Lesson of 2008: If You Want To Survive, Listen to LaRouche

by John Hoefle

Jan. 2, 2009—2008 was a momentous year, a year in which the global financial system exploded in a spectacularly public fashion, a year in which denial and delusion battled vainly against the relentless assault of reality. We entered the year with assurances that all was under control, and exited the year deep into an ever expanding, yet failing, bailout.

2008 was the year the so-called "experts" were exposed as charlatans, whose analyses and prognostications were repeatedly proven wrong. It was a year the "experts" assured us could not happen, and yet it did.

Going into 2008, Treasury Secretary Henry Paulson, Federal Reserve Chairman Ben Bernanke, and the Plunge Protection Team were viewed as the men who would put the economy back on track. By the end of the year, they were revealed to be hapless hacks, flip-flopping on tactics and bailing out nearly everything in sight.

It took the vaunted economists of the National Bureau of Economic Research a year to admit that the economy entered "recession" in December 2007, a point at which we were long past recession, well into depression, and actually into an economic and financial breakdown. They could not make their determination until they had accumulated sufficient statistics to show them what had already happened, and even then they blew it.

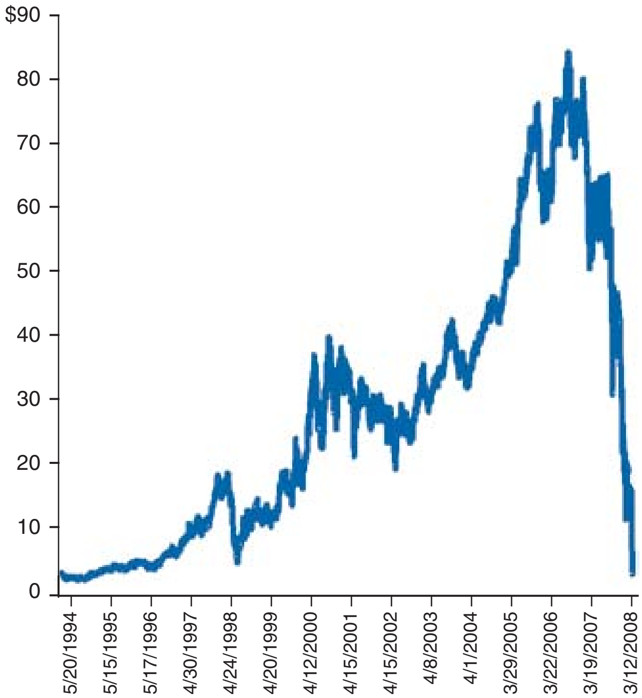
The issue here is not the denigration of the "experts," though they richly deserve it, but the question of method. Why did they consistently get it wrong, and why did Lyndon LaRouche get it right? LaRouche recognized in the Summer of 2007 that the financial system had already collapsed, and said so at the time.

LaRouche Called It

"The world monetary financial system is actually now currently in the process of disintegrating," LaRouche warned in his July 25, 2007 webcast. "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 are not currently competent to deal with this."

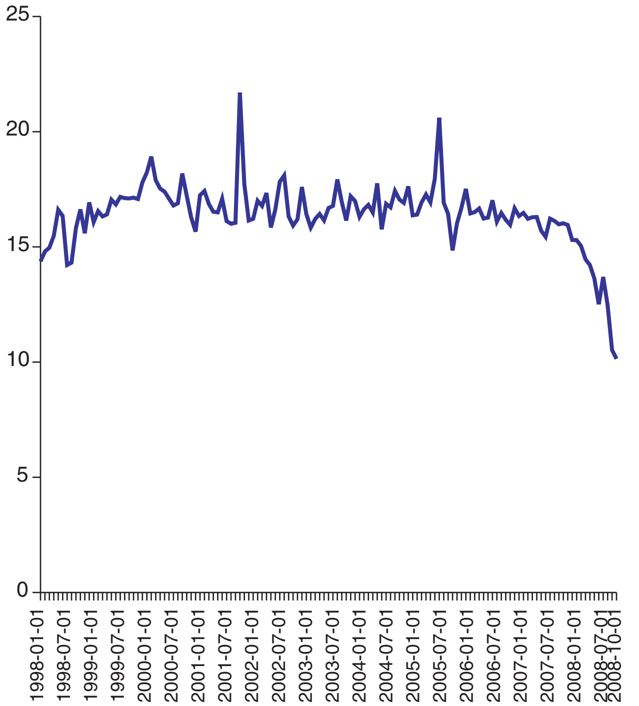
That chain-reaction collapse is now well underway. Let us look, briefly, at some of the damage, as shown in a series of charts. Focus your attention not upon the

FIGURE 1
Lehman Brothers RIP, 1994-2008
(Stock Price)



Source: finance.yahoo.com.

