What LaRouche said, what the others said

by Marcia Merry Baker

Throughout his public policy career-to-date, Lyndon LaRouche has issued nine forecasts, from 1956 to 1994, along with certain warnings about specific dates and conjunctures. We here summarize his published 1990s forecasts and analyses, and give a sampling of what others said.

1991

LaRouche: Issues his "Eighth Forecast," warning of an ongoing "mudslide" of economic collapse. "Many people have been looking for a definitive one-day, two-day, three-day financial crash, perhaps on the markets, with the Dow Jones, sometimes called Davey Jones, Index crashing 500 or 1,000 points or more. What they are seeing is . . . the great mudslide of 1991." (Nov. 23)

1992

LaRouche: LaRouche's campaign for the Democratic Party Presidential nomination runs ten full-page economic program ads in the *Washington Times,* including nationalizing the Federal Reserve; creation of 6 million jobs through a continental infrastructure program. (Spring)

Campaign book, *LaRouche for President/Democrats for Economic Recovery* circulates in multi-thousand copies, with emergency program.

Others: Financial Times of London promotes global privatization and downscaling. Quotes Skadden Arps partner Joseph Flom, that privatizing U.S. infrastructure will allow "unique area for new investment activities." (March 5)

1993

LaRouche: Proposes 0.1% transaction tax on derivatives, and proposes emergency measures to restore physical economy. (March 9)

In an introduction to a pamphlet calling for taxing (and ending) derivatives speculation, LaRouche argues that the growth of these instruments presents "the prospect of a derivatives bubble which grows like a cancer at the expense of its host, and shrinks its host, at the same time its appetite is growing, while the means of satisfying that appetite are collapsing."

Exploratory Committee for LaRouche Presidential campaign is set up, with economic policy as keystone issue. (Aug. 12)

Others: Forbes magazine promotes derivatives in cover story. (March 29)

The *New York Times,* lauding the speculative bubble, quotes Michael G.J. Davis, deputy head of Chase Manhattan Bank's risk management department, "The worst thing for us is a marketplace where nothing happens. The bank's biggest fear would be a long period of calm and stability in the markets, which would lull companies and investors into slowing their trading activities."

New report *Derivatives: Practices and Principles,* released by Group of 30—composed of top executives from money center banks (Dennis Weatherstone, chairman of J.P. Morgan, Inc., heads the group, which includes former U.S. Federal Reserve Chairman Paul Volcker). Report states that there is no cause to worry about derivatives. (July)

1994

LaRouche: Issues his "Ninth Forecast," stating, "The presently existing global financial and monetary system will disintegrate in the near term. The collapse might occur this spring, or summer, or next autumn; it could come next year; it will almost certainly come during President William Clinton's first term in office; it will occur soon. That collapse into disintegration is inevitable, because it could not be stopped now by anything but the politically improbable decision by leading governments to put the relevant financial and monetary institutions into bankruptcy reorganization." (Issued June 13; published in *EIR,* June 24)

Others: Bank of England Governor Eddie George's press spokesman, John Footman, responds to *EIR,* on LaRouche's "Ninth Forecast." Footman said, "Our perception is that there is a need to monitor risks and regulators. We sympathize with some of the concerns that we see in the GAO [General Accounting Office] report on derivatives and other places. We are concerned about the derivatives transactions done by subsidiaries of securities firms. The generation of a speculative bubble would concern us if we saw that, but we see the risk being laid off in various directions, in an extremely complex way. . . ." (June 13)

The Bank of England then provided *EIR* with the text of a May 25 speech by Executive Director Brian Quinn, praising derivatives before a joint conference of the Futures and Options Association and the Futures Industry Association: "The ingenuity of the specialists who design and price derivatives products . . . seems boundless. . . . No officer charged with managing other people's money can afford to ignore the benefits that can come from a judicious use of the current range of derivative products. . . . Derivatives are not only here to stay, but probably also to grow, albeit perhaps at a less hectic pace. . . . Derivatives do not entail any new risks. . . . If the presence of derivatives makes prices of financial assets more volatile, does this necessarily mean the financial system is inherently less stable? The instinctive answer to this question seems to be 'yes.' However, academic work—while inconclusive—suggests that, if anything, the opposite is the case." (May 25)

