
Interview: Lyndon H. LaRouche, Jr.



There is no possible bail-out of the world financial system

From an “EIR Talks” radio interview on April 14. The interviewer is Tony Papert.

EIR: Where’s the Japan crisis going? . . .

LaRouche: Again, what is on the above board. The current U.S. policy recommendations for Japan appear to be, if one believes what one is seeing, insane. Now, of course, the complication is that the Clinton administration, with Clinton headed for China this June (practically taking the population of Washington, D.C. to China in 747s, or something), that it appears to be trying to maintain a *modus vivendi* with the Hashimoto government. The Hashimoto government has policies which are absolutely unworkable, and which are, in fact, a repetition, in Japan terms, of precisely the folly which Rudolf Hilferding and others carried out under Versailles conditionalities between 1921 and 1923, which is what’s known as the famous Weimar Germany hyperinflation, in which money ceased to exist. The printing presses broke down, because they couldn’t keep up with the rate of inflation.

Japan is going into a similar kind of situation. The situation, under present policy, is hopeless. As we’ve observed in recent weeks, there has been a shakeup. More and more forces in Japan, except one very powerful faction in particular, have all recognized that this policy is folly, and it must be changed. There is yet no change, but it appears, at present, that the United States government . . . is on the wrong line.

So, it’s a very deadly situation. Japan can blow out in this period, if it continues to follow the advice which apparently is coming from the United States government. . . .

EIR: Lyn, you’re in Europe right now. How is Europe responding to the world financial crisis?

LaRouche: . . . As I look at the background, there are many people who recognize that the present policies, both the IMF policies and the Maastricht policies, so-called, the so-called “Euro” agreements, are not workable. Maastricht, the attempt to enforce the Maastricht conditionalities, has effects upon the German economy which resemble the effects of the World War I-ending Versailles conditionalities on Weimar

Germany, back in the 1920s, things that led to the rise of Hitler. So, this—And they recognize also, that the banking system in its present form can not function.

I’ll give you an example of this. As I’ve said many times, including the recent address on the 18th of March in Washington and elsewhere, we now have between \$130 and \$140 trillion U.S. equivalent of short-term obligations, which are denominated as derivatives, or in similar denominations. This is several times larger than the total accounted GDP of all the world’s nations combined.

Now, much of this is extremely short-term: days, weeks, that sort of thing; which means that, therefore, every central banking system of the world, with the possible exception of that of China, is, at the present moment, hopelessly bankrupt. In other words, if, as some European bankers put it, including some leading central bankers, if this collapses, if a chain-reaction collapse, what’s called a reverse financial leverage collapse, hits this \$130-140 trillion bubble, which can result in an implosive chain reaction; that is, potentially, under certain conditions, you could blow out the entire world’s financial system within a matter of about three trading days. In other words, one day you think you’ve got a financial system, three days later, you’re looking at empty buildings which are staring at you with death in their eyes: nobody at home. Now, that’s how bad it is.

Therefore, we’re up to a situation where there’s no possible bail-out. And this merger mania is more a reflection of this process than it is a remedy for it. Some people are saying the big mergers of banks are an alternative to the collapse. That’s not true. The big mergers are a reflection of the conditions which are leading to this collapse, and people involved in these banking institutions are going into mergers, simply under these kinds of pressures.

Now, in any sort of levelling off of the rate of financial growth, you get into a situation where you continue to pump money into the system to try to keep the markets up—what’s being done, for example, with Japan, what’s being done, on a less intense level, in Wall Street, that is, the Wall Street stock exchange boom is a complete bubble. It’s lunacy. Anybody who thinks that’s prosperity, is the kind of guy who’d

jump out of a balloon at 11,000 feet without a parachute. It's lunacy. There's no sense to it.

But at the point that someone realizes the threat to the financial system of continuing to pump liquidity into propping up the bubble, or to just decide it's not there anymore, or the hyperinflationary pressure gets too great, then they set into motion, immediately, automatically, a highly leveraged reverse financial leverage implosion.

Now, under these conditions, which we're verging very close to right now, *the only solution* is for governments to declare payments on the \$130-odd trillion equivalent to be suspended, under bankruptcy reorganization arrangements. That is, the government puts the banking system, the financial system into bankruptcy reorganization, and freezes all transfers of payments, on account of this \$130 to 140 trillion. *Only if that is done, can you prevent a general blow-out of the banking system, including the entirety of the U.S. banking system.* That means everybody's bank. It means their savings, it means their checking account, it means everything.

To prevent that from happening, the government must step in, put the entire Federal Reserve System and its ancillaries, direct or indirect, into financial bankruptcy reorganization: no transfers of funds based on these categories of obligations. Freeze it! Essentially, we're never going to pay the money anyway. These things are just going to be written off the books, they'll vanish. We're going to try to defend things that must be defended instead.

But, that's the situation.

EIR: President Clinton is going to China in June. What's the significance?

LaRouche: Well, first of all, this meeting was — the Chinese had wished the meeting to occur earlier, in the spring. Then, the President, at that point, had indicated that he thought perhaps the autumn of 1998. Then, in a move which was not anticipated, in China or the United States, the President decided to go in June. The Chinese were pleased, of course, and apparently he's going to go. As a matter of fact, as I indicated earlier, I don't know how large a fleet of 747s is carrying the population of Washington, or part of it, to China for this trip.

