THE GREAT CRISIS OF 2005

End-Game 2005

by Lyndon H. LaRouche, Jr.

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It may now be said, that the great End-Game of 2005 had already begun in October 1987, when the U.S. was struck by the great new, 1929-style New York stock-market crisis. The incoming, new Federal Reserve Chairman Alan Greenspan said, in effect: "Hold everything until I come on board."

Now, that inflationary cycle, which was launched by Greenspan then, is coming to an end. This cycle, which has recently, already entered its hyperinflationary phase in the market for primary commodities, will be the greatest international, hyperinflationary, financial-monetary collapse in modern history, unless U.S. and other policies are suddenly changed radically from the U.S. trends of the past thirty-five years.

I know; I speak with the authority of one who, on the public record, has been the most successful of the publicized long-range economic forecasters since the 1960s. Look at some highlights of that heavily documented record.

During the Spring and early Summer of 1987, in repeated, public announcements as a Presidential candidate, I had forecast the near inevitability of a major New York stock-market crash at some point during the first two weeks of the coming October, just as I had forecast the virtual inevitability of the 1971 crash of the U.S. dollar under President Richard Nixon, and had warned, beginning 1979, of the threatened inevitability of the process which led into the conditions of the 1987 New York stock-market crash. Similarly, in February 1983, I had warned the Soviet government's "back-channel" representative that its economy would collapse "in about five years," if it rejected the policies which President Reagan was to name, the next month, as the U.S. Strategic Defense Initiative (SDI). When I forecast medium-to-long-term things like that today, serious economists listen respectfully, whether they agree entirely, or not.

In fact, I repeatedly made two major forecasts during that time. First, I continued to restate my warning of 1983, that if President Reagan were to present what would soon become known as his proposal for a Strategic Defense Initiative, and the Soviet Andropov government were then to reject that proffer by the President, the Soviet economy would collapse "within about five years." On Oct. 12, 1988, a year after the October 1987 U.S. stock-market crash, I warned, in a nationwide U.S. network television broadcast, that the world was on the verge of a breakup of the Soviet economic system, a breakup which would probably begin soon in Poland, and would lead to the reunification of Germany with Berlin as the designated future capital. [See text on p. 39—ed.] Most leading circles in the U.S.A. had wrongly rejected my warning of a probable October 1987 crash, as, still, a year later, they rejected, as more or less absurd, my combined political and economic forecast of an impending, now inevitable, early collapse of the Soviet economy.

For example, although Republican candidate Ronald Reagan earned his defeat of rival George H. W. Bush in the 1980 New Hampshire primary, he had won, in significant part, because of Bush's record as an associate of the same, Brzezinski-led Trilateral Commission whose policies also sent President Jimmy Carter down to defeat in the general election that year. It was the Bush campaign's attacks on my campaign for the Democratic Presidential nomination that year, which brought Bush's Trilateral record to nationwide attention, and thus aided Ronald Reagan in sending Bush to a humiliating defeat in that primary.

The normal members of my generation hated the Trilateral Commission for the great economic catastrophes which the advocates of a shift from a productive, to a "services" economy, had caused. Many among the traditional Democrats of my generation, which was still alive and frisky at that time, temporarily left the Democratic ranks to become "Reagan

Republicans" as a result of the Carter Administration's shockingly destructive transformation of the U.S. from a producer economy based on "fair trade" principles, to a post-industrial "services" economy. The reasons for that change then, are similar to the causes for the catastrophic collapse of the current Bush Administration's base of popular support today.

Unfortunately, the same policy-trends set into motion under the Nixon and Carter Administrations, have defined a continued trend in thinking of both leading political parties, from that time, until the recent, shocking developments of late 2004 and early 2005 moved the Democratic Party back in the direction of the policies of President Franklin Roosevelt. The mistakes of the 1970s and 1980s accelerated the decline of the U.S. economy; the trends under the Greenspan 1990s and the present century to date, have virtually destroyed much of the potential for economic recovery which had still existed as of 1989.

If we limit the comparisons to the records of those who have made long-range public forecasts, there would be no reasonable doubt that my known record is by far the best of recent decades. Given the present, increasingly desperate economic situation in the Americas, Europe, and elsewhere, that record is a crucial feature, an important standard for comparisons, in measuring the competence, or incompetence of the calculations of any public forecaster today. You may dislike that fact, but your family's future now probably depends upon it.