FIGURE 2
U.S. Auto and Light Truck Sales
(Millions of Units)



Source: Bureau of Economic Analysis.

specific data, but upon the general pattern of collapse. What you will see is an accelerating breakdown, across the board.

We start with a look at the stock price of Lehman Brothers, the investment bank (**Figure 1**). We see a sharp climb in stock value from 2003 into early 2007, and then the bottom falls out. The climb up the mountain is steep, but the plunge down the other side is far steeper. In less than a year, Lehman Brothers went from the seeming pinnacle of profitability to bankruptcy.

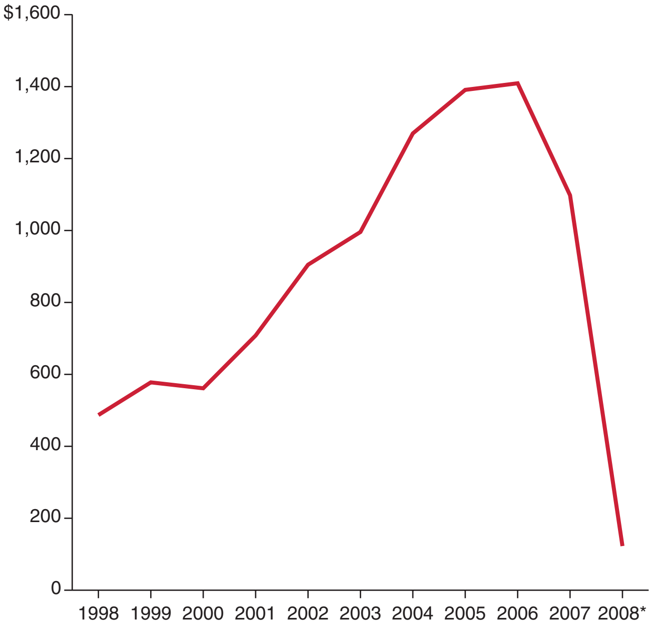
This same general curve can be seen in the stock prices of many of the nation's, and the world's, financial institutions, as well as the stock markets in general, in various types of financial instruments, and in some more physical-economic metrics. It is a reflection of the collapse of the system itself, a characteristic of a breakdown crisis.

American International Group (AIG) collapsed at the same time as Lehman, but unlike Lehman, AIG has been kept alive on Federal life support, in large part to try to minimize the collapse of the global credit derivatives market. AIG was a major seller of these insane instruments, and a major insurer of Lehman Brothers paper. When Lehman failed, so did AIG. As with Lehman, the sharpest collapse occurred after LaRouche's July 25 warning.

Prior to mid-2007, the economy functioned mainly on debt, and the expansion of that debt was made possible by the so-called structured finance of the derivatives markets. Mortgages, credit-card loans, auto loans, and other types of debt were packaged into pools, and used to create and sell vast quantities of securities. These securities were nominally backed by the underlying mortgages, credit-card loans, and such, but in reality were backed by nothing but empty promises. The values of these securities plunged with astonishing speed, and the market for them collapsed, with devastating consequences for the economy.

Some of these consequences are readily apparent, as with the collapse in sales of automobiles (**Figure 2**), and the sharp plunge in mortgage lending (**Figure 3**). Others, such as the plunge in retail sales (**Figure 4**) and the sharp fall in the import and exports of goods (**Figure 5**), and in new orders for the manufacture of durable

