Global financial crisis: The cookie crumbles

by Marcia Merry Baker

This issue of *EIR,* dated Aug. 15, coincides with the same day and month when, in 1971, President Richard Nixon officially removed the U.S. dollar from the Bretton Woods Gold Exchange Standard. This act was associated with the advent of an age of ever-wilder financial speculation—in currencies, real estate, stocks, bonds, futures of all kinds, and, after 1987, the ultimate gamble, derivatives—that, over a period of only 30 years, resulted in the world-historic, multitrillion-dollar bubble, which has now entered a blow-out phase.

The financial crisis events now breaking out each day in different parts of the world (bankruptcies, currency devaluations, stock market drops), mark the breakdown of the financial system itself; they are not isolated incidents. It is the end, not only of the post-war Bretton Woods era, but also of a 500-year span of uneasy cohabitation of two diametrically opposed concepts of economics and of mankind.

Here, we present three reports for the aid of those working on behalf of humanity, for the convening of a "New Bretton Woods" conference, to take emergency financial measures, and to launch emergency economy-building actions in the interest of nation-states. William Engdahl, our economics editor in Europe, summarizes the history of the 1929 crash, and also of the Bretton Woods system—what was right, and what went wrong. John Hoefle, from our U.S. economics staff, provides a selection of graphics to illustrate the "state of the bubble," which he used at an *EIR* seminar in Washington, D.C. on July 23.

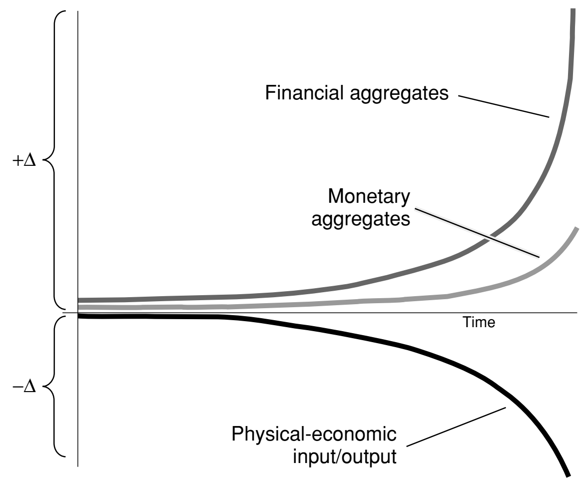
There's no denying that the financial crisis is on the world agenda. The only question is, what to do. In recent months, the European media, and press in capital cities around the world, were reporting on the impending crash. For example:

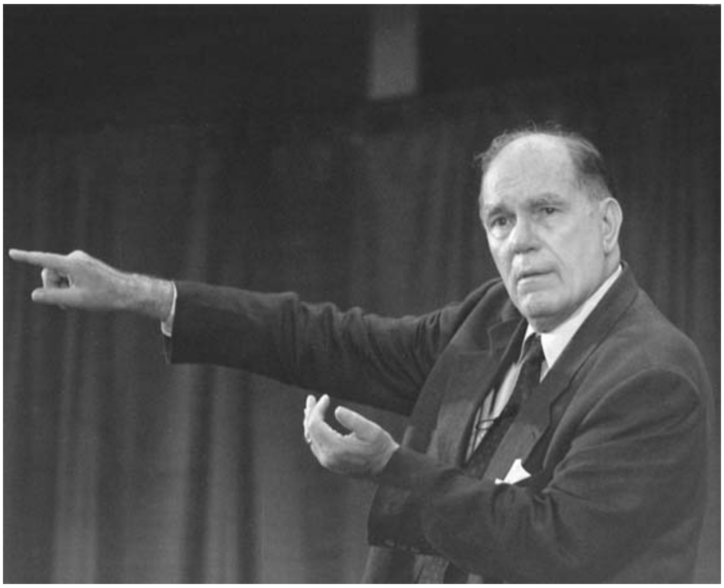
- On July 23, the Germany daily *Frankfurter Allgemeine Zeitung* headline read: "Fear Is Spreading Among Emerging Stock Markets; Now Also Latin America Is Facing the Currency Problems of Other Regions. Will There Be a Domino Effect Like the Mexico Crisis of 1995?"
- On July 27, the London *Sunday Times* said: "Brace Yourself for the Crash Ahead."
- In the United States, on Aug. 3, *Time* magazine warned of the danger of a stock market crash. With the cover headline "Preparing for the Crash," the inside gave a "Doomsday Scenario for Wall Street." The U.S. monthly *Money* magazine for August, also came with a 24-page feature, "Don't Just Sit There: Sell Stocks Now." The gist of the coverage, is that you and your money can get through okay, if the "crashmeisters" in the federal government, and mutual funds money managers, do their crisis-management jobs. This is eminently wrong; but the "crash" headlines themselves are to the point.

