Lyndon H. LaRouche, Jr.

Sovereign Nations Must Put Collapsed Global Financial System Into Bankruptcy

The following address, "What Must Be Done About The Economic-Financial Meltdown?" was delivered by Lyndon LaRouche to the Berlin seminar, held by EIR *on Nov. 5, 2001.*

In my incarnation as a management consultant, which occupied most of my activities of the 1950s and the first half of the 1960s, I was often told explicitly, or implicitly, by clients: "Don't blame me, blame my accountant." The point is, the fellow would say, "I had always gone by our accounting department's analysis and forecast of our company's future, in guiding the way we invested in various ways; the way we allotted our resources to production, and other things. So blame my accountant."

Today, we have the same kind of pathology, of reliance upon accountants, in the form of general public opinion and government opinion, which obviously does not function. This is because the population, especially in the past 35 years, has more and more become economically insane.

In the former period, we used to think partly as accountants think, but partly as human beings think. As accountants, we thought about the figures we invented and put into invented forms called Accounting and Financial Reports. As human beings, we looked at the physical changes in the environment; and as economists, we looked at the changes in the conditions of production and distribution, in physical terms. And therefore we measured the physical performance of our accounting and financial systems.

In the middle of the 1960s, the world underwent a change: that, whereas in the period from 1945 to 1963, Western Europe and the Americas and Japan in particular, had prospered under a system which was by no means perfect or by no means fully just; but nonetheless, there was a net growth in per-capita physical product, in per-capita standard of living, in per-capita productivity, and the general productivity of industries. From about the time that coincides with the assassination of Kennedy, the ouster of Erhard, the ouster of Adenauer, the first assassination attacks on de Gaulle, and the introduction of the terrible Harold Wilson government in the United Kingdom, we have seen a consistent decline—not only in the physical standard of production.

Think, for example, of the case of Germany. Think of great industries; take, for example, AEG from the early 1960s. What is AEG today compared to what it was in the early 1960s? Think of famous firms which have disappeared, which were an integral part of what was called the German economic miracle of the post-war period. They have disappeared, or are looted. Great firms, which were once proud firms, and represented a high standard of technology and productivity and employment, now still exist, but they exist like the walking dead. They have lost their engineering capability, through outsourcing, through benchmarking and other forms of insanity which have destroyed the economy.

Insane Financial Policies

So over the period of the past 35 years, there have been a succession of changes in the way the world thinks about economy. And political parties, politicians and bankers, and so forth have played a key part in this, in telling people to "look at the figures—look at the financial figures." The reliance on finance and accounting to the detriment of considering and comparing physical results, has resulted in a condition that today in the United States, we have an insane man—and I say that advisedly, as Americans are permitted to say things about Americans that Europeans are not supposed to say, but I can tell the truth about the United States as an American political figure. We are insane! We have Greenspan, the Federal Reserve Chairman, who is not only abysmally immoral, personally, but insane.

We have an effort on the part of Greenspan and others to pump up the financial markets, the stock markets, and so forth, by the most wildly hyperinflationary methods seen since Germany in 1923. The businesses are collapsing, employment is collapsing, firms are being liquidated; and yet they don't pay any attention to that in the press reports or the propaganda; they talk about "Oh! The market is coming back"; while everything else is going. The physical economy is collapsing, infrastructure—all kinds of things are collapsing. And there is not much attention paid to it in the policy making circles.

Even in the case of the present Bush Administration, which since the developments of last Summer—not only the Sept. 11 events, but the events of Sept. 10, the day before—began to change its policy, to say that the government must intervene with a statist policy to revive the economy. Now, what the Bush Administration has done, will not work. Trying to get military producers to produce junk that doesn't func-

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tion, may keep the stockholders of those firms happy for a short period of time, but they are not producing any wealth. It's a swindle. Dumping hundreds of millions of dollars worth of bombs on a country which probably doesn't have hundreds of millions of dollars, as in Afghanistan, is not exactly the way to build a world economy.

But nonetheless, there is a change, a recognition of a change. But the change reflects the fact that the *present system doesn't work*. The problem today is that people are still blaming the accountants. Finance ministers, governments, and others are saying, "We must have a reform." What kind of reform? We must have a reform in various programs; we must have a pension reform; and all kinds of reforms. But they do not represent changes in the system, they don't represent any correction of errors which have been built into the system over 35 years.

