

EIR Feature

London in a phase-twitch

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The following report by John Hoefle, on the week which began with a flap around a report in the March 9 edition of the London *Sunday Telegraph*, reflects a radical phase-shift in both the international financial situation, and also the political situation. It was a busy week, typified by a March 13 piece, echoing the *Telegraph* item, in the *Wall Street Journal-Europe*, and, also, the gloomy warnings of bursting global financial bubbles, in Laurent Joffrin's column in the March 14 edition of the Paris daily *Libération*.

By "phase shift," we mean a radical change in the characteristics of a system, as when ice melts, when water turns into steam, steam into plasma, or the first jet-aircraft achieved transsonic speeds, and beyond, in powered flight. What now is happening in the world's financial systems, economies, and politics, is just as fundamental a change as any of the changes in state noted by the physicist.

As John Hoefle reports, among insider circles in Europe, the general reading of Neil Bennett's piece in the *Telegraph*, is that someone is using the Hollinger press empire's London flagship, to signal that a very big blow-out has either occurred, and will soon be reported, or that something sudden and enormous is expected to blow very soon. The *Telegraph* and *Wall Street Journal-Europe* base their story chiefly on interviews with one of London's leading traders, Tony Dye, chief investment officer for a \$90 billions fund, Philips & Drew Financial Management (PDFM), an affiliate of the Union Bank of Switzerland. As Dye more than merely hinted, preliminary reports of what many fear might be a typical, major derivatives loss, at an affiliate of London's National Westminster Bank, figure in these developments in some significant, but yet not fully disclosed way.

Something else, perhaps equally shocking to many readers, is also occurring. Among those leading economists and bankers, from around the world, with whom *EIR* has engaged in more or less frequent on-background discussions over the



Federal Reserve Board Chairman Alan Greenspan's Feb. 21 speech in Coral Gables, Florida, has shaken London. Greenspan warned of a "systemic risk," in which, if a bankruptcy or market crash cannot be contained, it could lead to a chain reaction meltdown, or "atomic erosion," of the financial system. Here, Greenspan is testifying before a Senate committee in 1990.

years, very few still argue, today, that the "LaRouche economic forecasts" were either slightly exaggerated, or statements to the effect, that "maybe LaRouche is right about the crisis, but you will see that the Federal Reserve will manage to keep things under control." The reason for this change? Like the unshaven man sitting, abandoned, in his kitchen amid weeks accumulation of dirty dishes, today's economists recognize, sadly, that Greenspan is right about one thing: the honeymoon with the "great boom market" is over.

As a result, big political changes are now ongoing in Germany, and, also, here in the U.S.A. Clinton is sending a major infrastructure program down to the Congress; Chancellor Helmut Kohl's government has just announced a comparable infrastructure-building package for Germany. Helga Zepp LaRouche, carrying her recently acquired appellation of "The Silk Road Lady," is finding rapt attention among policy-shapers and influencers, for *EIR's* outline of the greatest of all infrastructure-development programs, its *Eurasian Land-Bridge* report, among diplomatic and related circles, in Europe, as here in the U.S.A.

These are major changes from the way things seemed to be going just a week earlier, as one fellow said to the other, while they were both building barricades to defend the city against the torrential rainfall of the incoming hurricane. This past week's events are a prelude of the big shocks soon to come. Nothing since the end of the 1930s Great Depression and World War II provides anyone in the United States with an experience which is a guide to meeting the changes which

are barreling in upon us now.

Yet, that said, there is a crucial lesson to be learned from the past twenty years' chronic Federal deficit, the past twenty-odd years' constant-dollar collapse of the tax-revenue base, and the onrushing implosion of the most bloated financial bubble in history. The past thirty years' experience proves, that all the generally accepted economic theory behind publications such as the *Wall Street Journal*, *New York Times*, *Washington Post*, and the British financier oligarchy's Mont Pelerin Society creation, have turned out to be among the worst ideas since the original discovery of dirt. Look at the past thirty years' gamble with "post-industrial" utopianism as one giant failed experiment.

Nostradamus was always a fraud

The essence of good science is, the persistence of some stubborn, inescapable fact of experimental physics, whose existence was considered impossible, according to what had been considered all of the most authoritative beliefs. If we throw out all those assumptions which are discredited by that fact, we may still face a seemingly impossible problem. Often, even a cleaned-up version of the old belief-system, can not account for the troubling new, stubborn fact. The irony, that those beliefs appeared to work, up until that point, and, yet, suddenly fail when faced with this fact, defines a riddle, a paradox. Obviously, something is missing in our previous understanding of the way in which the universe works; we must discover a principle of nature which will

come to our attention as something new, possibly never known before.