Felix Rohatyn, senior partner of Lazard Frères, writes an article arguing for the freedom of the "global private capital markets": "A genuine worldwide market in stocks, bonds, currencies, and other financial instruments has emerged, tied together by modern data-processing and communications technology, and operating 24 hours a day. . . . The continued growth and stability of this market is vital for the . . . developing world as well as for the Western countries. For the last 50 years, the Bretton Woods institutions, the World Bank and the IMF, have been directly involved in financing economic development in emerging economies. This role will, more and more, be taken over by the global capital markets. The cold-blooded selection process by which world capital is invested will determine the economic progress of many nations." (*New York Review of Books,* July 14)

1995

LaRouche: Comments on the Mexican financial crisis: "We are now in the middle of a new phase of disintegration of the global monetary and financial system. Around the world, leading people—bankers and political people—who, up until a few weeks or months ago, would have either denied, or did deny, and would have rejected, or even ridiculed, my forecast on the present monetary situation, now are saying that the entire international moentary and financial system is in the process of disintegration. Not just collapse, but disintegration." (Radio interview with "EIR Talks," Feb. 1)

Others: U.S. National Association of Manufacturers (NAM) releases a book-length report praising the vigor of the U.S. economy, *Making It in America, Proven Paths to Success from 50 Top Companies*. The report's authors, Jerry Jasinowski, the president of NAM, and a Virginia-based consultant, Dr. Roger Hamrin, assert what they call their "surprising discovery," that "America is in the midst of a business renaissance and economic comeback that have profound and promising implications for businesses, consumers, workers, and the country's economic future." They state that 1) there is an economy recovery; 2) there is no systemic crisis; and 3) any problems that arise can be dealt with by administrative means. (March 1995)

LaRouche: Economic memorandum is released, "Global Financial Crisis: 'To Be, or Not to Be.' " "Today, the political and financial system of Japan has been brought to near a point of discontinuity, by the failure of U.S. representatives to acknowledge the severity of the ongoing, global financial collapse of the international monetary and financial system. Although the U.S. government's refusal, thus far, to face the reality of this ongoing systemic breakdown is no worse than virtually every leading government in the world, Japan's relations with the United States are of a very special nature; a lack of adequate response to Japan from Washington could set forth a chain-reaction of collapse of every vital U.S. policy-interest in East Asia, and beyond." (April 18)

Others: Responses among leading Europeans when told about LaRouche's April 18 "Global Financial Crisis: 'To Be or Not to Be,' ":

A Nobel Prize economist tells *EIR:* "I share Mr. LaRouche's views about the inherent instability of this system. For years, we have been sitting atop a financial volcano. The only question is not if, but rather, when, it erupts. However, that being said, I do not see what has been taking place with the dollar, at least in the near term, as *that eruption,* what Mr. LaRouche calls global disintegration." On the recent proposals of Japanese and others for some return to regional fixed currency blocs, he stated, "Fixed exchange rates as an ideal are good. But, such a fix would break down unless there were first a total reform of the entire credit mechanism. The ability of large banks to lend against fiction today as guarantee must be controlled. I am presently working on a formal proposal whereby we would seek to make illegal the present practice by large banks to speculate in stocks, bonds, currencies, commodities on their own account. They are a major force in the dangerous volatility of global markets, and uniquely so because of the fractional reserve banking system which permits banks to vastly leverage their capital." (April 26)

A senior consultant to the Group of 30, and former central banker, tells *EIR,* "On the idea of a systemic disintegration, I would take issue with Mr. LaRouche. There are simply enough political manipulations which would be employed today to prevent such, even at a horrendous social cost." (April 26)

LaRouche: "Today, every nation on this planet is under the domination of a single, worldwide, monetary and financial system: the so-called International Monetary Fund system. That system is about to go out of existence. The worst financial collapse of the Twentieth Century could erupt within as soon as weeks, or, in the unlikely case, the disintegration of the system could be postponed until as late as early 1997." (Economic Advisory, released July 14, titled, "Why Most Nobel Prize Economists Are Quacks"; published in *EIR,* July 28)

In Italy, and Germany, LaRouches releases his "Triple Curve" schematic (see p. 5), which he describes in this way: "This figure is a summary of three curves which are characteristic of the process of monetary and financial disintegration of the world economy." (Speech to a conference in Germany, Dec. 2)

1996

LaRouche: "We are in the middle of the worst international monetary and financial crisis of the century. The financial crisis has two dimensions: its severity, and the efforts of many leading institutions in the world to pretend it doesn't exist. But that is characteristic of every major crisis in history. Leadership consists of not denying the crisis, in the first place." (April 24, presentation at a round-table discussion in Moscow, sponsored by the Institute for Socio-Political Research of the Russian Academy of Sciences; the Free Economic Society of Russia; and the Schiller Institute for Science and Culture/Moscow)