Remember we had a period, from approximately 1945 to the middle of the 1960s, in which the Bretton Woods system—which was a gold-reserve-based, well-regulated system, a protectionist system—caused those who participated in the system, as nations, to improve the standard of living, to improve productivity and, generally, the perception of prosperity in the future. From the changes that occurred during the interval between 1964 and 1967—a trend of changes—we have gone downward. We went downwards since 1971; the floating exchange system has bankrupted the world. We have gone through subsequent changes; I will indicate a few of them, to indicate how this thing goes.

We should recognize, therefore, that the problem is *not* a problem of how to *fix* the present system, but how to *replace* it. We have more debt than can ever be paid under the present system. No one will ever get out of this debt under the present financial system. Let's look at world history and what I mean by a systemic approach, in these terms.

Changes To The Post-War System

Modern post-World War II history can be divided into several overlapping periods. Chiefly we have the period from 1945 to 1971, the period of the post-war Bretton Woods system, of a fixed exchange-rate based on, not a gold system, but a gold-reserve system. It was a production system well designed to meet the immediate needs of the post-war world for reconstruction of economies which had been shattered and depleted by depression and war. The focal point of this was, again, the credit of the United States, in extending U.S. credit as backing to extension of long-term and medium-term credit to Europe, for the reconstruction of Europe, and similar kinds of programs in other parts of the world.

This worked more or less well. The performance varied from nation to nation. Germany had a very successful venture in this direction. Germany was the most efficient of all the countries participating in this system, because the credit system and the industrial system was better. There was some attempt to imitate that in France under de Gaulle. But that was the situation.

So we went from a period which covered the old Bretton Woods system, which was also a system based on a peculiar arrangement of nuclear war and détente, between two nuclear superpower alliances, the Anglo-American and the Soviet. That part of the system continued until 1989-1991. But in the meantime, there was an overlapping change from a post-war Bretton Woods system based on a gold-reserve standard, to the floating exchange-rate system, which has been the principal cause of the global disaster we suffer today.

Then, in 1989-1991, there was another change. The Soviet power disappeared. At that point, an interest centered in London and New York City, a financier interest of a rentier quality—not a capitalist interest but a rentier financier interest, which controlled the world largely through control of financial markets, and the control of governments in the interest of financial markets—this system attempted to set up a world empire; an Anglo-American world empire modelled upon the precedent of medieval Venice. Venice from about the first phase of the fall of the Byzantine Empire—its first phase of fall, about 1,000 years ago—until the decline of Venice as a nation-state power at the end of the 17th Century.

In that period, Venice developed a system of control of most of European civilization and its periphery, as a financier power, as an imperial maritime power, through financial manipulation of the affairs of the nations involved. Venice collapsed after a last effort at imperial revival at the end of the 17th Century. But at that point, Venice and its methods were continued under the Dutch and British monarchy. That is, as identified specifically by William of Orange, the tyrant of London, and his designated successor, George I, and his followers in London.

George I was essentially an agent of the British East India Company, which was an extension of the policies of the Dutch East India Company of William of Orange.

So this interest, typified by Shelburne in the 18th Century, controlled most of Europe through a certain kind of relationship to its Hapsburg competitor in Spain and Austro-Hungary.

The Republican Nation-State

Under these conditions, the United States emerged, with the support and backing from Europe, as the attempt to create a modern nation-state as an alternative to this system of relations between the Anglo-Dutch-Venetian style monarchies and the Habsburgs. We went through a process which continued until the victory of the United States in 1861-76, Lincoln's victory over the British and over the Confederacy, immediately the British puppet, which made a change in the world economy. You can see, in the 1861-1877 period, a change in the policies of Europe.

Now, Europe never developed—except for one experiment by Charles de Gaulle in one phase of the Fifth Republic—a true republican nation-state form of any durability. What existed in Europe were reforms of essentially a feudal system, a parliamentary system, of parliamentary governments which became somewhat democratized in the sense that the interest of the general welfare was a pressure upon the state apparatus of the regular state and also of governments. This was the improvement.

But these improvements were adopted in Europe especially after the victory of the United States over the British, as well as the Confederacy, in 1861-1876. The emergence of the United States as the leading world agro-industrial power, over this period, caused a change in 1877 in the economic policies of Germany under Bismarck, the famous industrial explosion in Germany. It caused changes in Russia, notably, in the policies of Mendeleyev, who was at the 1876 American Centennial Celebration and who, with the Tsar's agreement, launched the building of what became the Trans-Siberian Railroad and large industrial projects. There were other things: Japan—Japan was reorganized by the United States by Henry C. Carey, the then aging leading U.S. economist, an adviser of Lincoln. The advice of Carey was crucial—he was in Germany in 1879—in the influence, through those circles in Germany, of introducing the Carey conception, or the, as it is otherwise called, Friedrich List conception, into Germany.