Commenting on this, in an Aug. 5 radio interview with "EIR Talks," Lyndon LaRouche said, "I think the intent of this, is to save the credibility of the system, when the crash occurs. Everyone knows that we are expecting several things. I would say (I think my ability is better than anyone else's on this) that we're looking at a wave of financial earthquakes, which has just toppled the unbounceable dead pussycats, normally called tigers of Asia. All of them are going down: Korea, Thailand, the whole lot are going. . . . But that's not all. Every part of the world—for example, recently the largest bankruptcy in Europe, Crédit Lyonnais (formerly Mitterrand's bank—he's now dead, and the bank is, too, but the French government keeps bailing out Crédit Lyonnais, whose bankruptcy gets bigger and bigger as time goes on, with taxpayer money, again, and again, and again).

"There are going to be crises all over the place. We're looking for someplace between August and October, for

FIGURE 1
A typical collapse function





Lyndon LaRouche's "triple curve" graph is a schematic representation of an economy heading for an explosion, as the world economy is now. As financial and monetary aggregates go through the ceiling in a frenzy of speculation, the productive output of the economy enters a hyperbolic downward plunge.

something hitting the United States. If Germany and the United States both raise interest rates, in the same period, we expect a blow-out. But, what they're concerned about, is the fact that any time that U.S. or the Americas, Europe, and Asia all have crises in the same time frame, that you have the potential of an unrestrainable, uncontrollable reverse-leverage, chain-reaction implosion, which will disintegrate the entire financial and monetary system. No government, or no combination of governments today, presently has any plan, or any means by which they can control such a crash. So, the time has come, that in order to try to save the political system, that some parts of the Establishment in Europe, and now the United States, are saying, "Okay, tell the suckers to get out of the market, because if we don't tell them to get out of the market, when it blows, they're going to go running to LaRouche and say, 'He was right, and these guys are wrong.' So, in order to save some credibility for themselves, and to manage the political situation, they are now *finally* warning the suckers to get out of the stock markets and the mutual funds markets."

The fuse on the detonator of interest rate hikes got even shorter on Aug. 4, when the International Monetary Fund released a statement on the U.S. economy (after its annual review in July), saying that some of its 24 board of directors think interest rates should be raised. In IMF language: "Those Directors took the view that a further, moderate, preemptive tightening was necessary to guard against the emergence of inflationary pressures."

Also, the Bundesbank, the central bank of Germany, took the unusual step at its last council meeting in July, of setting one of its key interest rates, the "repo," for only *two weeks* ahead, not for the whole four-week summer break in August, as is customary, in case the Bundesbank needs to raise interest rates mid-month to protect the mark. The bank's council explained that they have "to pay close attention to the foreign exchange value of the deutschemark and the processes at the financial markets."

Mr. President, what about the crash?

One week after *Time* covered the coming crash, the Dow Jones "Industrial" Index (of 30 selected companies) hit a new world record of 8,259.31 on Aug. 6. The same day, President Clinton was asked by a reporter, "Mr. President, the stock market has been soaring in recent months. Are you worried or concerned about whether ordinary Americans understand the risk involved in their investments at this time?"

The President replied, "Hmm. Anything I say is wrong, right? If I say yes, the market drops tomorrow. If I say no, someday it'll drop, and I'll be a heel."

But the President once again failed to frankly acknowledge the reality of the collapse of the physical economy—a collapse which Lyndon LaRouche has pungently presented in his "triple curve" function, as shown above. We have now proceeded so far along that curve, that the looting and murder of even entire continents, such as Africa, is now no longer sufficient to maintain the mountain of fictitious claims on non-existent wealth. So, now, as the crash begins in earnest, the fate of not only the United States, but of all humanity, will rest on whether LaRouche's concept of physical economy can be emblazoned upon the walls of the White House planning rooms, and on whether the President will dare to venture into the unknown, "other side" of those zooming curves.