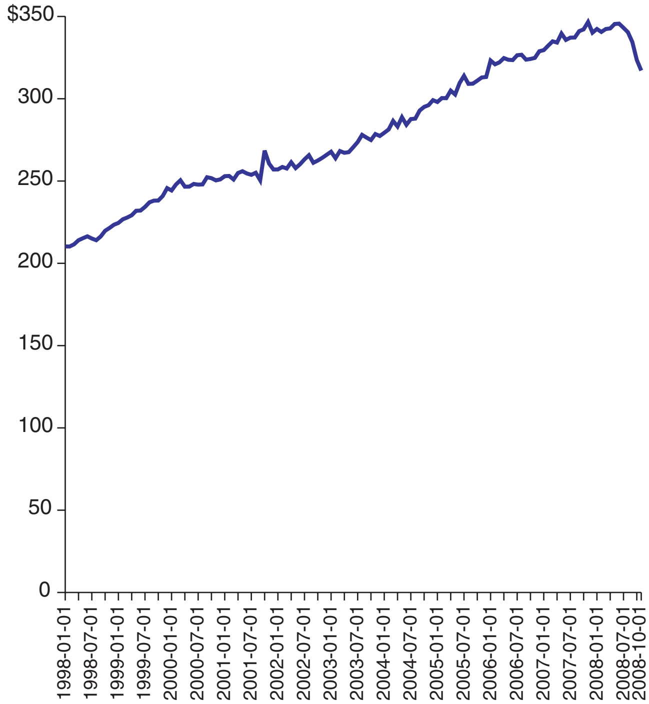
FIGURE 3
U.S. Net Mortgage Lending, 1998-2008*
($ Billions)



* Through Sept. 30, annualized.

Source: Federal Reserve.

FIGURE 4
U.S. Retail Sales
(Excluding Food Services, $ Billions)



Source: U.S. Census Bureau.

goods are only now becoming visible to the public. The drops in the physical-goods numbers may not be as sharp as the drops in the financial numbers, but they are far more ominous, as it is the physical economy which keeps us all alive. A 100% fall in financial profits will hurt, but a 100% drop in physical output will kill us all.

The Bailout

LaRouche warned that there was no one in the present government who was competent to deal with the financial crisis; and the government moved quickly to prove him correct. Rather than admitting that the system had died and putting it through bankruptcy, Paulson, Bernanke, and their peers at finance ministries and central banks in Europe launched a foolish attempt to save the system through monetary easing, and then through bailouts.

In December 2007, the Fed announced the creation of a Term Auction Facility (TAF) to loan money to banks and thrifts, to help them get through the end of the year. The two TAF auctions in December offered $40 billion in total, against requests for $119 billion. The Fed quickly announced that the bi-monthly auctions would continue as long as necessary, and that the amount lent would be increased to $60 billion per month. At the same time, the Fed set up $24 billion in currency swap lines with the European Central Bank (ECB) and the Swiss National Bank, to provide dollars to settle claims.

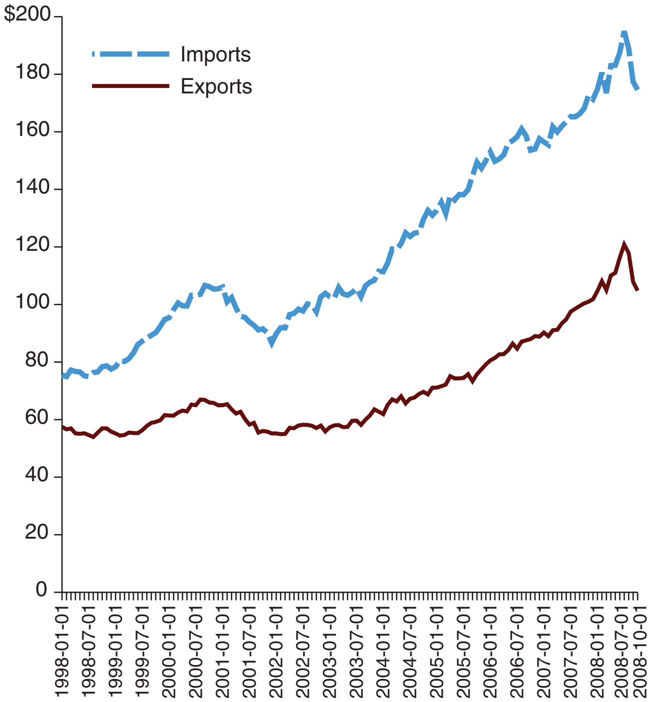
Both the TAF and the swap lines would increase dramatically during 2008, as the crisis deepened, and would be joined by a plethora of other bailout programs. In March, the month Bear Stearns collapsed, the TAF was increased to $100 billion, and the swap lines were increased to $36 billion. The Fed also began lending to the investment banks, creating two new facilities, the Term Securities Lending Facility (TSLF) and the Primary Dealer Credit Facility (PDCF). In May, the Fed expanded the TAF to $150 billion, and expanded the swap lines to $62 billion.