In the case of Japan, Carey sent his personal student, E. Peshine Smith, as the adviser to Japan who started the industrial transformation of Japan. So, you had developing across Eurasia, and in other parts of the world, the American system of political economy typified by names such as Carey and Friedrich List.

In 1901, with the assassination of McKinley, that changed, for the worse. The changes had already begun by about 1892, in France and elsewhere, around the Dreyfus case, and other things. But in 1901, the assassination of the last pro-patriotic President of a series—William McKinley was assassinated by assets of the Theodore Roosevelt family—caused Theodore Roosevelt to become President, and a fundamental change was made in U.S. policy and U.S. relations to Europe.

Prior to that, under all patriotic Presidents, and patriotic currents in the United States, the chief foreign partners of the United States had been—since the time of the American Revolution—influences in Germany, and especially the Classical circles; influences in Russia, which had been part of the League of Armed Neutrality; and, Japan had also become an asset of the United States against the British interests. And the United States was in opposition to the Anglo-Dutch interests internationally.

This continued despite other changes until 1901 and the assassination of McKinley, at which point the United States entered into a new system of relations. It broke its attachment to the Russia of Witte and of Mendeleyev; it broke its attachment to Germany; and became an integral part of an international maritime alliance, the so-called transatlantic alliance, between the British monarchy and the United States. And with the Dutch monarchy added in as part of the pattern.

So therefore, except for the Franklin Roosevelt period, from 1933 through 1945—except for that period, the United States has been a part of an Anglo-American world financier maritime imperial power.

The Failures Of 1989

What happened, therefore, in 1989—at a point where I, in 1988, had proposed here in Berlin, the imminent collapse

LaRouche with Dr. Wilhelm Hankel, from Germany's celebrated post-war reconstruction bank: "Think of famous firms which have disappeared, which were an integral part of what was called the German economic miracle. . . ."

of the Soviet system, and the imminent reunification of Germany, and the imminent designation of Berlin to be again the capital of Germany, and had proposed a system of cooperation to take up the slack left by the bankruptcy of the Comecon system, for a general Eurasian revival of economy based on new ideas in cooperation, based around things like food, transportation, and so forth—that was not done. That was proposed by the last effective banker of Germany, Alfred Herrhausen, who had intended to make that proposal to a New York conference which he planned to address but could not, because he was assassinated in the meantime. Since that time, there has been no policy, generally, in the United States, or Europe, in that direction.

What happened was: Under the initiative of the British and with the support of Mitterrand and the consent of Bush, it was agreed (under Bush's pressure, acting under pressure from the U.S. ambassador to Germany, Vernon Walters; Vernon Walters said to Bush in effect, don't be an idiot, let Germany be reunified, otherwise you'll cause a crisis). So, Germany was reunified, with the consent of President Bush, despite the strong objections and hatred of Germany by Margaret Thatcher and by François Mitterrand. But, the conditions that were imposed upon not only Germany, but on relations of Germany with other countries, such as those of Eastern Europe and Russia, was such as to ensure, not the great economic revival which could have occurred at that point, but instead, a vast destruction of resources, such that—apart from the improvements in some of the public infrastructure, entertainment centers, housing, and more freedom in the eastern part of Germany—there has been no significant gain, economically, by the populations of the former Comecon sector to this date. In general, it has been a ruinous state, far worse than these people had experienced under the Soviet rule, at the concluding phase.

So we have entered the phase 1989-91 of the Thatcher-Mitterrand-Bush-dictated conditions upon continental Eurasia, terms dictated in order to establish and consolidate an Anglo-American world empire of a form called globalization. The elimination of the nation-state as an institution, and its replacement by global institutions controlled through financier syndicates which would loot the world according to their pleasure.

Now we have come to the point that that system, that post-1989 globalized system, as an aggravation of the disease called the floating exchange-rate system, has now combined its effects to bring the entire world to a point of disaster.

System That Worked Was Abandoned

Obviously to us, the first reaction must be, looking at this period as a whole, the past three centuries, or more, of European-Eurasian history, looking more narrowly at the picture of the 20th-Century disaster—this geopolitical disaster called World War I and its succession, World War II, and other geopolitical disasters orchestrated in the same way: We must say, that in the more recent period, since 1945, what we had for the first 15 years following the close of war was a fixed exchange-rate system, which worked, with all its shortcomings, and errors, and follies. [But rather than maintain] . . . that system, in the middle of the 1960s, we replaced it with what became, in 1971, the floating exchange-rate system: which was based not on economic interest—not the economic interest of the nations, that is, the physical-economic interest of the nations—but rather, on a financier interest, which said, "We come first, and you get the leftovers that drop from the table, if there are any."

