Systemic world crisis is forcing new thinking

by H. Graham Lowry

The devastating global economic crisis has begun to force at least part of the U.S. establishment to rethink its fundamental policy axioms, especially the lunatic free-trade doctrines which have turned the world's productive resources into a pile of junk. In the process, attention is finally being given again to the economic principles of the American System, upon which the former industrial and agricultural might of the nation was based.

The public airing of this debate in the United States follows earlier eruptions in continental Europe, and especially France, over the destructive incompetence behind the proposed General Agreement on Tariffs and Trade (GATT). Leading French economist and Nobel Prize winner Maurice Allais, in a two-part series in *Le Figaro* in mid-November, blasted the conclusions of the World Bank and the Organization of Economic Cooperation and Development (OECD) as "fundamentally erroneous" and economically ruinous. Allais warned "that the fate of tens of millions of men and women throughout the world is at stake" (see *EIR*, Nov. 26, p. 6, Dec. 3, p. 18). In a followup article on Dec. 1, Allais presented "nine imperative reasons" why France should not sign the GATT accord—the first being that "universal free trade is an unreasonable and unacceptable objective."

A look at the 'American System'

The most notable evidence of current rethinking in the United States is an ongoing series in the *Atlantic Monthly*—historically the policy journal for a section of the New England establishment—authored by its Washington editor James Fallows. The November and December installments of the three-part feature, drawn from his forthcoming book *Looking at the Sun*, reflect a recognition that the current crisis is *systemic*, that no patchwork application of existing policies will reverse it, and that long-prevailing axioms are thus open to question in a fundamental way.

The first article, an examination of Japanese success and American failure in sustaining their semiconductor industries, notes that the outcome cannot be explained by "American economic rules." When reality does not fit the rules, Fallows concludes, "We can invent exceptions and special clauses to account for the variation—much as the Ptolemaic astronomers did when they tried to fit the motion of the planets into their theory that the Sun revolved around the Earth. Or—we can look again at our basic ideas."

The article in the December issue, "How the World Works," challenges the "Anglo-American world view" expressed in the economic theories of Britain's Adam Smith and David Ricardo. Fallows reports his surprise at discovering that modern Japan—as well as Germany and other parts of Europe, Asia, and even Russia during various periods of the 19th and 20th centuries—developed their economies more along the model of Germany's Friedrich List. List, of course, was trained in the United States by the American System opponents of Smith's school of imperialist looting, and was steeped in the nation-building ideas of Alexander Hamilton and Mathew Carey before his return to Germany in 1832. Fallows has belatedly discovered the broad influence of List's 1837 *National System of Political Economy*—a work he says he never got his hands on until the spring of 1992.

Rediscovering our history

Well over a century after the founding of the United States, its leaders and citizens knew that its existence depended on successfully combatting the British free-trade rationale for sucking the blood out of other nations' farms, industries, and populations. The works of Hamilton and Mathew Carey, and his son Henry; the economic development policies of Henry Clay and Abraham Lincoln; the history of America's extraordinary rate of road, canal, and rail construction; and the importance of protective tariffs for domestic industries, were common knowledge among vast numbers of Americans. *EIR* devoted its entire Jan. 3, 1992 issue to the record of those achievements and their impact around the world.

Fallows cites a number of useful examples, and even notes, with apparent astonishment, that as late as the 1880s, "the University of Pennsylvania required that economics lecturers not subscribe to the theory of free trade." Far from placing its future in the hands of "free-market forces," Fallows reports, America became an industrial power "not by waiting for it to occur but by deliberately promoting the desired result."

These are the rules for economic growth today, he says. "Once, we knew them—knew them so well we played by them, and won. Now we seem to have forgotten how the world works." He shudders at a mid-1980s survey of leading graduate schools of economics, in which only 3% of the students said "a thorough knowledge of the economy" was very important to becoming a successful economist.

LaRouche was right

These glimmerings of recognition concerning the nature of the current crisis may soon become a spotlight on the economic science of Lyndon LaRouche, who possesses the only competent track record on evaluating and forecasting the disintegration of the world's economies over the past 30 years. On the weekly "*EIR* Talks" radio broadcast on Dec. 1, LaRouche noted that the specter of an imminent international monetary collapse, coupled with the emergence of a military dictatorship in Russia in response to the "shock therapy" measures imposed by the Anglo-Americans, has produced "absolute desperation" among parts of the U.S. and European establishment.

Therefore, LaRouche observed, "a section of the establishment is forced, as the *Atlantic Monthly* case indicates . . . to a new thinking, a thinking about dumping what we call the post-industrial society, rock-drug-sex counterculture kind of paradigm which has been dominating increasingly in the United States since 1964.

"So the idea of going back, say, 30 years later, to the direction of the kind of policies that President Kennedy represented, with his space program and so forth; that thinking is alive in part of the United States, as in the French and other parts of the European establishment.

"The other part of this, which is interesting, of course, is that what James Fallows writes, parallels and even duplicates, in significant part, what *EIR* published as a report in the beginning of 1992 on these kinds of problems, including the references to List and Hamilton and so forth, the specific references. So there are people in the establishment who recognize that I have been right when they and their fellows have been wrong (or at least badly mistaken), who are not willing to support me but will turn in my direction, as the French turned in the direction of my thinking as well as Maurice Allais on economics, and say, 'Well, we may not like the guy, we may not support him; but he is the one on the block with the ideas we need to consider, not his way but our way at this time of crisis.' And that's what that means."

LaRouche also warned against the deadly illusions based on skyrocketing stock prices and "profitable downsizings" of major companies. "People have to understand that this is not a stock market or cyclical business crisis, this is a systemic crisis. What's going on? Derivatives as such are sucking the lifeblood out of the world economy. How does this work?"

He cited the typical case of firms taken over by corporate raiders. "They grab the company and they do what's called asset-stripping; and this means not paying to replace depreciated equipment, shutting down entire productive sections of the company, and selling it off as real estate assets on real estate markets and things of that sort. So what they do, is they take a company which is at a loss; and they will get a one-time profit out of it—apparent profit on the books—by destroying or collapsing part of the company and turning that part of the company into cash. . . . Now the markets will perceive, through the derivatives mechanism, that this cash has a notional capital potential of 10 to 15 to 20 times the amount of cash flowing through. . . .

"So you have a process in which virtually the entire economy is now operating way below breakeven; that is, if you take all farms, all manufacturing, and so forth of the U.S. economy, the U.S. economy is operating at a loss in physical terms. However, a portion of the economy is rich because it is looting, through asset-stripping, the economy. It takes away your job, for example, and takes what was used to employ you, sells it off at, say, 20¢ or 30¢ on the dollar; turns that cash into an investment fund, capitalizes it, increases the notional value of the financial markets. And all the yuppies on Wall Street go home with an increase in salary or bonuses or commissions or whatnot—while you starve. . . .

"This is exactly like a cancer. The cancer sucks the healthy parts of the body to feed the cancer; and the cancer is growing. The cancer is *prosperous,* i.e., derivatives, junk bonds, are prosperous. . . . It's a parasite killing its host—which means that the host, if it continues, is going to die of the cancer. And then the cancer will die too. And that's what I mean by a systemic crisis. *We have the worst financial speculative bubble in the past 600 years; the worst bubble, in terms of size and implications, in all known history.* . . .

"So when people say, 'Yes, but when is the stock market going to crash?' The stock market will crash when the economy crashes. . . . And we better stop looking and saying everything is all right, the stock market is fine, and look instead at the economy; because the fate of the stock market depends upon the day that the economy stops breathing; then the stock market will collapse. And that day is not far away."