

The End of the Line for The Anglo-Dutch System

by John Hoefle

When President Richard Nixon took the dollar off the gold reserve standard on Aug. 15, 1971, he effectively ended the Bretton Woods system of fixed currency-exchange rates. Nixon's action, taken at the urging of bankers' boy George Shultz (then director of the Office of Management and Budget), set into motion the creation of the largest financial bubble in history, a bubble the collapse of which is now laying waste to the global banking system and securities markets.

The mantra rising from financial circles after such disasters is that "no one" could have foreseen the "unexpected events" which developed from policies and decisions that "everybody" agreed to at the time. You hear it frequently today, from people ranging from former Federal Reserve chairman Sir Alan Greenspan, to bankers whose allegedly "fundamentally sound" banks vaporize seemingly overnight. Who knew this could happen?

One man did know, and said so at the time, loudly and forcefully. That man is Lyndon LaRouche, who understood the implications of the demise of the Bretton Woods system, and has been campaigning ever since for a return to Bretton Woods-style fixed exchange rates.

LaRouche understood the matter not as a technical one about currencies, but as a fundamental fight between sovereign governments and the imperial oligarchs centered around the British empire and its parasitic Anglo-Dutch Liberal financial system. Any nation which cannot control its own currency is not sovereign, and any nation which is not sovereign is vulner-



LYM/Will Mederski

Treasury Secretary Henry Paulson finds it hard to conceal his panic, at a press conference on March 18, 2008.

able to assault and subversion by this oligarchy. Will society be organized for the benefit of all mankind, or will it be organized for the benefit of a small elite who feed off the rest?

LaRouche understood this in 1971, and that understanding formed the basis for the creation of an international political movement to organize mankind to educate and defend themselves. LaRouche scored a stunning victory against prominent economist Abba Lerner at a debate at Queens College in New York, in December 1971, in which he laid bare

LaRouche: Bailout Illegal; Bankers Should Be Jailed

Lyndon LaRouche insisted on March 20 that Congress should conduct an investigation into the *criminality* of the Federal Reserve and Treasury's bailout of the vaporized speculative "investment" bank Bear Stearns on March 16.

The Emergency Banking Act, passed by Congress on March 9, 1933, provides for government assistance to protect vital banking functions. That assistance is restricted to commercial banks.

Chartered commercial banks make up a vital part of our overall economy, but brokerage houses and investment banks such as Bear Stearns are strictly part of the speculative apparatus that has looted the economy and the population blind. That the Fed stepped in to provide tens of bil-

ions of dollars, or more, to save Bear Stearns, is *prima facie* criminal.

LaRouche charged on March 18 that the bailout represented a case of money laundering that should be prosecuted.

"It smells like another filthy Goldman Sachs scheme," LaRouche said. "I think it is time to increase the social status of our Federal prison population—by sending all those responsible for this abomination to jail. . . . These guys are cheating."

LaRouche added that the bailout scam "is an obstruction of our plan—the Homeowners and Bank Protection act and the three steps needed to survive," that he had identified in his March 12 webcast.

So far, the House Oversight and Government Reform Committee and the Senate Finance Committee are planning to investigate the actions of the Federal Reserve in providing the bailout of Bear Stearns, MarketWatch and the *Wall Street Journal* reported on March 19.

the fascist roots of Lerner's outlook, and forced Lerner to admit his self-damning belief that had Germany capitulated to the demands of banker Hjalmar Schacht, "Hitler would not have been necessary."

The response from the parasites was immediate and predictable: Never again, they informed LaRouche, would he be allowed to challenge them publicly. Keep your mouth shut and follow the rules, or we will destroy you.

It was a big mistake. Rather than cowering in fear as so many had done, LaRouche decided to fight back, drawing upon his studies of the great ideas of history and his commitment to truth above all else.

Since then, LaRouche and his movement have been attacked by virtually every means in the Venetian tool-kit, from physical assaults to press slanders to prosecutorial frame-ups and even jail; hard blows were landed, but LaRouche persisted, knowing that despite its demonstrated power, the Anglo-Dutch Liberal system was crumbling from within, that it would inevitably collapse as a result of its own cannibalistic policies.

That day has arrived. The events of the past year, from the turmoil in the mortgage-related financial markets to the blow-out of the banking system, have proven LaRouche's analysis of the Anglo-Dutch Liberal system to be correct. What LaRouche saw as the inevitable result of Nixon's action in 1971, has now exploded upon the world.

Bretton Woods

During July 1944, a United Nations Monetary and Financial Conference was held at the Mount Washington Hotel in

Bretton Woods, New Hampshire. The 44-nation conference established what became known as the Bretton Woods monetary system, a key component of which was the establishment of a fixed system of currency exchange rates among nations. Under Bretton Woods, a gold reserve standard was established, with the U.S. dollar pegged to gold at \$35 an ounce. This arrangement was the economic bedrock upon which the post-World War II world was rebuilt, led by the industrial might of the United States.

