

The System Is Finished: Build Infrastructure!

by Nancy Spannaus

As of this writing, the cat is out of the bag. The world has entered a full-blown banking crisis, and the overwhelmed central bankers are pouring out hundreds of billions of dollars in the vain hope of stanching the bleeding. Even more worrying, the U.S. President, the Congress, and a host of other influentials are showing utter incompetence, and in some cases are proceeding to accelerate the catastrophe through proposed currency warfare against China, and other nonsense.

It's time to get serious. For decades, Lyndon LaRouche has been forecasting *precisely* this result, should the world financial authorities continue to pursue the logic of their anti-Roosevelt policies, begun at the moment of FDR's death. And he has been right. More immediately, it was less than one month ago, at his international webcast, on July 25, that LaRouche told the world that the process of world financial breakdown was already, unstopably, under way. The speed of that disintegration, as documented below, has been breathtaking. Can any sane person now doubt he was right?

The financial blowout under way is now an undeniable reality, and there is only one plan on the table for dealing with it. That plan, devised and updated by LaRouche over the decades, calls for carrying out the necessary bankruptcy reorganization, and launching an FDR-style program of directing credit toward massive infrastructure-building. The bankers, as shown by their frenetic attempt to save the system, have apparently learned nothing since the time of Andrew Mellon and the other pro-Hitler bankers who brought us the 1930s Great Depression. But LaRouche, in the tradition of FDR, is prepared to provide the leadership, and outline what must be done.

Before Labor Day, LaRouche will be presenting a draft platform on which the Democratic Party should run in the 2008 elections, a document that will define the principled approach which must be adopted to create a new world monetary-financial system. In the meantime, however, he has com-

mitted the following package of emergency measures, as a focus for mass mobilization during the month ahead. With these measures, taken from the top down, there is no need for panic. Let the speculators pay the price for their crimes: Our business is to establish the new credit mechanisms required to rebuild the economy, and a future for mankind.

But let us first review the immediate precursors of today's dramatic events.

From LaRouche's Webcast Address

First, recall LaRouche's July 25 statement:

"First of all, this occurs at a time when the world monetary financial system is actually now currently in the process of disintegrating. There's nothing mysterious about this; I've talked about it for some time, it's been in progress, it's not abating. What's listed as stock values and market values in the financial markets internationally is bunk! These are purely fictitious beliefs. There's no truth to it; the fakery is enormous. There *is* no possibility of a non-collapse of the present financial system—none! It's finished, *now!* The present financial system can not continue to exist *under any circumstances, under any Presidency, under any leadership, or any leadership of nations.* Only a fundamental and *sudden change* in the world monetary financial system will prevent a general, immediate chain-reaction type of collapse. At what speed we don't know, but it will go on, and it will be *unstoppable!* And the longer it goes on before coming to an end, the worse things will get.

"And there is no one in the present institutions of government who is competent to deal with this. The Congress—the Senate, the House of Representatives—is not currently competent to deal with this. And if the Congress goes on recess, *and leaves Cheney free*, then you might be kissing the United States and much more good-bye, by September."



EIRNS/Stuart Lewis

Lyndon LaRouche, shown here at a youth cadre school on July 28, has an impeccable record of long-range economic forecasting—and the present banking blowout has only underscored that fact.

Pointing to Disaster

Within days of LaRouche's webcast, there was ample evidence that leading bankers were well aware that the collapse was under way. Note the following report from the website of the LaRouche Political Action Committee (LPAC) on Aug. 1:

"The entire capital structure from equity all the way to AAA can go to nothing," Steve Eisman, a portfolio manager at FrontPoint Partners, told a July 19 conference call on the subprime mortgage debacle, according to the Aug. 1 edition of the *New York Times*.

LaRouche responded that Eisman's statement was basically correct. Because the claims outstanding far exceed any means of payment, and the bulwarks which have enabled people to hide this growing discrepancy, are crumbling. And what happened, is that the overwhelming pressure out of the real-estate market, which had been in place since Cheney came into office, collapsed. This is the one that hit the banks the hardest. And when you hit the banks, which were being used as the slaves for this operation—the banks did not deliver the indicated, requested support for this last wave of speculation. And they didn't do it, because they didn't have it.

It's like the tale of the horse, LaRouche added. For the lack of a nail, the horseshoe was lost. For lack of a shoe, the horse was lost. For lack of the horse, the rider was lost—and for lack of the rider, the kingdom was lost. It's that sort of situation. It was inevitable.