Gloom, Yes. Doom, No

On the public record, I have been the most successful long-range economic forecaster of the past forty years. Yet, I have never predicted inevitable doom, and do not predict inevitable doom now. It is the human free will, not statistics, which shapes the course of history. I have always, as now, presented nothing other than policies which represent the solutions needed to avoid oncoming economic catastrophes. Just so, there are things we can do right now, to bring the present global financial-monetary catastrophe under control. However, politicians, or economists, who are afraid of being accused of "negative political thinking," are their own worst enemies, and not do much good for the rest of human as a whole. If you do not denounce bad policies by name, you will not eliminate them. If you do not name and eliminate bad policies, and if you are an influential person, you are part of the problem which needs to be corrected, out of regard for the welfare of the human species today. I am about to explain that here and now.

In effect, what Ayn Rand-style Social-Darwinist Greenspan has done, has been to use his outrageous influence over U.S. economic and monetary-financial policy, to create the biggest John-Law-style bubble in world history. "Atlas" Greenspan shrugged, and the U.S. economic world collapsed, as, perhaps, he had wished. This Greenspan bubble, has been largely based on a form of "gambler's side-bets" known by such cover-names as "financial derivatives" and "hedge funds." He and his accomplices created what has turned out to be a financial bubble, far more menacing today than the Germany hyperinflation of 1923. "Bubbles" Greenspan and his accomplices may, indeed, take much of the credit for postponing the day of doom as long as they did; they did this by postponing the virtually inevitable collapse, by making everything far, far worse today than if it had never existed.

The end of that new financial cycle, which Greenspan's swindles had only postponed and worsened, has now arrived, with our assets largely destroyed, and with a vast accumulation of Enron-style, compound interest-charges richly added to the bill now presented to our republic. We are now caught in the end-phase of that 1987-2005 "Alan Greenspan" cycle of Mandevillean vice.

As a result, what we are experiencing right now, is the effect of a ride along the road toward what is becoming the biggest financial collapse in the history of European civilization since the medieval New Dark Age. That was the New Dark Age which wiped out one-half of the parishes, and one-third of the population of Europe during the middle of Europe's Fourteenth Century. That Fourteenth-Century collapse had been the biggest in all European history since the collapse of the Roman Empire in the west. The threat today is comparable to that precedent.

Do not take that to suggest that the situation is hopeless. As economist John Kenneth Galbraith once said, what collapsed in New York City's Wall Street in 1929, was, after all, "only paper." Society is run by human individuals' free will, not statistics; it is free will which is to be praised, or blamed for every man-made success, or catastrophe.

What cut the U.S. economy in half under President Herbert Hoover, was not the '29 Crash. What collapsed the U.S. economy by half, were the "free will policies" which Andrew Mellon and President Herbert Hoover continued after that '29 Crash, when the measures to be taken should have been successful policies of recovery like those introduced by President Franklin Roosevelt beginning the day of Roosevelt's March 1933 inauguration. George W. Bush's policies are like those of the famous "Crazy Eddie": insane. They are far, far worse, and more dangerous to mankind than those of the Coolidge, Hoover, and Andrew Mellon, who gave us the Great Depression of the 1930s.

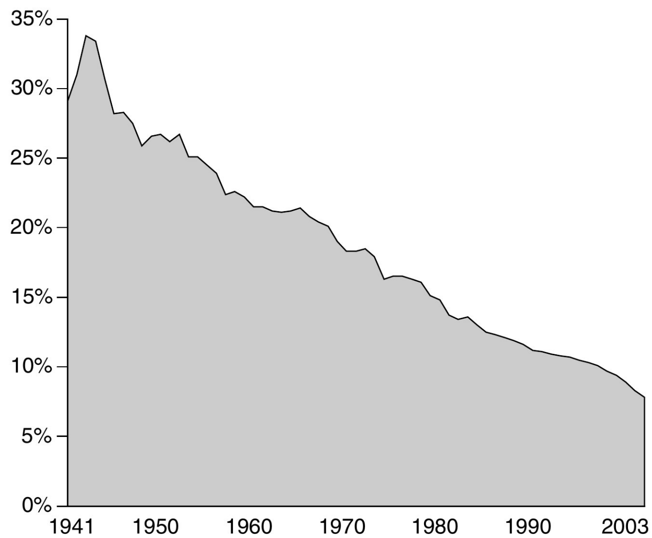
The New Dark Age of the Fourteenth Century was not a hopeless case, either. The rise of the Italy-centered, Fifteenth-Century Renaissance, was the beginning of modern history. Prior to the U.S. Nixon regime, despite all of the horrors which European civilization has experienced since the great achievements of A.D. 1439 Florence, the net progress of the condition of mankind in Europe and the Americas over the centuries since the 1648 Treaty of Westphalia, had been, despite some serious setbacks, along a net upward, long-term course in economy and related conditions of life. Since the radical changes in policy which began with Nixon, the world as a whole has been gripped by the long-term perspective of a threatened decline into a New Dark Age.