The China situation is extremely interesting. First of all, China is the most important diplomatic partner of the United States. As I've indicated earlier, during the recent 30 years, there has been a progressive shift, such that the strategic balance, economic-strategic balance and political strategic balance of power, has shifted away from the Atlantic Ocean as the transmission belt of power, to the Pacific Ocean. And the relationship between the United States and China, with a secondary significance for Japan, Korea, and Southeast Asia, and also a potential, very important significance for India, the United States relation to Asia, across the Pacific,

is the center of the world's strategic balance.

So, Europe no longer has the kind of importance — that is, not the importance, but the *kind* of importance it had during the so-called NATO years and earlier. This is largely a result of the collapse, the willful, self-imposed collapse of the economy of the United States and Europe, the so-called scientific, industrial, technological progress economy of Europe and the United States. We took our economy down, and the balance of power, the economic center of gravity, shifted from Europe to the United States, and shifted across the Pacific, to the relationship between the United States, across the Pacific to China, etc., now on the one side, and of Central Europe, the machine-tool part of Europe, to China and other parts of East and South Asia, across the Eurasian Land-Bridge route, that is, across Eurasia.

Under these conditions, the possibility of the United States making a strategic policy that means anything for the coming period, into the next century, depends upon the relationship between the President of the United States and the President of China. In that sense, what President Clinton is doing, is extremely important, must be defended and encouraged. That is, the relationship between the institutions of the U.S. Presidency and the institutions of the Presidency and government of China — this is crucial for future world history. Anybody who tries to ignore that, is an idiot, and should be sent home to study.

Now, this has also complications. China, at present, is probably the only nation on this planet with a sane economic policy. That is, virtually every other nation on this planet, including the United States, is clinically insane in its current financial, monetary, and economic policy. The only good thing you can say about any of the countries, particularly those of western Europe and the United States, is the possibility that some of them have the sense to change before the absolute end is reached. And, one would hope that our President is capable of making that kind of change.

Now, how does it work? In August and September, I had warned that, and my wife, Helga, had echoed this in a number of locations, that by the time that the President of China, Jiang Zemin, met with the President of the United States, Clinton, in Washington, the world would be gripped by the outbreak of a major financial and monetary crisis. Well, that happened two days before the meeting. The Chinese, who heard this message, among others, are not stupid. Some others are stupid, or they're weak or cowardly.

So therefore, since that time, China has taken cognizance of the fact that it's been warned that the kind of economic policy, that is, the long-term and medium-term economic perspective that China had in September and early October, had to be abandoned, with the confirmation of my long-range forecast, realized at the end of October. And since that time, China has been operating on a recognition of a situation on the planet which is what I've been describing.

Their own view of the matter is not necessarily mine. But, I must say that everything I've seen is quite sensible, and is a proper response, whereas every other government of the world's response has been wrong, in some cases at the point of a gun.

For example, Malaysia has submitted to an insane policy at the point of a gun. Indonesia has accepted an insane policy, supported, in part, by the United States government, at the point of a gun. Japan: somewhat the same thing. There's a little bit of a gun pointed at Japan, but also from internal forces, and the United States.

But, China is the only nation which actually has a policy, which is a sovereign policy it has adopted, which is sane. So, the possibility of getting a sane new world economic and financial and monetary system, pivots on the possibility of two things. First of all, that the relationship between the United States and China becomes an axis around which this new policy is built. Secondly, that other nations in Asia participate.

And thirdly, as part of the same thing, that the machine-tool, or historically machine-tool nations of western Europe in particular, with the cooperation of similar potentialities which can be activated in Russia, most notably Germany, and, to a lesser degree, France and Italy; that these nations orient

to cooperate with the United States and China, and other Asian nations, in developing the delivery, a perspective of these countries, the United States, Germany, France, Italy, so forth; that these countries concentrate on developing our export of machine-tool-design capabilities to the nations of this planet which are machine-tool short, such as China, India, Southeast Asia, where they have virtually none, and so forth. And that on the basis of this new relationship, we build a system which is solid, to replace the presently bankrupt one, and also which gives us some kind of a hope for the future. So, one would hope.

Now, I don't think Clinton is prepared to do that yet. I think he's going to experience, during the coming weeks, he's going to experience some very frightening things, perhaps before he gets to China, actually, which may change his mind to make him realize that this *is* that serious, that he has to change the policy.

But, nonetheless, *the very fact that he's maintaining this relationship to China, and fostering it, is a good thing.* Even if his economic policy presently is bad, the fact that he's maintaining the right discussion partners, the right treaty partners, the right discussion partners itself, is a plus, and helps to create and preserve the context in which changes which may be made somewhat later can come. . . .

**“Long before Paula Jones,
long before Monica Lewinsky,
there was a conscious decision, made in
London, that there would be a full-scale
campaign to destroy Bill Clinton,
and to destroy, once and for all,
the credibility of the office of the
Presidency of the United States.”**

—Lyndon H. LaRouche, Jr.



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