The July 28-30 Watershed

On July 30, three significant events came to light: the election loss for the Japanese government, which has clung to the

yen carry trade; the dramatic failure of the German Industriekreditbank (IKB), which sent it begging for a huge bailout from the Kreditanstalt für Wiederaufbau; and the reports from financial press that the issuance of high-quality, investment-grade bonds had almost collapsed.

LaRouche responded with a calm assessment. "The system has already come down," he said, and the question to be dealt with is what to do. At this point, he announced his intention to draft the election platform for the Democratic Party to address what has to be done.

LaRouche located the significance of the collapse of the yen carry trade, as a cutoff of the flow of funds into the system, which had fueled the speculative explosion of hedge funds, private equity funds, etc. Once this inflow was cut off, and someone at the other end of the process tried to collect on the unpayable debt, the pretense of solvency of the system was over.

He then turned his attention to the Congress, which was still in session, but caught up in busywork, of no relevance to reality. They cannot leave town for the scheduled recess, or else Cheney and his British masters will unleash a war that will wipe out 40-80% of mankind before the dust settles, LaRouche emphasized. The rate of collapse of the entire global financial system is going to accelerate now. It is full steam ahead.

There's no need for desperation, LaRouche added, such as was demonstrated by Sen. Chuck Schumer (D-N.Y.), in trying to bail out bankrupt financial institutions in order to keep them in New York City. We will save the banks required to keep the country functioning, LaRouche said, but not the other trash.

July 31

As of July 31, the rush of reports about the jamming-up or collapse of the banking system began to hit fast and furious.

- Bloomberg was reporting a three-fold increase in the cost of credit-default swaps, and the resulting pileup of unsold bonds and loans.
- American Home Mortgage, the 20th largest mortgage lender specializing in "Alt-A" mortgages, was exposed as on the brink of bankruptcy, after its stock lost more than 90% of its value, and trading was suspended on the New York Stock Exchange.
- Bear Stearns announced that it had halted redemptions from a third hedge fund, after investors demanded their money back. The first two funds blew out in mid-June.
- Mortgage Guaranty Corporation, the nation's largest insurer of home loans, was reported by the *New York Times*,



FDR Library

Franklin Delano Roosevelt's launching of huge government-funded infrastructure projects played a major role in getting the U.S. out of the 1930s depression. Here, FDR, with cane, inspects the Hoover Dam, in 1935.

to have announced that its underwriting business may be worthless.

- Sowood Capital Management LP, a hedge fund with more than \$3 billion in assets, told its investors that its Alpha funds lost more than half their value over July, and that it planned to sell its portfolio, and pay investors what might be left over.

- And, to underscore the fact that it's the *international* system that's blowing, not just the U.S., the French press revealed that Oddo Asset Management, a 23 billion euro firm with involvement in the U.S. subprime market, was liquidating three of its funds.

August 1

What the failing financial system means for physical existence struck home this day, when the Minneapolis I-35W bridge over the Mississippi River collapsed, taking a still-unknown number of people to their deaths. Political shockwaves from this development were immediately felt in Washington, D.C., where a number of Congressmen and Senators went into action.

LaRouche, for his part, issued the foreword to his upcoming Democratic Party Platform, for immediate circula-

tion. It read, in part:

“As a result of that stubborn clinging by current political authorities to misguided policies, especially the now-failed monetary, economic policies, and warfare policies of the recent three decades, the world's present monetary-financial system has thus begun its death-agony. A new system could survive; the presently existing one could not. What dreamers and false prophets said could never happen, has now happened. Whereas the world's *physical economy* could be rescued from the presently inevitable bankruptcy of the failed present monetary system, yet *the presently dominant world monetary-financial system, is now as doomed as the legendary Dodo.*

“That system was already threatened with a future crisis in the shifts in policies adopted under President Harry Truman, during the immediate period following the end of what is generally referred to as World War II. However, it was only two decades later, with the U.S. entry into a long war in Indo-China, that the dangers became clear. Today, without a return to the anti-monetarist, American System of political-economy, a return to those principles which informed President Franklin Roosevelt's recovery from the 1930s world depression, the worst outcome imaginable were about to happen to the world at large.”

August 3-4

Over these days, the attempt to paper over, or downplay, the significance of the previous week's events as indicating the bankruptcy of the system as a whole, began to fail.