In short, there is no statistically hopeless condition for mankind, if a sufficient portion of humanity resolves to discover and apply the remedies which experience shows us always to exist.

In short, if we choose to dump those changes in policy which have ruined our economy since the middle to late 1960s, and if we return to the kinds of policy thinking which had prevailed over the 1940-1964 interval, this economy could recover. However, if we stick to the "greasy kid stuff"-like policies of the so-called "cultural paradigm-shift" of the Nixon Administration and following, our situation would be hopeless. If we are willing to reverse those mistakes of the recent forty-odd years, then we could say, as Roosevelt said, we have nothing to fear so much as fear itself.

FIGURE 1

U.S. Manufacturing Production Workers As a Percentage of Total Labor Force



Sources: U.S. Department of Labor, Bureau of Labor Statistics; U.S. National Center for Health Statistics; U.S. National Center for Education Statistics; U.S. Department of Commerce; *EIR.*

The manufacturing labor force, particularly its most skilled sectors, such as machine-tool workers, is nearing extinction.

The Present Situation

The presently onrushing, hyperinflationary mode of financial-monetary crash did not begin recently. The roots of the present crisis go back to certain changes in U.S. policy made early and often during the Harry S Truman Administration; but, the net change from continued growth under the original Bretton Woods system of Franklin Roosevelt, did not become a net physical-economic decline until the late 1960s, a decline which has accelerated, on the average, since the 1971-1972 shift to a floating-exchange-rate system, the shift from a producer-oriented economy to a so-called "services economy." Prior to Alan Greenspan's reign, the worst effects had been those launched under the influence of figures of the Nixon and Carter Administrations such as George Shultz and Henry Kissinger, and by Zbigniew Brzezinski's Trilateral Commission. "Bubbles" Greenspan made it all much worse.

In effect, Greenspan's methods in chairing the Federal Reserve System, merely masked the rate at which the economy was moving toward Hell throughout the 1990s, up to the time of the successive collapse of the "IT" bubble and the inauguration of President George W. Bush, Jr. The latest phase, toward runaway hyperinflation in primary commodities markets, erupted in the form of the explosive crisis in hedge-fund speculation during the Spring of 2005. This outbreak of hyperinflation in primary commodities prices, unless governments end it, will lead, very rapidly, into effects on a global scale like those which Germany experienced in the Summer and Autumn of 1923. The Greenspan phase of the long-term economic decline of the past thirty-five years is about to come to a sudden, explosive end. The world is in the closing episodes of that concluding phase of the present global End-Game.

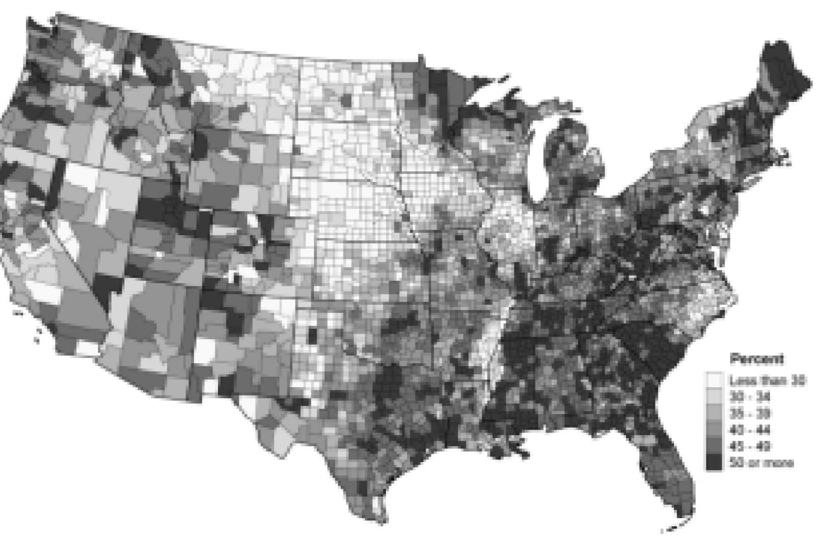
The situation of the U.S. economy today is far, far worse than the situation which Hoover's mismanagement had created; but, nonetheless, the methods needed for successful recovery, will be, in the end, approximately the same as those used by Roosevelt in transforming a bankrupt U.S. economy of 1933 into what became, in 1945, the greatest economic power the world had ever seen. It was not the war which made our economy powerful; it was the economic machine created over the interval 1933-1940, which gave us the economic power which we shared with our allies, to ensure the defeat of Adolf Hitler. We could accomplish that kind of apparent economic miracle again, if we chose to do so.

