EIR Economics

The Constitution, Or Fascism

by John Hoefle

Lyndon LaRouche warned that we would be in for a wild time in 2008, and, as usual, he was right on the money, so to speak. The year 2008 has already seen two of America's largest financial institutions, Citigroup and Merrill Lynch, each report $10 billion losses for the final quarter of 2007 after large write-downs of the values of their securities holdings and increases in reserves for rising losses in credit cards and other consumer loans. While $20 billion in losses for two banks over a three-month period is unprecedented, the reported losses, as big as they are, are coverups, the magnitude of their losses far greater than they dare admit. The view on Wall Street is so pessimistic, that when J.P. Morgan Chase announced write-downs of just $1.3 billion in its holdings for the quarter, its stock price actually rose. Apparently, a mere billion-dollar loss is considered good news these days.

The level of insanity is so great that Canadian bankers, seeking to downplay the $3 billion hole blown in the balance sheet of the Canadian Imperial Bank of Commerce, tried desperately to claim that this was actually good news. To cover its losses, the bank was forced to seek a $3 billion capital injection, which Bank of Nova Scotia chief executive Rick Waugh claimed "should give confidence in the marketplace.... [I]t's a very good sign." While it is easy to understand why the bankers would be lying in this situation, one can't help but wonder if they have become so divorced from reality that they fail to comprehend that such blatant denial will only make the public, and their customers and counterparties even more nervous.

That the instinct of the bankers to deal with a financial crisis by throwing more money at it is not at all surprising, since the bankers—indeed most of the public—have come to believe that finance and economics are synonymous, and that the flow of money determines the strength of the economy. Concepts such as production and infrastructure are no longer considered important; today, the entire economy *seemingly* revolves around financial matters, with a particular focus on interest rates.

Interest rates are an important component of monetary policy to be sure, since the provision of credit at reasonable rates is essential to the functioning of the economy, but what drives the fixation on interest rates these days, the proverbial 500-pound gorilla in the room, is debt, a huge mountain of debt which is crushing the economy. Lower interest rates reduce the cost of debt, higher interest rates increase that cost, and to an economy which survives by borrowing, the cost of that debt is paramount.

The Path to Fascism

The bankers can claim all they want that the multi-billion-dollar injections by foreign institutions into the banking system is a sign of strength, but what it really is, is proof that we are bankrupt—not just our banks, but our nation. The United States was once an exporter of capital to the world because of the wealth created by its industrial production and efficient infrastructure. We lent our surplus wealth to other nations to help them develop their own productive capacity, which both created new markets for our goods and raised the standards of living of both ourselves and our partners. Today, thanks to the combined effects of deindustrialization, deregulation, and globalization, we have become not only a net borrower of capital, but are so dependent upon borrowing from the rest of the world that we can't even keep the doors of our banks open without multi-billion loans from overseas, loans for which we pay above-junk-bond interest rates. What was once the most productive nation on Earth has been reduced to the pathetic status of debt junkie.

Our descent into bankruptcy is reflected in the balance on current accounts, which shows our increasing dependence upon foreign goods and investments. Our current account deficit doubled to more than $800 billion in 2006, from $400 billion in 2000, and increased tenfold from $80 billion in 1990. At the same time, the debt of the U.S. economy, as reported by the Fed, has jumped from $14 trillion in 1990, to nearly $50 trillion today. A comparison of the growth of debt and GDP shows that since the beginning of this decade, we have incurred nearly $5 in debt for every dollar increase in GDP, giving the lie to the claims of the "fundamental soundness" of the U.S. economy. Just paying the interest on this debt is eating us alive, and there is no possibility of ever paying off the principal. All we are doing, is using new borrowings to pay off existing debts, at an accelerating rate, making us more bankrupt with each passing year.

This is the context in which to view the "economic stimulus" plan being pushed by Treasury Secretary Henry Paulson and Federal Reserve chairman Ben Bernanke. Appearing before the House Budget Committee on Jan. 17, Bernanke called for "fiscal and monetary stimulus," saying that it was "critically important" that such measures be implemented quickly. In effect, what Paulson and Bernanke are proposing is another round of debt increases, which will only make matters worse.

Since increasing the debt means increasing the amount of money which must be paid as debt service every year, this policy would have the effect of increasing the level of looting of the economy and the population. Enforcing this austerity would require changes in our political structure, of the sort we have already begun to see under the auspices of Vice President Dick Cheney. A nation cannot implement crushing austerity without also crushing freedom. We are on the path to fascism.

LaRouche's Alternative

The same day that Bernanke pushed his "more of the poison which is already killing us" plan before Congress, Lyndon LaRouche outlined a real economic recovery plan in his international webcast, the transcript of which is presented elsewhere in this issue, and is essential reading for all. LaRouche emphatically rejected the stimulus plan, saying "We don't need any more of that. We want to make sure none of that ever happens again."

LaRouche repeatedly turned to the U.S. Constitution during his presentation, particularly to the Preamble, which sets forward the principle which is the fundamental law of the United States. The Preamble states: "We the People of the United States, in order to form a more perfect Union, establish Justice, insure domestic Tranquility, provide for the common defense, promote the general Welfare, and secure the Blessings of Liberty to ourselves and our Posterity, do ordain and establish this Constitution for the United States of America."

Under the Constitution, LaRouche explained, the United States is a Federal Republic which restricts to the Federal government the power to create money. "The issuance of money is done by the consent of the House of Representatives, and enacted by the Treasury Department, under the direction of the President. It is unlawful to create money, or a form of money, in the United States, except by the Federal government, and except according to this principle," LaRouche said.

The Federal government also has the power of bankruptcy, which LaRouche identified as crucial to dealing with the breakdown of the economy. What must be done, he said, is "that most of the outstanding debt, represented by financial interests, as claims upon the United States, its territories, and its people, will be put by the Federal government, into bankruptcy receivership. What should be paid, in the short term, *will* be paid. What should be supported in the short term, *will* be supported. But those sums we can not afford to pay, *we shall not pay*. We shall proceed under *bankruptcy law*, under our Federal law, to put the entire *system*, of money and related things, into receivership. If we do that, other countries will do it, too."

"What we are going to do," LaRouche said, "is reorganize the society to make sure that those things that are essential are encouraged, and those things that are not essential, well, they can sit there for a while."

Under our Constitution, the welfare and liberty of the population as a whole is paramount, and it is illegal to subjugate the population and eliminate their liberties in the name of protecting fictitious financial claims. The issue here is not that the Constitution is outmoded, but that it has not been followed. The Federal government has illegally abdicated its responsibility over the creation of money to the Federal Reserve, and allowed banks to create money through the "multiplier effects" of fractional reserves. These failures, combined with a refusal to properly regulate the banking system, has created a crisis which threatens our Republic. The financiers would have us abandon the Constitution in order to protect their power, but it were far better that we abandon their insane policies, and return to the Constitution.

This, ultimately, is the fight LaRouche is picking with his Homeowners and Bank Protection Act, and why so many people support it. It is also the reason why so many bankers and speculators oppose it, and are determined to stop it at all costs.

Passage of the HBPA, to stabilize the U.S. politically, is but the first step toward reversing the effects of four decades of deindustrialization and globalization. There is much to be done in the way of re-regulating the financial system, rebuilding our depleted productive base and tattered infrastructure, and restoring the standard of living of our population. Far from being outdated, the principles expressed in the Constitution are a guide to our recovery. That is real economics.