Why the panic which this financial crisis is now unleashing among economists, governments, financial markets, and leading political parties, around the world? That principle of experimental physics, first presented by its discoverer, Bernhard Riemann, in his 1854 habilitation dissertation, is the fundamental principle of modern science which permits us to understand these fundamental phenomena in the history of ideas, in art and statecraft, as in physical science.¹

To sum up the most relevant features of Riemann's habilitation dissertation: Once we have discovered, and validated a needed new principle of scientific knowledge, we still have work to do. We must now integrate the best surviving features of our old experience and knowledge, into a new set of axiomatic assumptions, featuring the validated new principle. In the language of the experimental physicist, such is the challenge referenced for the world of finance, economics, and politics, by the shocking warnings which appeared in some of the the past week's leading London and Paris press.

The results of the experiment may be fairly summed-up as follows. The lunatic follies of the Mont Pelerin Society's extremists, the monetarists Friedrich von Hayek, the Heritage Foundation, and avowed "narco-conservative" Milton Friedman, as aggravated by the "virtual reality" among the cultish followers of Norbert Wiener and Professor John von Neumann, have blended with the existentialist whimsies of the "post-industrial" utopians. These have all combined their influence, to bring about the worst, global economic and financial disaster in the history of modern civilization. That thirty-year experiment has not only failed absolutely; it is now blowing up in our faces.

I can fairly say, "I told you so." I described the way this process would probably unfold, to the students in a one-semester introduction to my discoveries in physical economy, which I taught at various campus locations, during 1966-1973. I warned repeatedly, and, in retrospect, seemingly prophetically, in widely circulated published pieces, and in nationwide television broadcasts. That record of my forecasting is summarized in a widely circulated *New Federalist* pamphlet of August 1994: *The Coming Disintegration of The Financial Markets*. The precise dynamic of the presently onrushing "derivatives" crisis, was supplied in various published presentations of what is known as my "triple curve."²

1. Bernhard Riemann, *Über die Hypothesen, welche der Geometrie zu Grunde liegen*. Bernhard Riemanns gesammelte mathematische Werke, H. Weber, ed. (New York: Dover Publications reprint, 1953) pp. 272-287. See Lyndon H. LaRouche, Jr., "The Essential Role of 'Time-Reversal' in Mathematical Economics," *Executive Intelligence Review*, Oct. 11, 1996.

2. Lyndon H. LaRouche, Jr., "We Have Reached the End of an Epoch," *Executive Intelligence Review*, Jan. 1, 1996.

Why did so many people, even presumably well-informed, professionally trained, and influential ones, fail to heed warnings which many, looking back, now view as "prophetic"? There were many contributing reasons, including a general, world-wide brainwashing of the credulous on the subject of "political extremist Lyndon LaRouche," by the entirety of the politically-motivated, major news media.

Among the many reasons, the one most relevant to the subject of John Hoefle's report, is that most laymen, like the silly daily news media, insist, as do dupes of the Nostradamus cult, that an "economic forecast" is a prediction. They mean the kind of prediction which so many hard-boiled, practical Wall Street players seek to purchase from the tea-leaf reader in the cubby-hole around the corner (or, the same thing, today's proliferating investment-advisory newsletters).

A forecast is not the kind of prediction peddled by the local race-track tout. Like a good weather forecast, a good economic forecast is a scientific assessment of the characteristic features of an ongoing process. Since human populations are not wind-up mechanical dolls, but are ruled by voluntary choices of behavior, the best we can say, is the following: 1) Given the present conditions, and 2) Given the characteristics of the way in which the process is organized presently, 3) either . . . or . . . , 4) until . . .

A scientific economic forecast is related to the nature of a function in mathematical physics, or a classical war-plan of the types of the former U.S. war-plans "Red" and "Orange," or the famous war-plan of Germany's General Alfred (Graf) von Schlieffen. Like a good war-plan, a good economic forecast should include information indicating that the assorted, characteristic features of the function being described, are, variously, near-term, medium-term, or long-term. The forecast should provide some indication of the nature of the clinical phenomena which should be observed, to estimate how close the process's unfolding is to one or more, specified types of critical developments.

The first thing which must be done, in attempting to evaluate anything which appears to be in the form of a forecast or prediction, is to translate those statements into the form analogous to a physical-economic function, analogous to a functional design for a test-of-principle experiment in physics. Do not ask, "On what date will what occur?" Ask, instead, "What kind of an intelligible, unfolding process does this forecast describe?"