Compare our situation today with that of the final week of February 1933, when Hermann Göring had set fire, "9/11"-style, to the German Reichstag building, at the time a concert of British and U.S. Wall Street bankers and French Synarchists, helped by firebrand Göring and Professor Leo Strauss's sponsor Carl Schmitt, had just made Adolf Hitler the dictator of Germany. This was the threat which President Roosevelt and our U.S.A. faced, at home, and abroad, at that instant.

In physical terms, the U.S. population of February 1933 suffered from the terrible effects of mass-unemployment, but we had immediate, vast riches stored up in our idled farms, our factories, and in our railroads and other basic economic infrastructure. Today, there are various tricks used to conceal a terrifying level of real unemployment, but we have lost, or are losing most of our farms, our factories, and our basic economic infrastructure. Roosevelt's reforms mobilized an idled productive labor-force, and the idled potential of other resources. Today, as Hurricanes Katrina and Rita have shown, over the course of the recent forty-odd years, we have lost a great part of our former resources since President Nixon, acting on the advice of Arthur Burns, George Shultz, and others, sank the U.S. dollar in 1971-1972.

FIGURE 2

More Than 40% of U.S. Farmers Rely on Off-Farm Jobs for Income To Continue Farming Operations (2002)



Source: U.S. Dept. of Agriculture, National Agriculture Statistics Service.

In large numbers of counties across the country, farmers have to rely on non-farm jobs to be be able to continue farming. The degradation of family farming threatens the U.S. domestically produced food supply.

Today, unfortunately, many among our citizens actually believe a great lie, the lie which says that the economy is doing "just great," as long as the Wall Street speculator's market is apparently happily soaring—into a looming doom waiting for us in the stratosphere of hyperinflation, Look at the facts. Go back to the 1970s, and trace some hard physical facts from that time up to the present. Take manufacturing (**Figure 1**). Take farmer-operated agriculture (**Figure 2**). Take basic economic infrastructure (**Figure 3**). Take the downshift of the economy's productivity as measured in the replacement of skilled productive labor by very, very cheap "services" employment (**Figure 4**).

These awful effects of the downshift of our national economy, from a production-oriented economy of the 1945-1966 interval, to an ever poorer "services economy," are reflected when we look, without illusions, at the economies which some people ignorant of economic realities consider our leading "rivals" abroad, such as India and China. Seventy percent of the population of India, and a comparable ration of the population of China lives in awful poverty. Why?—because they produce at present export prices on world markets, that are far, far below the real cost of production incurred by those exporting nations. By relying on these foreign markets for goods which we have ceased to produce for ourselves, through a brand of economic syphilis, or "AIDS," called "globalization," we have created a situation in which a collapse of the U.S. market for goods from Asia means an awful collapse of the economies of those export-dependent economies.

Meanwhile, we in the United States have been financing a war in Iraq, not out of our national economic resources, but on unpaid loans from foreign nations, loans whose repayment is now vastly overdue. Western Europe is currently operating below breakeven levels under the economic choke-hold known as the "Maastricht conditionalities."

Like mid-Fourteenth-Century Europe under the heel of Venice's great Florentine usurers, such as the House of Bardi, we, today, in the U.S.A., throughout the Americas as a whole, and in Europe, are being throttled economically by the choke-hold of a general collapse being brought about by the usury of a horde of international parasites called by such names as "hedge funds": the pestilence of "financial derivatives" which Alan Greenspan's leadership of the U.S. Federal Reserve System has foisted upon us.

