

The U.S. Is Running Out Of Time To Save Itself

by John Hoefle

The bottom has been blown out of the U.S. banking system by the collapse of the biggest speculative bubble in history, and there is no recovery in sight, absent the emergency measures designed by Lyndon LaRouche. With each passing day the situation becomes more dire, as money which should be spent on rebuilding our devastated productive sector is instead diverted into Alan Greenspan's bottomless pit.

Little more than a week after banks and other financial companies had their worst day in 16 years on the New York Stock Exchange, the banks plunged yet again, having their worst day in eight years on July 24. These drops come as the big banks continue to report losses at rates which are both astonishingly high, and yet fall well short of the truth.

The U.S. banking system is bankrupt, and will not recover under the current policies. The Plunge Protection Team (PPT) has been reacting to the crisis, pumping in money, cooking the books, taking measures to prevent a collapse, yet the relentless disintegration continues, destroying everything in its path. Far from helping, the PPT's actions have accelerated the hyperinflation in the financial markets, including the markets for oil and food. These increases, combined with the overall decline in consumer-credit availability due to the death of the asset-backed securities market, have devastated the families of the lower 80% income brackets in the U.S. Home foreclosures are soaring, credit card defaults are rising, and consumer spending on goods other than food and fuel is contracting—all ominous signs of a rising wave of bankruptcy which will wipe out the banks already mortally wounded by their securities losses, as well as the banks which did not play that game.

Firewall

The first step toward solving a problem is to admit that it exists, and see it for what it is. Treasury Secretary Henry Paulson has been adamant that the banks take their losses—Citigroup leads the pack with some \$50 billion in writedowns to date—and raise capital, but these measures have done nothing to solve the underlying problem, as the losses are growing faster than the banks can raise new capital to allow them to admit their losses. Well over \$300 billion has been raised by banks worldwide since the crisis began, but those who have bought into the banks have seen the value of their holdings plummet, which makes further funding difficult to obtain. The problem facing Paulson, and the rest of us, is that a bankrupt system cannot bail itself out, but requires intervention from the outside. The only solution is for the government, acting in its sovereign capacity, to intervene, put the system through the equivalent of a bankruptcy proceeding, write off the unpayable debts, and act to protect the general welfare of the population. Denial is not a solution.

LaRouche has identified several measures which must be taken to put the economy back on its feet. The first step is for the Fed to raise interest rates to 4%, to assure that institutional depositors maintain their deposits in the banking system, and thereby defend the banking system against the attempts by the British to weaken U.S. banks by luring the deposits to London. While this step will not solve the larger crisis, it will help keep capital in the U.S., capital which will be necessary for recovery projects. It will also give the Brits a bloody nose, and teach them a needed lesson about the dangers of looting the United States.

FIGURE 1
Closing Stock Price: Washington Mutual



Source: finance.yahoo.com.

FIGURE 2
Closing Stock Price: Wachovia



Source: finance.yahoo.com.

Once the interest-rate policy has been put into place, we can move to phase two, beginning with the passage of the Homeowners and Bank Protection Act (HBPA). The HBPA would erect a firewall to protect homeowners from foreclosures, and begin the process of putting the financial system through bankruptcy. Necessary functions like food production and delivery, education, health care, and the like would continue, while the huge mass of speculative derivatives bets, securities, and such would be frozen, to be sorted through later. Among the essential services to be protected, ironically, would be banking, as a functioning banking system is essential to the operation of an economy, and to the rebuilding process which is required. However, we should

stress that we are talking about protecting functions, not institutions, and that saving the banks in many cases means saving them from the people who now run them. Many of the banks will have to be reorganized.

Having erected the firewall, the rebuilding can begin, using low-interest-rate directed credit to repair and upgrade our depleted infrastructure, rebuild our manufacturing base, and implement new technologies to lift the entire economy into a new era of productivity. This includes the large-scale development of nuclear power and the building of high-speed magnetically levitated (maglev) trains to deal with our transportation problems; large-scale water projects and desalination to address the growing water shortages in the Western states, especially; and other projects of the same kind. These projects, far from costing us money, will, in the long run, increase the productive power of the economy, creating wealth far in excess of their costs.

At the same time as we begin rebuilding, we can enter into agreements with other nations, particularly, Brazil, Russia, India, and China (the BRIC nations) to carry out these policies on a global scale. With such a bloc committed to national sovereignty and international cooperation, the power of the British Empire and the Anglo-Dutch Liberal slime mold can be broken, finally freeing the world from its deadly embrace.

These policies, based upon the proven American System of Economics, are what built the strongest economy in the history of the world: Alexander Hamilton used them, Lincoln used them, FDR used them—they are proven, and they work. But time is running out, and we must act quickly.

“We’re on a very short fuse,” LaRouche said recently. “We have the policy. We have the approach, it will work: It’s the only damned thing that will work! Either we win and get this through, or you can kiss the United States goodbye. And that’s in the short term, not the long term. . . . The system is dead! The patient is dying. We’re on a death-watch, by the bedside of the patient. The patient is the U.S. economy. You’re sitting by the bedside while the patient is dying.”

“I’ve already defined the only possible solution. Nothing else will work,” LaRouche continued. “Everything else is a waste of time. The system is dead: It’s the walking dead. It’s finished! Either you put in a new system, and there’s only one way to do it, or the United States and the system are dead! And the whole world goes down with it.”