This system underwent a series of changes—successive changes. The worst was under President Carter—deregulation, which caused more damage to the U.S. economy in four years, than all Presidencies since. Then we had globalization; in 1989-91, began the process of globalization, which accelerated this process.

We have now come to the point that the floating exchange-rate system, the globalized system, is finished. Any attempt to provide a solution, remedies, improvements, reforms, in the system, which does not go back to 1965 and earlier, to reverse most of the leading policy changes introduced by governments and international institutions in that period, would be a catastrophic mistake, would ensure disaster.

The key to this problem is twofold. First of all, we have a very simple problem. We have a bankruptcy of a financial system. The financial system is hopelessly bankrupt. There is no reform, no negotiation, which can keep the values, the present financial values outstanding, intact. There must be a consent to a general reduction, of a very large percentile of most of what are considered financial assets today: stock-market values, financial claims, mortgage claims, and so forth. Simply to forget them, because they could never be paid under the present system.

Is it not fraud, to take credit from governments and others, to try to continue a bankrupt investment, in shareholder values which are not collectible? Is it not a fraud, to pretend that Argentina can be bailed out, by saving the present obligations imposed upon Argentina? Is this not true in other parts of the world? These are hopelessly bankrupt situations. You have to decide whether you are going to try to *pretend* to save the system, which you can't, because you can not get milk by killing the cow. The cow must be fed, otherwise it doesn't produce milk. You kill the cow: no more milk from that cow. Therefore, you can not kill the cows, called the nations that produce the milk, on which these financial interests depend.

Therefore, we are in a state, where the financial system is *bankrupt*. Therefore, governments must declare the financial system *bankrupt,* and use the sovereign authority of governments, individually and as combinations of sovereign entities, to reorganize the system in bankruptcy. It's what we did at the end of World War II. We reorganized the world in bankruptcy. The United States had the power to do it, and therefore, we did it. And we've now come to the point where we have to do it again.

No Economy Without The Nation-State

But, there's a second aspect to this, apart from cancelling the accounting system, and starting a new one, based on the best precedents from the past. The second thing is: We must understand the significance of the *sovereign nation-state*. The greatest danger to Europe and other parts of the world now, is the destruction of the *sovereign nation-state*. The greatest danger to any economy. No economy can work in Eurasia, unless it is based on a sovereign nation-state, as the sovereign authority over its national credit, over its banking system, and over its trade policies.

Why?

The function of the nation-state has been twofold: The nation-state, which was first founded in France, and then later in England—in France under Louis XI, and in England under Henry VII—was the first form of society which established modern society: a state which was absolutely sovereign, and which was not controlled by some interest, such as a feudal interest, or financier interest, but a state which was accountable to what was called the general welfare, or common good of the entire people. Therefore, the state became a personality, embodying the personality of the nation. And, as a personality, was responsible to the entirety of the population, to its past heritage, and to its future opportunities, to that people. *It must serve the common good. It must promote the general welfare.*

This kind of state, which is sovereign, had the power to create *credit,* as Louis XI did, in a limited way, in France. To create credit, public credit, against what? Not against existing money. Not against existing physical assets, but against *future* assets, yet to be created. Public credit. This public credit must be created with foresight into the general welfare. You can not create credit without anticipating the production of wealth, which will secure the credit issued as debt. Only the nation-state can do that.

For example, in the case of the United States Constitution: What we do under the Federal Reserve System is totally unconstitutional. The Constitutional provision has never been repealed, and therefore, the Federal Reserve System is an outlaw; it's illegal, under Constitutional law. The provision of the U.S. Constitution is, that the only person, that can issue money is the President of the United States, through the Treasury, with the consent of Congress. That the issuance—the power to create money, of the state, becomes the basis for national banking. So, state credit is used to provide the *margin of increase* over private credit resources, to ensure a general growth for national purposes.