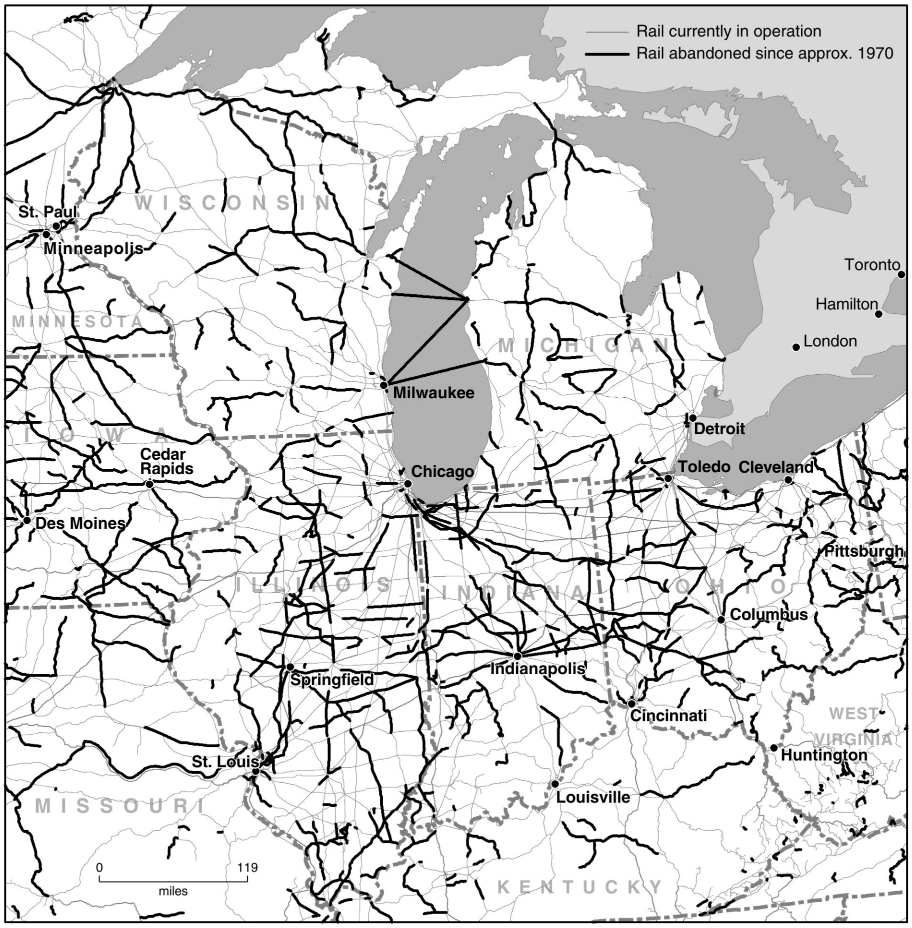
What Is Competent Economics?

Not all leading economists are wholly incompetent. A significant ration among leading professional economists, and those of related skills, have a certain competence in dealing with some aspects of the economic process as a whole. Among that minority of economists who are relatively competent within the bounds of their specialties, there are three commonplace problems which cause them to fail in their attempts to understand certain among the most crucial of the determining factors in major economic crises of past and present history.

First of all, nearly all of them have been conditioned by education to assume, mistakenly, just as London-trained Karl Marx did, that the kinds of monetary-financial systems which have dominated world markets since the February 1763 victory of the Anglo-Dutch Liberals at the Treaty of Paris, are the basis for defining the principles of functioning of modern national and world economies. With extremely rare exceptions, they all commit the professionally fatal error of attempting to explain the workings of physical economies from the standpoint of monetary-financial systems, rather than, as competent economists would, studying the functional disorders of financial-monetary systems by the standards of physical economy.