The usual problem encountered among financial and monetary specialists, politicians, and others, is that their minds work in exactly the opposite way: they attempt to translate any forecast into the type of prediction one might expect from a race-track tout. They refuse to see, that an economy is not a game of chance, that success or failure is not a matter of luck. Our fate, and that of nations or entire civilizations, is located in the assumptions, which the players, wittingly or unwittingly, allow to guide their choices of

action and reaction to unfolding developments. If, and when, the stock market collapses, do not blame that on Chairman Greenspan, or President Clinton: blame it on the ignorant beliefs which you, and others, have permitted to guide you axiomatically, in the way in which you behave, the way in which you react to the world around you.

In brief. Prior to the general counter-cultural shift in direction of policy-shaping, which was introduced during the 1966-1971 interval, the U.S.A. was the most powerful economy of the planet, which was improving the life-expectancy, and standards of education and opportunity of its citizens and households. Then, about thirty years ago, we changed direction, away from emphasis on investment in scientific and technological progress, and in building and maintaining infrastructure. Since then, as measured in physical terms of per-capita, per-household, and per-square-kilometer relations to nature, there has been, since 1970, a consistent shrinkage, of more than 2% per year, of the economy and conditions of life, especially of those in the lower 80% of income-brackets. Relative to the standard obligations of government, as established during the 1946-1966 interval, the per-capita tax-revenue-base of Federal, state, and local government, has been shrinking, because the physical economy is shrinking, and wasting.

Do not ask what future day the tooth-fairy plans to bring down the hot-air-filled Dow-Jones balloon; ask, instead, what are the popular, but incompetent beliefs about economics, taught in most schools, and practiced by the majority in government, which have ruined the physical economy, downward-step after downward-step, during the past twenty-five-odd years?

To sum up the point at issue, we identify the two most crucial functional features of the forecast which forewarned the world of the crisis breaking out in a new, more advanced phase right now.

The first is most conveniently identified as follows. For the purposes of written submission to a 1995 Rome conference, this writer sketched out what has since become somewhat famous as his "triple curve." [See **Figure 1**, p. 27.] This was done in the effort to make the crucial issues more readily comprehensible to a conference body composed chiefly of non-economists. This curve, published at the end of that year, described the shifting relations, per-capita of labor-force, since 1970, among three magnitudes: financial aggregates, monetary aggregates, and physical-economic aggregates. It identified the notion of the functional interdependency among the three magnitudes, which has prevailed during the recent twenty-five years. It compared these changes in terms of the ratio of monetary exchange, and financial turnover, per-capita of labor-force, to the hard-commodity domestic and foreign trade turnover of nations.

In presenting the "triple curve," it was shown, that the nominal value of existing financial aggregates depended

upon a highly leveraged, and purely speculative relationship to monetary turnover, and that, under these conditions, increased monetary turnover was dependent upon measures of austerity which shrink the magnitude of per-capita physical-economic aggregates. These most conspicuous features of the functional interdependency among the three categories of aggregates, defined a hyperbolically accelerated disparity currently entering the steepest slope of the relationship among the interdependent curves. Hence, functionally, inevitably, until the system is radically changed in an appropriate way—back to pre-1966 functional standards, the world system has reached the "asymptotic limit" of its possible continuation. In short, "Bang!"

The second leading point, is that, as the founder of modern economic science, Gottfried Leibniz, and U.S. Treasury Secretary Alexander Hamilton, among others, understood, the sustenance of national growth and prosperity of the whole people depends upon both high rates of public investment in basic economic infrastructure, and in great emphasis upon investment in increase of the per-capita productive powers of labor through investment concentrated in scientific and technological progress. This was the core of what was known as "The American System of political-economy," the only truly successful form of modern nation-state economy yet devised anywhere on this planet.

Wealth comes from the interdependency between a labor-force educated up to the highest standard of scientific and technological progress, and public and private investment in such progress. The poor fools who have been hypnotized by Britain's cultish Mont Pelerin Society, have hoodwinked a great number of U.S. policy-shapers and other citizens into the delusions of a consumerist social parasite, that wealth comes to the few from the cheap labor, increased mortality-rates, and virtual illiteracy of the many.

Those two considerations, situated with respect to the characteristic functional features of the "triple curve," are sufficient evidence, in principle, to have forecasted, over the past thirty years, as this writer has done, the inevitable doom of the world economy, until, and unless we came back to our senses, to do again what we used to do rather well, back from the "free trade" lunacies of Adam Smith et al., back to that American System of political-economy, which used to be the model which leading patriots of our and other Nineteenth-Century national economies, such as Germany, Russia, Japan, and the republics of the Americas, had admired, and sought to adopt as their own.

Now, we have come to a point in that functionally defined process, that we must either soon make that necessary change, away from the policy-trends of the recent thirty years, or we shall experience an entirely different sort of change, a change which will be global, and will be much more unpleasant than anything known during recent centuries of modern European civilization.

So, last week, London twitched.