Others: Ethan D. Kapstein, Director of Studies for the New York Council on Foreign Relations, writes in the Council's journal *Foreign Affairs,* under the headline, "Shockproof; the End of the Financial Crisis": "Many Chicken Littles had predicted during the late 1980s and early 1990s that trading in derivatives—futures, swaps, and options—would trigger the next global financial crisis. But they overlooked the important role that derivatives have played in moderating systemic risk, providing banks with increased opportunities to diversify their portfolios and protect themselves from sudden market shifts. . . . The international financial markets have not suffered because the roots of the disease have largely been eradicated." (*Foreign Relations,* January/February)

"U.S. Sails on Tranquil Seas; Recessions No Longer Seem Inevitable as Nation, Policymakers React Quickly to Changes," is the headline in the Dec. 2 *Washington Post,* presenting expert commentary on the theme that, "Many economists believe that this stability could easily continue for years to come because of a host of changes in the economy, including new technologies, the deregulation of many industries and the increased globalization of business and finance." Sources quoted:

Edward Boehme, president of the Philadelphia Federal Reserve Bank: "I think we have a reasonable chance of having a record peacetime expansion. The real world sometimes holds surprises . . . but this is a remarkable period with no noticeable imbalances in the economy." (December)

Charles L. Schultze of the Brookings Institution, chairman of President Carter's Council of Economic Advisers: "We have come to an end of an era dominated by the politics of inflation and unemployment. I won't say we have solved those problems, but apart from something like an oil price shock, we've made an awful lot of progress." (December)

1997

LaRouche: Warns that staying in the stock market means slaughter. He advises: Get out! Go to Treasury bonds, go to gold, and fight for a new financial system to restore the economy:

"The only thing I can say, is that the persons—and there are about 40 million Americans, I think, who are exposed to this, who are betting that they have a pension, and a future invested in mutual funds, onto the stock market, or some plan of that sort—if they stay, they're going to be slaughtered. They'll lose everything.

"Now, there are some people who say, 'Well, tell me what time to get out?' And, people are buying these reports which tell them which way to get out of this stock today, and that one tomorrow, and get into this one, because of this up and down volatility. And, this is going to kill them. . . .

"Sure, Treasuries don't yield as much, but you've got one advantage with Treasuries: The government has agreed to back them up, and you've got something. Whereas, on these indexes, these futures, these options, when that market goes, you've got less than nothing. And, many of you have got life savings in there. Don't keep it there. Don't take the chance. Sure, somebody else may make a lot of money in the short run, maybe they can afford to take the risk. Can you?" (Radio interview with "EIR Talks," Feb. 5)

Writing in *EIR,* LaRouche warns against the delusion, that the so-called "Asian Tigers" of Southeast Asia "typify the glorious future of a world in which national economies have been junked, for the supposed advantages of 'global economy.'. . .

"Do not classify Asia's blowfish among its tigers: Put to one side, the dangerously silly Mont Pelerin Society's choice of monetarist paradise, the non-comparable cases of the Venice-style, 'hot-money' *entrepôts* of Asia, Hongkong, and Singapore. Stick to the relevant cases; contrast the vast superiority of the real 'Asian Tigers,' of North Asia, with the 'Potemkin Village' facade of prosperity, as featured in the Southeast Asia region: the Philippines, Vietnam, Cambodia, Laos, Malaysia, Thailand, Indonesia, et al." (Feb. 7)

And, in an interview to "EIR Talks": "Sometime very soon, between now and the end of the year, possibly in the month of August—more probably, *no later than October,* but certainly, by around the end of the year—this world is going through one or two of the greatest shocks, financial shocks of the century." For those lured to stay in today's "sucker's market," LaRouche advises, "*Get out,* while the getting is good. Don't stay in for that extra buck you just *might* make. You might lose almost everything. *That's* what the story of the soaring stock market means." (June)

Others: Federal Reserve Chairman Alan Greenspan: "There have been occasions when we have been on the edge of a significant breakout," but thus far, the Federal Reserve's response has "turned out to be adequate to stem the atomic erosion." (Feb. 21, in Coral Gables, Florida, at the Atlanta Federal Reserve meeting)

Sen. Phil Gramm (R-Tex.) opposes proposed new Security and Exchange Commission regulations, issued Jan. 26, to force U.S. corporations to disclose their derivatives exposure, complaining that the proposals "will induce firms to use derivatives less." Gramm insists that the derivatives "industry" must be left to regulate itself; and that derivatives losses by Orange County, Procter & Gamble, and others are "isolated" events. (March 4, Securities Subcommittee of Senate Banking Committee)