Like such Anglo-Dutch Liberal ideologues as John Locke, Bernard Mandeville, the obscene François Quesnay, Adam Smith, and the utilitarian Jeremy Bentham, they seek to explain the physical behavior of economies on the assumption that the rules of economy are being set by extremely immoral, imaginary "little green men" casting dice under the floor-

FIGURE 3
The Abandonment of Rail in North Central U.S., 1970-2000



John Sigerson/EIRNS 2002

In the East North Central region—Ohio, Indiana, Michigan, Illinois, and Wisconsin—one-third of the Class I rail trackage of 1970 had been shut down by 2000. The map shows abandonment of lines to major cities like Chicago, Indianapolis, Toledo, and St. Louis.The rail abandonment starkly reflects the manufacturing collapse of this vital industrial region.

boards of the universe. For Locke, the dice were known as "property"; for Mandeville, the unbridled enjoyment of private vice; for Quesnay, the magical powers of property titles to feudal estates; and for Adam Smith, the invisible hand of greed reaching, Enron-style, into other people's purses.

On a slightly higher level, virtually all popular economic theories of modern times, including the wild-eyed statistical recipes of hedge-fund lunatics today, assume, axiomatically, that economic processes are Cartesian kinds of mechanistic processes, rather than dynamic processes such as the real Biosphere and societies are.

On a still lower moral and intellectual level, it is assumed that economic values are money values, or even, by those such as fanatically fascist madman Ezra Pound, that there is a natural value for some kind of "honest money."

Most statistical practices in the abused name of economic forecasting, Marxist or other, are products of all three of these axiomatic elements of utter incompetence in what passes for them as scientific method. It is Merlins like that, whose advice leads once-great nations such as our own into the kind of Hell threatening the world today.

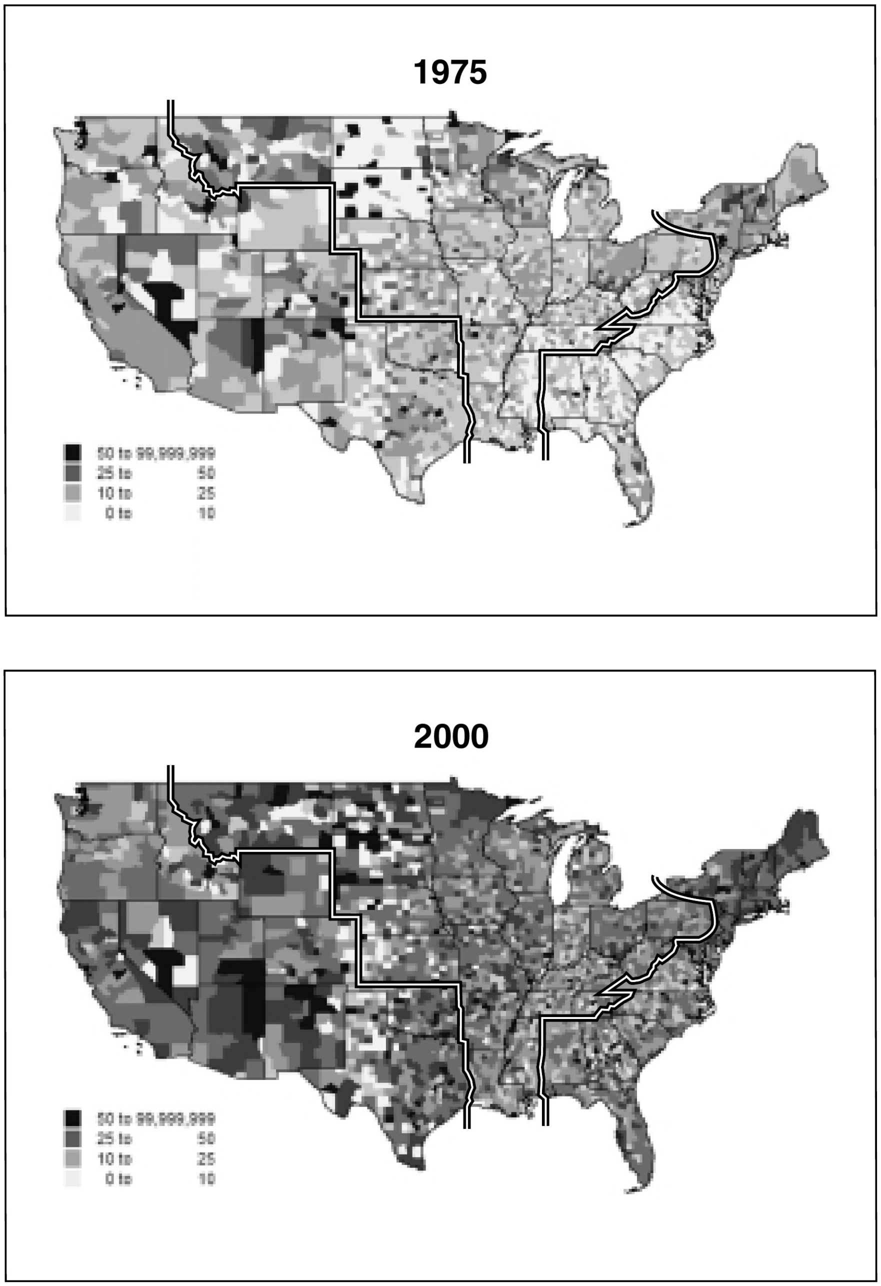
The typically university-miseducated professional economist of today refuses to recognize the elementary fact, that anyone with a monetarist, or similar ideological approach to maximizing profit deludes himself, or his client, into denying the fact that cutting essential physical costs of production, including essential costs of hard and social infrastructure, actually shrinks the real economy, as this pattern has been the leading feature of the U.S. economy, in particular, since 1971-1972. The effect of the practiced thinking of such professional economists and their dupes in government and industry, is comparable to the behavior of the hungry man who adds meat to his diet by eating parts of his own body.

