

The System Is Dead; Now What?

by John Hoefle

The year 2007 was one of remarkable changes in the global financial system, the chief among them, it being the year that the casino of unpayable debts and off-balance-sheet fantasies finally broke down, leaving us to watch as the ramifications of that collapse spread inexorably across the planet. This was the year that financial terms of which most people had never heard, such as “SIVs,” “CDOs,” and “monolines,” became almost household words, the year the so-called “subprime crisis” turned into the so-called “credit crunch,” only to be revealed at the end as a solvency crisis of the international banking system itself. It was the year that the central banks went from talking tough about asserting market discipline and letting speculators take their losses, to launching increasingly desperate schemes to keep the whole system from grinding to a halt.

We now enter 2008 in uncharted territory. The problems we saw in 2007 will only get worse, and there are new horrors to be discovered as the death throes intensify. The losses to the banks in 2007, likely to be on the order of \$100 billion, once the final reports are in, are just the beginning. The entire economy, particularly in the United States, has depended upon the accumulation of vast amounts of debt, with households, businesses, governments, and the financial markets all depending upon the ability to borrow to finance their existence. The ability to finance that debt depended in turn upon the ability of the banks to turn loans into securities that could be sold to speculators, moving the loans off the banks’ balance sheets into what is euphemistically called the investment community. That securitization game is now over, and its demise will wreak havoc with the ability of the economy to finance itself with debt. The wave of losses we have seen thus far is but a glimpse of what is to come, as the collapse eats its way through

the world’s balance sheets and flows relentlessly home to the balance sheets of the commercial banks, the investment banks, the insurance companies and other financial institutions, and to the lives of people.

Battle Royal

While the death of the system plays out before us in the financial press, the soap opera of falling dominoes and dueling pundits is but a cover for a much more profound battle: the battle over the nature of the system which will rise from the ashes. There are those poor fools who are trying to save the current system, to pretend that what has happened did not, to save their illusions of wealth; but they are irrelevant and will simply be swept away by events beyond their understanding and control. The real battle is between those who know the system is gone, and want to decide the nature of its replacement.

On the one side are the forces around Lyndon LaRouche and the American System of economics, who want to put the financial system through bankruptcy, putting up firewalls to protect the General Welfare of the citizenry, stopping home foreclosures and freezing the mass of financial claims until the wheat can be separated from the chaff. The speculative claims and fictitious values can be written off over time, while the elements necessary to protect the proper functioning of the economy can be protected, and the economy rebuilt. The essence of LaRouche’s approach is that the welfare of the population comes first, and must be protected at all costs.

On the other side are the forces of the international financial oligarchy, organized around the Anglo-Dutch rentier-financier model. Their intent is to use the crisis to destroy the

power of the nation-states and to restore the power of the empires, in a world dominated by imperial financiers and their trading cartels. To this crowd, people are but expendable peasants, little more than herds of cattle to be managed, sometimes slaughtered. What motivates the oligarchy is power, the ability to rule the world for the benefit of a small ruling class. In their view, the nation-states, in particular the historic United States, usurped their power, and they intend to reclaim it. They have, in fact, already made large steps in that direction.

There are, to be sure, fights among these jackals which are of interest to those of us who oppose them, but what they have in common is more important than their differences. To the prey, fights among the jackals over who will eat first are of little consequence.

The point which must be clearly understood is that this is a political fight rather than a financial one. The financial system is already gone and cannot be resurrected, and there are no serious attempts to do so. The moves by the central banks and the regulators are not intended to bring back the bubble, but rather to attempt to control its disintegration and buy the time to establish the replacement system. The money is already gone.

British Moves

The center of this global imperial assault is the City of London, which is openly plotting to become the capital of the new order. To do this, it must eliminate or at least severely weaken its rivals, beginning with the United States and its financial center, Wall Street.

The British take the long view of things, and began preparing for this collapse years ago. In 1986, the City of London transformed itself, breaking up its inbred financial system in what was called the “Big Bang,” as London positioned itself to be the center of a new global system based upon trading and speculation. Most of the old-line British merchant banks were sold off to better capitalized partners, with S.G. Warburg going to what is now known as UBS; Kleinwort Benson going to Dresdner Bank; Hambros to Société Générale; and Schroders to Citigroup, to name a few of the more prominent banks. These banks did not leave the City but stayed to help orchestrate a shift which brought foreign banks to London. In this way, London became the financial center of the new derivatives game, while the exposures, and ultimately the losses, were centered in New York, Tokyo, Frankfurt, and Zurich. The City positioned itself as the casino, profiting from the gambling of others and, through its network of offshore centers like the Cayman Islands, it lured its rivals into the trap.

Now the trap is being sprung. The Brits are using their propaganda assets like Rupert Murdoch’s News Corp. to assault Wall Street. Murdoch’s launching of the Fox Business cable television channel and his purchase of the *Wall Street Journal* provide the City with a platform to undermine the credibility of U.S. institutions.

It Began With Citigroup

Illustrative is the crisis which hit Citigroup in November. It began with a report issued by Canadian Imperial Bank of Commerce analyst Meredith Whitney, who is also a regular guest on Fox News. Whitney said that Citigroup was in big trouble, in dire need of billions of dollars of new capital, and should probably break itself up into smaller pieces. The *Wall Street Journal* ran with the report, which resulted (or perhaps provided cover for) a sharp drop in Citigroup’s stock. The crisis led to the resignation of Citigroup chairman and CEO Chuck Prince within days.

Citi was hit by yet another British blow when HSBC—the infamous Hong Kong and Shanghai Bank of the British East India Company’s Dope, Inc.—announced that it was taking \$45 billion in SIV (structured investment vehicle) assets onto its balance sheets, putting pressure on Citigroup to do the same. Citigroup has thus far survived, but in a weakened state, and its new chairman is Sir Winifred Bischoff, a British knight who joined Citi when it purchased Schroders.

The British also played a major role in blowing up the subprime lenders. In March, Barclays forced New Century mortgage, the big subprime lender, to buy back mortgages, in effect, throwing New Century under the bus and escalating the meltdown of the subprime lenders. Barclays also played a role in the Bear Stearns hedge fund fiasco which erupted in June, as a major creditor to the bankrupt Bear funds.

The issue is not whether the problems identified by the British were real—they are—but why the British would choose to exacerbate them. In previous financial crises, such problems would have been covered up, the factions more interested in maintaining the illusion of calm, but the nature of the battle has changed. We are now in the endgame, where pushing as much of the damage as possible onto your rivals has replaced cooperation. The jackals are now fighting among themselves, to see who will survive.

Time To Move

What is coming, is something none of us has ever seen before. Were the British plans to prevail, the world would descend into a fascist, Cheneyesque nightmare: governments stripped of what little remains of their abilities to protect their populations from imperial looting, corporate cartels gouging the public in ways that bring to mind what Enron did to California, a veritable new dark age of austerity, population reduction, and utter chaos—with the City of London ruling over whatever pile of rubble is left.

The irony is that the nation-state is far superior to the empire as a political structure, that the levers to reverse this nightmare are within reach, should we choose to grasp them. So, let us make 2008 the year America reasserted itself, beginning with the passage of LaRouche’s Homeowners and Bank Protection Act. When you consider the alternative, it is the only choice.