Despite these injections, the carnage continued. In July, the Fed authorized loans for Fannie Mae and Freddie Mac, both of which were hemorrhaging money. It was hoped that the credit line from the Fed would stabilize the mortgage giants, but that was not to be.

FIGURE 5

U.S. Goods: Imports and Exports

($ Billions)

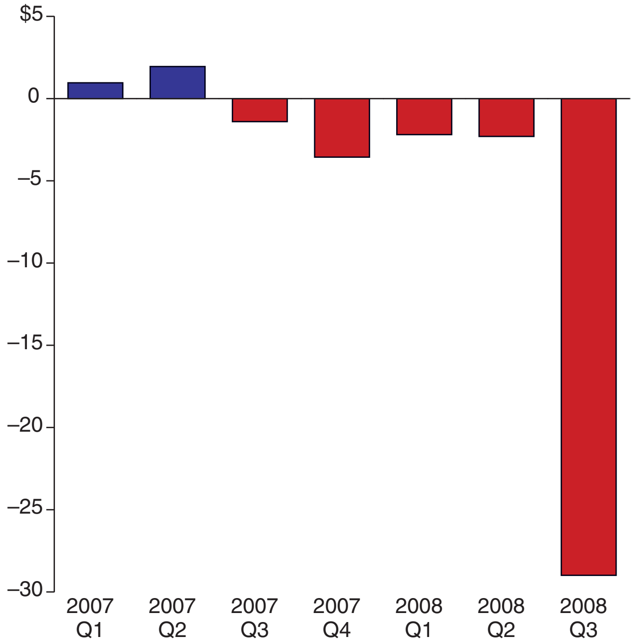


Source: U.S. Department of Commerce.

FIGURE 6

Fannie Mae's Net Income, by Quarter

($ Billions)



Source: Company reports.

In September, the end of the third quarter, the bottom fell out in a very public way. It began with an emergency meeting on Sunday, Sept. 7, and the promise by Treasury to grant a $200 billion line of credit to Fannie Mae and Freddie Mac. Another emergency meeting took place the next Sunday, to deal with the implosion of Lehman Brothers. That second Sunday saw Lehman collapse, Merrill Lynch seek the relative safety of a merger into Bank of America, and the expansion of the TSLF and PDCF lending programs. Two days later, on Sept. 16, the Fed agreed to loan AIG $85 billion. On the 18th, the Fed expanded its swap lines to $247 billion, and on the 19th created a facility to bolster the asset-backed commercial paper market.

On Sept. 20, Paulson dropped a bombshell, demanding the immediate passage by Congress of a bill to fund $700 billion in purchases of bad financial assets by the government. In meetings with Congress, Paulson warned that the financial system would collapse unless he were given the money immediately, with no strings attached.

Paulson's demand was an implicit admission that all previous bailout maneuvers had failed to stop the collapse. Now, he was demanding virtually unlimited powers to spend taxpayers' money in any way he saw fit, without any checks and balances. The public was outraged and demanded that this travesty be stopped, but a spineless Congress passed the bill anyway, under threats of political retaliation and even martial law.

Paulson's demand was also an implicit admission that LaRouche had been correct in his warnings. In testimony before the House Financial Services Committee on Sept. 24, Paulson said that a "chain reaction" was occurring, precisely the phrase LaRouche had used more than a year before.