Now, in the case, now, of Europe, of the United States, of Russia, and elsewhere: There's no possibility that on the basis of the present flows of production, that Europe could survive. Europe is now producing below breakeven. If the infrastructure, which is being used up, were to be maintained, if the essential industries which we depend upon today were allowed to be decayed, were not maintained, if the maintenance of the general infrastructure were not extended, there's not a possibility that Germany, France, Italy, etc., could survive as economies. The money does not exist, in the form of money-capital, to bring these economies out of this desperate, hopeless state. Only the nation-state can create credit, and apply that credit to such uses as large-scale needed infrastructure, and to other special projects, to extension of credit, on the long-term to medium-term trade, to former customers, or future customers, such as China, India, Russia, and so forth. This is the only hope for Western Europe.

For example, Germany today: Its only future lies, in terms of trade, on the trade relations which are improving with China and Russia. In every other part of the world, Germany is going down, in losing its markets. This will increase. This is the condition of all of Europe; of Italy, of France, so forth. The markets in Eastern Europe and Asia are the primary hope of survival, and even continued existence of these European nations. These nations are not rich nations. They're poor nations, which desperately need technology to enable the poorest part of their population to raise their standard of productivity in the future. This is to speak of 25-year investments, or 10-year investments, and corresponding amounts of credit.

Put The System Into Bankruptcy

Therefore, somebody must create the credit on long term, credit secured by states, and by agreements among states, and used according to policies among states, to create a secure line of credit, of public credit, at between 1 and 2% simple-interest lending rate, over periods of up to a quarter of a century, or a generation. Under those conditions, using the lessons we should have learned from the post-war reconstruction in the Americas and Europe, in particular, from 1945 to the middle of the 1960s, *we could do well!* The opportunities in Eurasia are tremendous. The market potential on a 25-year future prospect is tremendous. The building of railroads, of new types of railroads, of transportation systems, of power systems, of transforming an area which contains some of the richest supply of mineral natural resources in the world, in Central and North Asia. These are areas that can be productively developed for the benefit of Eurasia as a whole. These are the future markets. This is where the future lies!

Only by changing the system, to put the present system into financial bankruptcy, to reestablish the principle of the sovereign nation-state, to reestablish the principle of scientific and technological progress, and to create systems of credit and finance, looking a generation ahead, backed by nation-to-nation state agreements, to make this work, in creating mass employment, to absorb the mass unemployment growing today, in productive ways. To create thus, around this, the concept of doing this, as a new system, and use accounting, and use money, not as an absolute standard for the economy, but as a *tool,* to assist in the administration and conduct of private relations among entities within the economy.

That change in system, that change in thinking about mankind and systems, is the key to the future. Therefore, we must stop thinking about how to fix a financial system in terms acceptable to that financial system. We must stop thinking about globalization. We must reverse globalization *immediately,* as a price of survival. You don't want to reverse globalization? Then, tell me when you intend to die! Because, with globalization, you will die. Nations will die, and people within them. It must be reversed, back to a nation-state.

So, think of the world in terms of *systems,* long-term systems, based on axiomatic qualities of assumptions by peoples and governments, respecting their internal affairs, and their relations. Return to a *physical standard* of performance. The welfare of the individual personality, the future of those personalities' children, the future of that nation, in those terms. That is what the best that modern European civilization has produced as a standard. Return to it, and take the freak-shows which have dominated the world for more than a century, since 1901, since the assassination of McKinley, and put these things aside, and say: *These were mistakes.* These *ideas* were mistakes. We must learn the lessons of history, and design *now,* with the governments we have (which are not too good, I admit), with the people we have, who are not well-educated; with all those other things—*we must survive.* Our children and grandchildren must survive. Our nations must survive. Put that foremost.

You learn the lessons of history, of centuries. The human race has probably been on this planet for 2 million years, or more. We know a little bit about prehistoric existence in crucial things. We have known much about the historical period; not enough, but much. Learn to think of humanity as something very ancient in its origin, and think of humanity in what we hope will be a much longer future than an antiquity. *Think in terms of history!* Look at what we're doing today as a system, from the standpoint of historical criticism. That's what we need to do. All the other criticism doesn't amount to anything, because it does not address the problem.

Prof. Dr. William Hankel

Today's Crisis Is More Dangerous Than 1930s

Dr. Hankel is a professor of economics at Frankfurt University, Germany, and a former board member at the Kreditanstalt für Wiederaufbau and president of the Hessische Landesbank. The following speech, entitled "A New Bretton Woods: Milestones Along The Way To International Monetary Law," was delivered to the EIR *conference in Berlin, on Nov. 5. It has been translated from German by* EIR. *Subheads have been added.*

1. The vulnerability of the West's financial system to crises of confidence, has been manifest not just since Sept. 11. That "black Tuesday" made clear to economic laymen, like a sud-