Bretton Woods was a victory for President Franklin Roosevelt, and his view that the post-war world should be free of empires and their colonies. FDR intended to use the power of the United States and other nations to elevate the status of the common man worldwide, and end the domination of the economic royalists. It was a grand vision, and had he lived to implement it, the world would be in far better shape than it is today.

The British were apoplectic at the prospect of a Rooseveltian/American System world, and pulled out all the stops to defeat it. With the death of Roosevelt in 1945, and the ascension of Harry Truman, the empire struck back. The fear of a Soviet attack and the spread of communism was used to create a Cold War environment, under which the British empire became the top strategic ally of the United States, and FDR's grand vision was swept away. In the name of fighting communism, Truman and his Anglophile controllers sold FDR and America down the river. (The parallels to today's "war on terror" should not be missed.)

The British set out to systematically dismantle the American economy, as a way of restoring their own dominance in

LaRouche's 1971 Forecast

Following President Nixon's "pulling the plug" on the Bretton Woods system on Aug. 15, 1971, Lyndon LaRouche (then known by his nom de plume, Lyn Marcus), and his associates in the National Caucus of Labor Committees, warned of the danger of fascism arising from economic collapse.

From the pamphlet "Socialism or Fascism," Oct. 10, 1971:

Unsigned preface

At this moment of writing, the entire capitalist world is barely inches from that general collapse of world trade and production which will represent a Second Great Depression. . . .

The most essential thing to be said about the impending new Great Depression is that it must be potentially far, far worse than that of the 1930s. For a comparison of the kind of general economic breakdown crisis it will potentially represent, we have to go back three centuries and more, to the general collapse and widespread depopulation of Europe during the hundred years following the Spanish and Portuguese bankruptcies of the late 16th century.

From LaRouche's remarks in a debate with Keynesian economics professor Abba Lerner, at Queens College in New York City, Dec. 2, 1971:

Economic policy is that which determines the lives, and daily lives and conditions of people; the form of economic policy determines the kind of government which is necessary to carry it out. And, the only kind of government which can carry out the kind of policy which Professor Lerner recommends—in all well meaning, all good intention—would have to be a Bonapartist or fascist government.

He may be opposed to fascism with every fiber of his being; this was also true in Germany, where many economists, liberal economists, proposed austerity, who also opposed the Nazi regime. But, nonetheless, there are men who will take up these policies and carry them out, and they will be Bonapartists or fascists. . . .

The expansion of the monetary system, and the growth of debt . . . is due to the debt-service and profits on purely fictitious instruments, which is assigned as a burden to production. Thus, the major reason for rising prices, for infla-



New Solidarity, the newspaper of the LaRouche movement, announced the end of the Bretton Woods system, in its issue of Aug. 30-Sept. 3, 1971. LaRouche had forecast this starting in 1959-60.

tion, has nothing to do with wages as such, but has to do with debt-service, directly and indirectly put on production. . . .

A further factor is that the structural features of the economy are changed, to cause a structural inflation. That is, productive employment stagnates, as has been the case in the United States since 1953; whereas the growth of administrative services tied to this apparatus of paper capital expansion, generates expansion in both administrative employment and in services. . . .

Potentially, in terms of real economy, we could have a shift to a production—productive employment, and very easily solve this problem, if we could only take the *paper* which stands for fictitious values—the rising debt, which is essentially based on fictitious values; stock values, which are based on fictitious values; rents, based on fictitious values—you just take this out and burn it, and reconstitute the economy, there's no reason we couldn't have full employment and full productivity. . . .

However, if production is declining, relative to the rate of expansion of promissory notes, then obviously what you get into is a simple process of refinancing promissory notes. . . . And that, of course, leads to bankruptcy, which is precisely the problem we face: that when you get bankrupt, you hock somebody—maybe your grandmother, if you're a certain kind of businessman. . . . And therefore, the *only* way that the kind of policies that Professor Lerner is talking about can be carried out, is by a Brüning and von Papen regime, succeeded by a Hitler regime, or its equivalent in the U.S.

the world. They had to move slowly, because the memory of FDR and what he had done for the nation was fresh in people's minds, as were the abuses of the economic royalists he had fought, and because the American people would fight back if they understood what was planned.

One of the biggest obstacles to their plan was the Bretton Woods system, and the stability it provided to the U.S. and the global economy. For the British plan to succeed, Bretton Woods would have to be eliminated.

Pandora's Box

Nixon's 1971 decision effectively ended the Bretton Woods system, and introduced the era of speculation which has engulfed the world in the ensuing three decades. Pandora's Box was opened, and the evils of oligarchism were unleashed afresh upon the world.