Dead Ducks

Stock markets are lousy economic indicators, with the Dow Jones Industrial Average serving mainly as a propaganda tool to hide the collapse of the American economy from the population. The daily fluctuations in the stock market may be relevant to speculators (and even to that rarer breed, investors), but they mean little to the real economy in which people live.

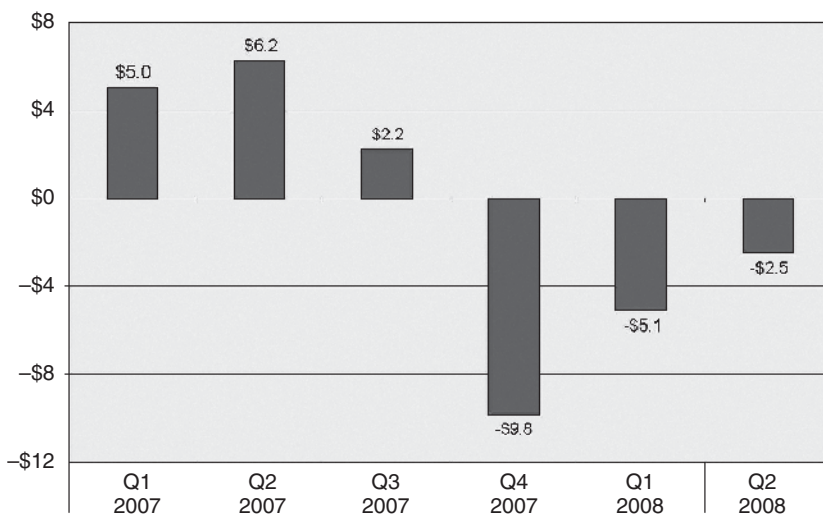
That proviso stated, it is useful to look at the recent performance of bank stocks, as a reflection of the seriousness of the banking crisis. Since the crisis began, bank stocks have been pounded as shareholders fled, seeing the writing on the wall. From their peaks circa the beginning of 2007, Washington Mutual has fallen 91%, Lehman Brothers has dropped 78%, Wachovia 71%, Merrill Lynch 69%, and Citigroup 60%. JPMorgan Chase, which allegedly has suffered the least among the big banks thus far, has dropped 23%. While these stock declines do not directly impact the balance sheets of the banks, they do serve as a warning that the banks are severely wounded, with more trouble expected.

The quarterly earnings reports from the banks, as fudged as they are, are also telling. Over the last three quarters, Citigroup has reported a whopping \$17 billion in losses, while over the last four quarters, Merrill Lynch has lost well over \$18 billion. Washington Mutual has lost over \$6 billion in the last three quarters, and Lehman Brothers dropped nearly \$3 billion in the second quarter alone. Wachovia, where PPT member Robert Steel recently took over as CEO, lost nearly \$9 billion in the second quarter, after losing \$664 million in the first quarter.

Steel, who resigned as Under Secretary of the Treasury for Domestic Finance to take the Wachovia job, was Paulson's deputy and a key player in the PPT; and, like Paulson, he is an alumnus of Goldman Sachs, where he was a vice-chairman. Steel adds to the list of former Goldman honchos who have moved into key positions as the financial crisis deepens. That list includes Merrill Lynch head John Thain, New York Stock Exchange president Duncan Niederauer, Paulson advisor Ken Wilson, World Bank head Robert Zoellick, New York Fed chief of markets William Dudley, and State Department Under Secretary for Finance Randall Fort, among others. It also includes White House Chief of Staff Josh Bolten and New Jersey Gov. Jon Corzine. The appointment

FIGURE 3
Citigroup Net Income

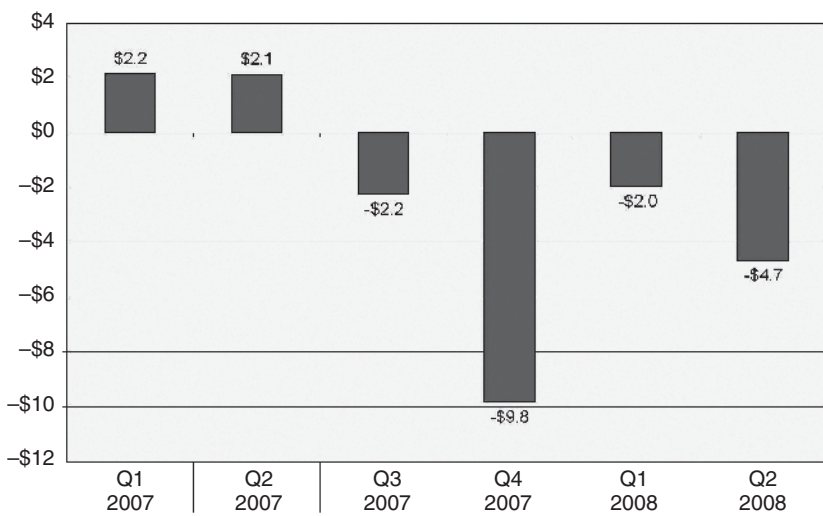
(\$ Billions)



Source: Citigroup.

FIGURE 4
Merrill Lynch Net Income

(\$ Billions)



Source: Merrill Lynch.

of one of these undertakers to head Wachovia does not bode well for the future of the bank.

Even these indicators, as bad as they are, do not convey the full damage. As LaRouche has stated repeatedly since last Summer, the financial system has died, and the institutions which depend upon that system are doomed, lifeless zombies going through the motions on Federal life support. We cannot afford this charade: it is time for the lower 80% (by income) of the population to force Washington to let the zombies go, and begin to attend to the living!