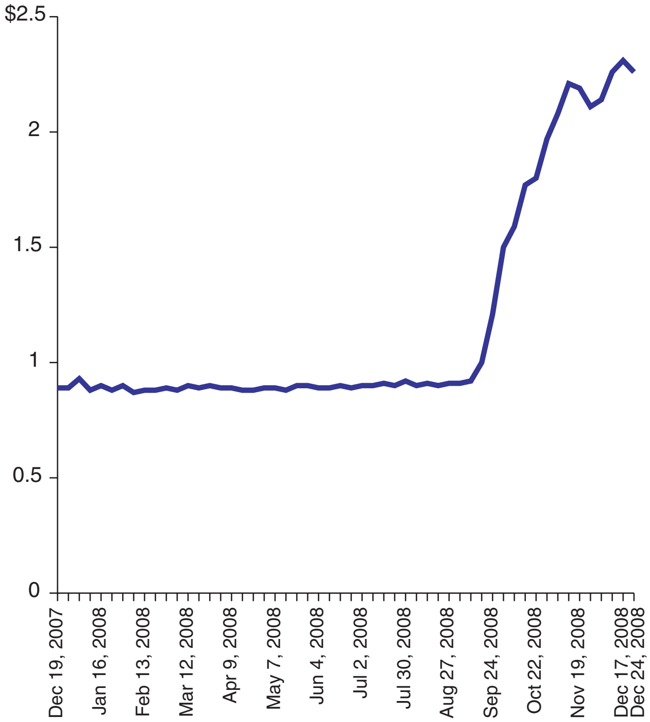
By the time the Emergency Economic Stabilization Act of 2008 was signed into law by President Bush on Oct. 3, 14 months after LaRouche said the system was dead, Wall Street was gone: Lehman had failed, Merrill Lynch had lost its independence, and Goldman Sachs and Morgan Stanley had converted to bank holding companies; and the bankruptcy of the system had been publicly admitted. Fannie Mae reported huge losses for the third quarter (**Figure 6**), as did Freddie Mac. By year's end, both would be bankrupt, and in danger of being delisted from the New York Stock Exchange.

Despite having assured the public that his bailout

FIGURE 7

Hyperinflating Assets of the Federal Reserve

($ Trillions)

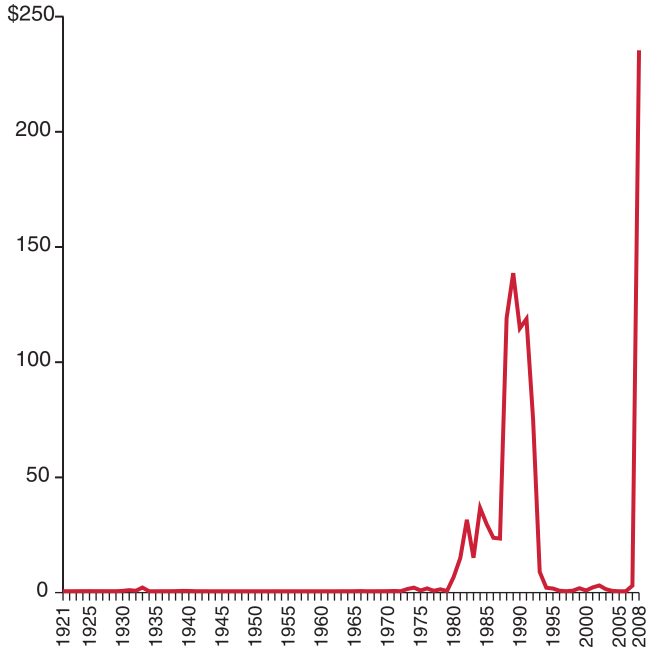


Source: Federal Reserve.

FIGURE 8

U.S. Bank Failures at All-Time High

(Deposits of Failed Banks, 1921-2008, $ Billions)



Sources: U.S. Federal Reserve, FDIC.

plan would work, within little more than a week of its passage, Paulson abandoned his plan to buy bad assets, and instead adopted the British scheme of injecting capital directly into the banks—a plan he had earlier specifically rejected. This scheme was the cornerstone of a larger Brutish Empire plan to set up a global financial dictatorship, under which nations would bankrupt themselves bailing out the banks, and then be forced to submit to the diktats of global financial regulators.

During the fourth quarter, the situation got worse, as the liquidation of the global derivatives market accelerated. Speculators were hit with the triple whammy of plunging asset values, rising margin calls, and a lack of credit. Banks were lining up for Federal cash injections under the Treasury bailout program, and non-bank institutions began maneuvering to become bank holding companies—to get a place at the trough. Citigroup, under the weight of its own problems and a coordinated assault by the Brits, required a bailout beyond what it had already received; and General Motors, Ford, and Chrysler were also seeking bailouts.