Neither the United States nor the world has been the same since. Nixon's action, in conjunction with the launching of the rock-drug-sex counterculture and the cartel-building "world company" assaults of 1968, were aimed at destroying the basis for American industrial supremacy and the co-opting of America back into the imperial system. The Baby Boomer generation, growing up under the hyped-up fear of thermonuclear annihilation, turned its back on science and sought escape in entertainment, opening the door for the oligarchs to destroy the nation.

Absent Bretton Woods, the oligarchy began to use its immense financial power to manipulate global currencies, and thus nations. The orchestrated oil hoax of 1973-74, with its introduction of financial speculation in the oil market via the spot market, created a huge pool of "petrodollars," with which the City of London could wage war against nations. These petrodollars, combined with the proceeds of the British empire's "Dope, Inc." drug trade, were instrumental in restructuring Wall Street in the 1970s, paving the way for the junk bonds of the 1980s and the derivatives of the 1990s.

The protections put into place under FDR were systematically dismantled, as the American economy was transformed from an industrial power into an economy based upon services and speculation. We became a nation of consumers rather than producers, our manufacturing "outsourced" to nations where labor was cheaper, falling for the lie that this would make us more competitive, when it was actually destroying us. Under the guise of "free markets" and globalization, we turned our own economy into a haven for speculation and the formation of giant corporate cartels, whose allegiance lay not with the nation, but with the financiers. We had become, in essence, that against which we fought the American Revolution.

The End of the Line

As the speculative bubble came to dominate the U.S. and world economies, feeding it became paramount. Among other things, this led to a sharp run-up in real estate values, to pro-

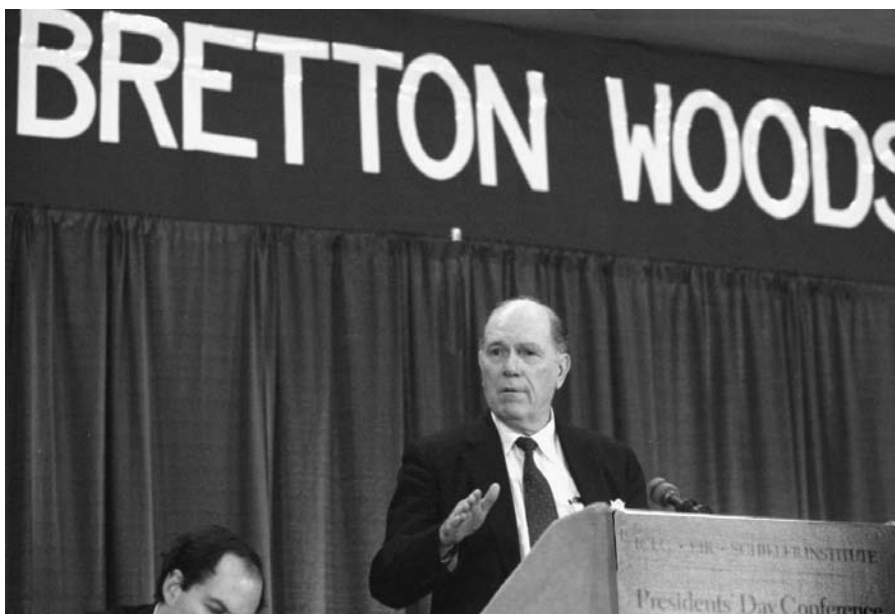
vide "wealth" which could be turned into mortgage debt, and then into a wild assortment of securities to be used, with lots of leverage, to play in the derivatives markets. To keep the mortgage-debt flowing, as prices rose into the stratosphere, the bankers repeatedly loosened the requirements for home loans. This process, which was driven by the banks and the derivatives market, ultimately exploded. This was falsely portrayed as a "subprime" crisis, but in reality it was the death throes of the financial system itself.

In mid-2007, the failure of two Bear Stearns hedge funds signalled the collapse of the global securities market, as speculators realized the game was over and began to try to cash out. The market for speculative paper quickly dried up, sending the nominal valuations plunging. The market which had grown phenomenally through leverage, began to collapse in a reverse-leverage implosion. Speculators had borrowed trillions of dollars to place bets, gambling that they would win enough to pay back their loans and still turn a nice profit. This game worked for quite a while, but it quickly turned nasty when the market seized up. Suddenly, the speculators found themselves losing on their bets, leaving no profits to pay off their loans, and thus losing on both ends. Assets began vaporizing by the trillions, and worried lenders began demanding more collateral on margin calls, causing sales of assets which further depressed prices, in a vicious, reverse-leverage spiral.