For example, in aircraft and automobile manufacturing, the essential long-term source of an inherently profitable product lies in the work of the traditional machine-tool-design specialist of the type which is trained to craft the kind of experimental test-equipment which proves the discovery of universal physical principles. That is where the inherent profit of production is determined over the medium to long term. Replace the mind of genuine engineers of that type by the imitation mind of the type of computer specialists who use mathematics packages as a way of avoiding physical science, and you have factored human creativity out of the equation, with inevitable losses incurred as a result down the way.

That said, look at two roughly comparable cases of special relevance to the discussion here: the case of the Germany collapse of 1923 and the 1987-2005 End-Game cycle set into motion under the direction of Alan Greenspan.

In any competent study of the principle of a modern economy, accounting mathematics has no independent authority in shaping policies of production. Mathematics is necessary as a way of coordinating the transactions among a large mass

FIGURE 4
Services Workers by County, 1975 and 2000, As a Percentage of Total Workforce



Source: Bureau of Labor Statistics. Maps produced by Mapinfo.

The huge increase in the number of services workers is startlingly clear in this comparison. The boundaries mark the 19 states in the Mississippi, Ohio, and Missouri River basins.

of groups of individual wills in ways which are intended to organize the flow of credit in the forms of money and money-like interactions in ways which tend to stimulate physical improvements in the productivity of an economy per-capita and per-square-kilometer. Socially, the object is to stimulate and promote individual and other forms of local initiative in ways which increase the average rate of physical gain, per capita and per square kilometer, in the economy as a whole. Since the pre-1689 Massachusetts Bay Colony, money, as a monopoly of government, has been used by sane societies as a way of creating forms of credit known as capital, through which the relatively highest rate of increase of the physical productive powers of labor is promoted. This was, for example, the underlying intent of the U.S. Constitution's relevant provisions, as this practice was continued from the pre-1689 Massachusetts Bay Colony, via the writings of Cotton Mather and Benjamin Franklin on the subject of paper money, through Treasury Secretary Alexander Hamilton, to all of the clearest thinkers of the present day's version of a "fair trade," instead of "free trade" tradition.

The primary function of the competent professional economist, is to define the way the integrated system as a whole can be steered into optimizing the way in which the creative ingenuity of the population is mustered and organized to produce the highest rate of gain in society's power over nature, per capita and per square kilometer. The best method for integrating individual creativity and economy as a whole is a protectionist form of "fair trade" system which our republic sought to maintain, develop, and protect, in all the best periods of our nation's history.

No equivalent to a modern political-economy existed in any known place on Earth prior to Europe's Fifteenth-Century Renaissance. There were elements of economy in earlier times, in some places, but not national economies. The national economy came into existence in the setting of the great ecumenical Council of Florence and the work of such figures as the founder of the modern nation-state, Nicholas of Cusa (***Concordantia Catholica, De Docta Ignorantia***) and the founding of the first modern nation-states defined as *commonwealths,* Louis XI's France and Henry VII's England. The modern nation-state economy is defined by the fundamental law set forth in the Preamble of the U.S. Federal Constitution, which is that Constitution's highest authority respecting principles of law. The central principle of political-economy is the principle of the general welfare, a notion adopted from the agapē of Plato's ***Republic*** and the Christian Apostle Paul's ***I Corinthians*** 13. The establishment of France and England as commonwealths, was the birth of true political-economies, a quality of institution which did not exist earlier in any known place.