By the end of the year, the Fed had pumped over $3 trillion in cumulative loans through the TAF and the TSLF, and the bailouts had pushed the assets over the Federal Reserve to well over $2 trillion (**Figure 7**), some 50 times its capital. Overall, through the various loan facilities, guarantees, and cash injections, the Fed and Treasury had spent or promised well over $8 trillion of bailout money, and the costs are just beginning. What have we got to show for it? For one thing, bank failures. While the numbers of failures are thus far below the levels of the late 1980s/early 1990s, we set a new record for failures, in terms of the deposits of failed banks (**Figure 8**).

What Next?

As bad as 2008 was, 2009 will be far worse, as the effects of the death of the system continue to work their way through the economy, unless there is a bankruptcy reorganization of the global system. We can expect more bank failures and consolidations, and an expansion of the bailout. The lack of consumer spending will trigger sharp cutbacks and even bankruptcies among retailers in the post-Christmas season, which in turn will worsen the financial condition of our vastly overbuilt shopping mall sector. Corporations will continue to downsize, corporate and personal bankruptcies will soar, and the wheels of our economy will continue to grind to a halt.

More than that, we can expect the financial markets to continue to deflate, and the hyperinflation of the monetary system to accelerate. We are headed for a hyperinflationary blowout of the dollar which will wipe out what is left of the global economy, finish the U.S. off as a nation, and plunge the world into a new Dark Age. Unless, of course, we abandon the failed Anglo-Dutch Liberal monetarist model, and return to the American System.

The Only Alternative

There is no saving the financial system, with its quadrillions of dollars of worthless financial claims, unpayable debts, and bankrupt institutions. That system is gone, but there is no reason for the nation and the world to go down with it. LaRouche, the man who saw this coming and tried his best to stop it, has given us the plans we need to stop the hemorrhaging, and begin a worldwide recovery.

The first step is the passage by Congress of the Homeowners and Bank Protection Act (HBPA), which would immediately put up firewalls to stop home foreclosures while the financial system is reorganized. No one should be thrown out into the street because of the actions of incompetent, and often criminal, financiers. Under the HBPA, the financial system will be put through an orderly bankruptcy, with all derivatives claims abolished, and the rest of the huge mass of financial claims frozen until we have a chance to sort the wheat from the chaff. Meanwhile, we use the credit-generating power of the Federal government to ensure that the schools and hospitals stay open, the water and sewer systems, electricity grids, transportation systems, the food distribution system, all continue to function. We will not allow people to drop through holes in the social safety net.

The second step is to launch a science-driven recovery, rebuilding the economy based upon new physical principles and a series of Great Projects. This includes an emergency program to build new, modern nuclear power plants to provide the electricity needed to power the expanded economy; new steel plants to forge the steel; new maglev trains as the basis for a modernized transportation system; and new technologies that will be developed as a consequence of this science-driver approach. As with the space program, the productivity increases which flow from such a program would easily cover the costs within a reasonable time-frame.

The Great Projects would include such necessities as the North American Water and Power Alliance (NAWAPA), which would bring water south from Canada and Alaska into the western U.S., and even into Mexico, via the PHLINO project. By bringing water to the arid West, we could build new, modern cities. The Great Projects would also include international projects, such as a global high-speed rail link across the Bering Strait, connecting the Americas with Asia, Africa, and Europe by rail for the first time. This global rail project would include LaRouche's proposal for a Eurasian Land-Bridge development corridor along the old Silk Road, to help bring the less developed parts of Asia into this new Renaissance.

To fund all of these projects, would require a return to the Constitution, and Hamiltonian credit generation. Under the U.S. Constitution, only the Congress has the authority to issue money—no more Federal Reserve and fractional reserve banking. And that money would be earmarked for productive purposes. Once authorized, the credit would be dispensed through the Executive branch and a National Bank, through the private—but reorganized and highly regulated—banking system. This would provide the combination of regulated credit and entrepreneurial creativity—a real form of public-private partnership instead of the medieval fraud pushed by the likes of Felix Rohatyn—needed to get the economy moving in the right direction.

The final step, is to make this an international operation, both to form an alliance strong enough to withstand the inevitable assault from the Brutish Empire, and to provide the political framework for truly global development. That means, for starters, an alliance among the U.S., Russia, China, and India, with others welcome to join in. This project must be an alliance of sovereign nations, if it is to succeed. We must all work together to raise the standards of living around the world, if we are to have peace and prosperity.

With this approach, based upon American System principles, we can transform the world. Let us hope that the Obama Administration will find the wisdom to take this path. What we are doing now is failing miserably, so what have we got to lose?

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