The "solution" to this blowout adopted by the central banks, was to begin to flood the financial markets with liquidity, through a series of interest rate cuts and cash injections. Though they had sworn to impose discipline on the markets, the central banks quickly capitulated under the pressure of enormous losses, in a hyperinflationary panic. The injections quickly escalated from the billions, to the tens of billions, to the hundreds of billions, as they raced to plug the holes caused by the savage deflation of the valuations in the system. But no matter how much money they injected, the system kept collapsing.

The crisis came to a head in mid-March, when the collapse simply overwhelmed the central banks, leading to the open bankruptcy of Bear Stearns, and with it, the death of the system. The astonishing speed with which the system collapsed can be seen in a series of extraordinary actions by the Federal Reserve over an 11-day period:

- On Friday, March 7, the Fed announced that it would increase to \$100 billion the amount of money it would loan to depository institutions through its Term Auction Facility (TAF), the special bailout mechanism it created in December to get the banks through the end of the year. To date, the TAF has held seven auctions, two in December which lent \$20 billion each, two \$20 billion auctions in January, two \$30 billion auctions in February, and one \$50 billion auction in March, with another scheduled for the week of March 24. Also on March 7, the Fed announced plans for a March 27 auction of \$100 billion in repurchase agreements with primary dealers, a



EIRNS/Stuart Lewis

Lyndon LaRouche addresses a conference calling for a New Bretton Woods, convened by the Schiller Institute and International Caucus of Labor Committees on Feb. 15-16, 1997, in Reston, Va. His year 2000 Presidential primary campaign was called "LaRouche's Committee for a New Bretton Woods."

group of 20 securities firms with which it deals directly. All of these loans are for 28 days, and the Fed is accepting a wide range of securities as collateral.

- Two business days later, on Tuesday, March 11, the Fed announced the creation of a new Term Securities Lending Facility (TSLF), to lend up to \$200 billion in Treasury securities to the primary dealers, again in 28-day loans against a wide range of collateral. The Fed also expanded swap lines it had previously established with the European Central Bank and the Swiss National Bank, raising the amounts to \$30 billion with the ECB and \$6 billion with the SNB. These measures were coordinated with the G-10 central banks.

- On Friday, March 14, the Fed and the Treasury helped arrange an emergency loan, of an unspecified amount, to Bear Stearns through J.P. Morgan Chase.

- On Sunday, March 16, the Fed announced yet another new lending facility, this one to loan an unlimited amount to the primary dealers, beginning March 17. The Fed lowered the primary credit rate (discount rate) by a quarter-point, to 3.25%, and lengthened the maximum time for such loans to 90 days from 30 days. The Fed also agreed to guarantee \$30 billion of virtually worthless securities held by Bear Stearns, as part of its "shotgun marriage" takeover by J.P. Morgan Chase.

- Finally, on Tuesday, March 18, the Fed cut the primary credit rate another three-quarters point to 2.5%, and cut the Fed funds target rate by a similar amount, to 2.25%. The Fed has cut the Fed funds rate five times since September, when it stood at 4.75%.

Hyperinflationary Bailout

At the same time that the Fed is pouring money into the system with unprecedented speed, the government is moving ahead with a series of bailout measures designed to transfer the losses of the banking system to the public. In addition to the hundreds of billions of dollars of loans given to the banks through the Federal Home Loan Banks, the government is using the Federal Housing Administration to re-finance and insure mortgages, and expanding the role of Fannie Mae and Freddie Mac in buying larger mortgages, effectively putting the taxpayers on the hook for the huge real estate losses working their way through the system. On top of that, we have the Bush stimulus plan and the apparent intervention by the Fed to keep the stock market from collapsing.

The futility of this approach was demonstrated by the fact that, despite all the interventions, the Fed was un-

able to prevent the collapse of Bear Stearns, the fifth-largest investment bank in the nation. We have now entered what is, in effect, an open-ended bailout of the U.S. banking system, in which the hundreds of billions spent so far will soon turn into trillions.

The fatal flaw in this approach, as LaRouche has warned, is that it is inherently hyperinflationary. That hyperinflation has already begun, and the money pumped into the bailout—money which serves no economically useful purpose—will only accelerate the process. This means that the faster the government pumps in the money, the faster the value of the dollar will collapse, and the faster the global economy will collapse. (For a pedagogical lesson on hyperinflation, we recommend the reader log on to the LaRouche Political Action Committee website, www.larouhepac.com, and view the 80-minute video "Firewall: In Defense of the Nation-State.")

Time for LaRouche

It has taken 37 years for the process set into motion by Richard Nixon in 1971 to destroy the global economy. During that entire period, LaRouche and his international political movement have been a consistent voice for reason, organizing in the streets and in the halls of government for a return to the sound economic policy of the American System, and an end to Anglo-Dutch Liberalism.

We have now reached the point where all of us must decide: Do we go back to what works, or do we descend into fascism and chaos, and a new Dark Age? That is the question we ask you to keep in mind, as you read the following reports.