Lyndon LaRouche for bankruptcy reorganization and a New Bretton Woods. But there is no getting around the fact that every day Cheney remains in office, is costing us lives, and opportunities in the economy, as well as the war. To save the world’s economic future, act today to *dump Cheney*.