The science of economy was born with the work of Gottfried Leibniz, in work over the interval 1671-1716, in which the physical principle of power (i.e., discovered universal physical principles) defined the *science of physical economy,* my discipline. The systematic form of existence of actual economies is defined as a non-mechanistic, dynamic process, exactly as V.I. Vernadsky defined the Biosphere and Noösphere as organized as dynamic, rather than mechanistic (e.g., Euclidean, Cartesian-like) processes. It is only from this dynamic standpoint, that the crucial features of both the 1923 Germany hyperinflation and the hyperinflationary breakdown of "Bubbles" Greenspan's system can be competently understood.

From approximately 1987 on, Greenspan ran the Federal Reserve System as an implicitly hyperinflationary system. It was only prior to the Spring of 2005 that the hyperinflationary trends, such as the super-inflationary mortgage-based-securities bubble, were contained under management of the international monetary-financial system. A similar arrangement existed in Germany's potentially hyperinflationary system prior to Spring 1923. As long as the managers of the super-inflationary system were in top-down control of the system, the building potential for a hyperinflationary breakout was contained. However, once the dynamic limits of such containment were breached, as in the Spring of 2005, the hyperinflationary potential exploded into day-to-day actuality, as in the current explosion in prices of large categories of primary commodities, led by petroleum prices, and also the deadly bubble in inflation of housing prices.

In both cases, 1923 Germany, and the world today, the bubbles behaved, up to a point, as what may be described as self-bounded, dynamic systems of a hypergeometric type. Once the self-bounding was breached, the hyperinflation tore loose, careening as if with a will of its own.

Thus, economists and others who lack the competence to understand such dynamic systems do not recognize the implied rates at which the hyperinflation will proceed from here on out until a general collapse might occur. The danger is, that underestimating the explosive force of these bubbles would cause governments to wait too long before taking the radical reforms most urgently required to save civilization itself now.

Civilizations do not vanish because they lack options, but because they foolishly reject the changes which must be made if that civilization is to live out the storm, as many Democrats and others would still prefer to cling to ominous old habits too long, still today.

A New LTCM Is In the Making

by Lothar Komp

Seven years ago, the world financial system stood directly on the edge of collapse. On Sept. 23, 1998, the New York Federal Reserve called the heads of the 16 largest banks of the world together, overnight, in order to start an immediate joint rescue operation for the already sunk hedge fund, Long-Term Capital Management (LTCM). LTCM had come to this point by transforming around \$3 billion in investment capital, into \$100 billion in bank credit, and then issuing further financial bets with a nominal value of at least \$1.2 trillion. Other estimations of the derivatives obligations of LTCM place them at up to \$3 trillion.

Had one counterparty in all these LTCM two-way financial bets collapsed, this would have brought almost every large financial institution in the world into catastrophe, and the system would have imploded, as Michel Camdessus, then-head of the International Monetary Fund, had to admit at the time.

Today there are many more hedge funds than there were seven years ago, and they move ten times more capital around. On Sept. 22, the president of the German Institute for Financial Services (BaFin), Jochen Sanio, shocked bankers at a conference organized by Goldman Sachs in New York City, by warning that a new derivatives catastrophe, like the LTCM case, was immediately ahead: "It will happen. And nobody at the moment is prepared for it. That is why I am scared as hell."

But according to reports, Sanio's warnings were, once more, essentially written in the wind. The leading bankers themselves are pursuing the expansion of the hedge fund sector, in order to get into high risk ventures at arms' length, without being subjected to financial oversight. Already, on May 19 of this year, Sanio had pointed to the hedge funds as the "black holes of the international financial system." He asserted then that when he had spoken out after the LTCM catastrophe, at the Basel oversight committee, for the regulation of hedge funds, his efforts were systematically thwarted.

The close connection between the major banks and the hedge funds has been documented in a recent study by the European Central Bank, titled "Hedge Funds and Their Implications for Financial Stability." It's an established fact that over the last few years many thousands of leading derivatives traders from the major banks, with the express backing of those banks, have gone "independent," and established their