- Jochen Sanio, head of the German financial market watchdog agency BaFin, declared that the IKB crisis reflected the worst banking crisis in Germany since 1931.

- American Home Mortgage declared it intended to shut down.

- Investment banks were reported to be stuck with \$500 billion in unsellable junk bonds.

On the political side, Vice President Dick Cheney had a tyrannical rage fit, and got President Bush to demand that Congress cancel its recess until it delivered a change in the Foreign Intelligence Surveillance Act (FISA) that grants police-state powers to the White House. In the same vein, Bush himself threatened to veto the Water Resources Development Act of 2007, which had passed the House by a vote of 381 to 40.

“This callousness is abominable—the President doesn't give a damn!” LaRouche commented. “This shows how much of a Cheneyac Bush is. He's insane. I wonder how the President would have reacted if he had a mind of his own.”

August 5

Speaking to a cadre school of the LaRouche Youth Movement in California, Lyndon LaRouche reflected on the recent developments, in light of his long-range forecasting method:

“Well, I can say that I've had quite a bit of success as a long-range forecaster. Every forecast I've made in the past



The massive infrastructure program which is required to build our way out of the economic and financial breakdown crisis will depend heavily on a crash program of building nuclear power plants. Here, a nuclear plant on the Susquehanna River, in Luzerne County, Pa., with its huge cooling towers.

years—and it goes back to the middle of the 1960s, actually, and some forecasts earlier—have been correct, have been confirmed: As I presented it.

“Now, there’s some people who’ve tried to put some spin on what I said—and I didn’t say that!—because they like a prediction of the dates that something’s going to happen. You know, sometimes you can get into that, when you see that a definite date is going to be the probable event, because of certain circumstances which indicate how people are going to react to certain developments and that will give you a date. But generally, you don’t know exactly when something is going to happen, because you’re dealing with a human factor. People can decide to do different things, and that can shift the date. For example, many times in the past period, we’ve had a collapse situation waiting for us, and that has been postponed, been postponed by a decision, by people of influence in the markets. But what that decision has done, by postponing it—they’ve made it worse.

“So, when you make a forecast, you have to forecast that, you have to say that, *if you’re not going to make it worse, this is going to happen.* And if you do prevent it from happening, it’s going to become worse. And you can indicate where you stand in the general perspective, then, and that’s about as accurate a forecast as you can make.

“Now, the gut of a forecast, which I’ve always been successful at, is that you forecast the conditions which underlie

your forecast. That is, the conditions—you identify the conditions, and you identify the kind of behavior associated with those conditions. And what you’re doing, is giving people on the receiving end of your forecast, the way in which they can think about what you’re saying, and can, on their own, read the signs, so to speak, and themselves, see where we stand.

“Generally, the purpose of a forecast, is to tell people what to do. It’s to say, ‘this is the time to do this, this is the time to do that.’ And on that, I’ve always been right. And I’ve made that forecast again, recently, in updating it.

“Now, we just had, in the past period, we had breaking out in Germany, of all places, the clearest indication of a general collapse in progress in the world financial and related markets, and in the economies. It was not really an accident. And the significance, of course, is that Germany, because it’s the remnant of an industrial economy in Western and Central Continental Europe, that is, west of Russia and Belarus, therefore, it’s pivotal for the whole world economy. If Germany goes, that can pull down a chain-reaction which can sink the world economy, and we

had something very close to that, this past week. And we didn’t escape from the effect of that collapse: rather, we went into a new phase, where the potential for collapse is more dangerous and more likely, than it was before that happened.”

August 7-9

As the new week began, it became increasingly obvious that the crisis in the banking system was not under control, in the United States or internationally. There were reports that the banks had tightened up mortgage lending—like locking the barn door after the horses escaped. Storms were evident in the municipal bond market. Bear Stearns fired its co-president, but that did not stop the plummeting of its stock. Banks were begging for a loosening of liquidity.

At the FOMC (Federal Open Market Committee) meeting on Aug. 7, the Fed declined to lower interest rates, as if to say, let the bankrupt banks go under. However, the clamor of the hedge funds and investment companies and banks demanding credit kept growing greater. By Aug. 9, according to insider reports, there was a freeze-up of interbank lending in Europe for a period of hours, leading to a new stage of panic—and then the opening of the floodgates of liquidity by the European Central Bank and the Federal Reserve, at levels that surpassed the amount of credit issued right after 9/11.

But, that won’t solve the problem, as LaRouche’s long-term forecasts have made clear.