LaRouche 1995 Warning to State Duma Featured in Russian Magazine

July 14—The Russian monthly journal *VVP* came out today with an article titled "Endgame for Financial Globalization," which we publish here in a translation by *EIR*, along with a commentary by Lyndon LaRouche. Written by Alexei Perochinny and other participants in the "Global Adventure" economics website, the article notably leads with a quotation from LaRouche's June 6, 1995 speech at the Russian State Duma, on the coming breakdown of the global financial system.

The authors draw out the historical comparison of the current crisis with the breakdown in the 14th Century.

The name of the monthly, *VVP*, stands for "Gross Domestic Product" in Russian, but it also coincides with the initials of Prime Minister Vladimir Putin, who is featured in every issue. With a print run of 20,000, *VVP* is circulated at many government ministries and boasts an array of national and regional officials on its advisory board.

Endgame for Financial Globalization

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> Today, especially since 1987, with what's called derivatives speculation, the rate of growth of financial aggregates, attributable to pure financial speculation, is three times, at least, greater than the gross national product of the entire world's economy. If you look at the rate of growth of these financial aggregates, you find that it has gone onto a hyperbolic scale. If you take the rate of growth of the financial aggregates in respect to physical production per capita, it's even worse. Whenever you see that in a physical process, you would say: *"Here is a discontinuity, here is a singularity, we've come to the end of the system."*
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> —**Speech by Lyndon LaRouche at the State Duma of the Russian Federation, June 6, 1995**[1]

The Current Condition of the U.S. Financial System

During the past 12 months (June 2009-May 2010), average monthly U.S. Federal budget revenue was $173 billion, while spending was $287 billion, with the U.S. national debt increasing at an average rate of $139 billion (80% of budget revenue).[2] By comparison, two years ago (June 2007-May 2008) average monthly budget revenue was $214 billion, while spending was $242 billion, and the U.S. national debt increased at an average rate of $46 billion (21% of budget revenue).

Even without adjusting for inflation, we can see that the drastic reduction in U.S. budget revenue, combined with increased outlays, has led to a several-fold increase in the gap between revenue and spending.

Could this gap be reduced by slashing government spending several-fold? Let us look at the breakdown of U.S. spending (average monthly levels over the past 12 months):

- interest on the national debt—$34.7 billion (20.1% of monthly revenue)
- unemployment benefits and food stamps—$18.6 billion (10.7%)
- social programs—$62 billion (35.8%)
- defense—$55 billion (31.8%)
- healthcare—$84.6 billion (48.9%)
- other (science, the space program, infrastructure)—32 billion (18.5%)

1. Schiller Institute of Science and Culture, Bulletin No. 6, http://larouchepub.com/russian/bulletins/sib6/sib6b.html
2. U.S. Department of the Treasury, https://www.fms.treas.gov/mts/index.html

No, it could not be done. Slashing the budget would lead to serious social disturbances. In effect, for the past year and a half the United States has been maintaining its Armed Forces and issuing social payments with other people's money, since they do not have the resources themselves.

Could the gap be closed through radical tax increases? U. S. corporations and the population are just as overloaded with debt as the Federal government. For example, in Q1 of 2010, U.S. household debt was $13.5 trillion, while non-financial business debt was $10.5 trillion;[3] in total, $79,000 per capita or $183,000 per employed person. The enormous amount of funds required to service these debts represent a hidden tax, in favor of international private capital. Redistributing this tax to the advantage of the Federal budget would be possible in theory, if it proved impossible to mitigate the budget problem radically in some other way, *but this would take nationalizing the financial system and launching quasi-socialism.* This would be suicidal, and therefore unacceptable, for the U.S. elites, who are closely intertwined with the financial oligarchy. Attempting to increase tax collection without writing off debt, however, would trigger a new cascade of bankruptcies, a several-fold jump in unemployment, and social chaos.

Thus, there is no exit from the budget crisis within the framework of the existing U.S. financial and political system.

The growth of the short-term portion of the U.S. national debt, compared with budget revenue, resembles a tsunami. As of May 2008, the amount of debt falling due within the subsequent three months was equal to 410% of average monthly revenue. By May 2010, this amount was 827% of monthly revenue.[4] In dollar terms, it reached $1.4 trillion.

VVP*'s current issue features Russian Prime Minister Vladimir V. Putin (left) on its cover, with his counterpart from Kazakstan, Karim Masimov.*

In other words, in June-July-August of this year, the U.S.A. has to pay off a sum which is greater than its revenue for the past eight months. Looking at the payments due in the six-month period immediately ahead, the total nearly equals the entirety of the preceding year's revenue!

As of now, the United States is making its debt payments and covering the current deficit, exclusively on the basis of pyramid-type borrowing. What is the limit to the growth of the pyramid? An indirect indicator is provided by comparing the size of the national debt with the broad money supply. In August 1998, for example, Russia defaulted when net claims against government agencies equaled 90.2% of the money supply.[5]

The size of the U.S. money supply M3 has been classified information since 2006, but it is tracked by a number of analysts,[6] who have noted a rapid reduction of M3 since June 2009. They estimate M3 at $13.46 trillion as of May 24, 2010 (compared with $15.12 trillion on June 15, 2009, i.e., 11% shrinkage has been recorded, without adjusting for inflation). *At the end of May 2010, the U.S. national debt stood at $12.99 trillion, or 96.5% of M3, thus surpassing the corresponding indicator for Russia in August 1998.*

What are the consequences of this? Servicing the government debt pyramid requires more and more of the available money, leaving other sectors of the U.S. economy fewer and fewer funds for operating. If the reduction of M3 does not stop, the withdrawal of money from economic circulation into the U.S. debt pyramid will cause a massive disruption of economic ties, a transition to quasi-monetary surrogates, and a further cascade of bankruptcies.

How may the drop in M3 be turned back? Within the existing system, there is no way to do that. The option of bankruptcy and nationalization of the banking system

3. U.S. Federal Reserve System, http://federalreserve.gov/releases/z1/Current/z1.pdf
4. U.S. Department of the Treasury, http://treasurydirect.gov/

5. Central Bank of the Russian Federation, http://www.cbr.ru
6. Independent analysts, http://nowandfutures.com/key_stats.html

is possible, but unlikely for political reasons. The remaining option is hyperinflation.

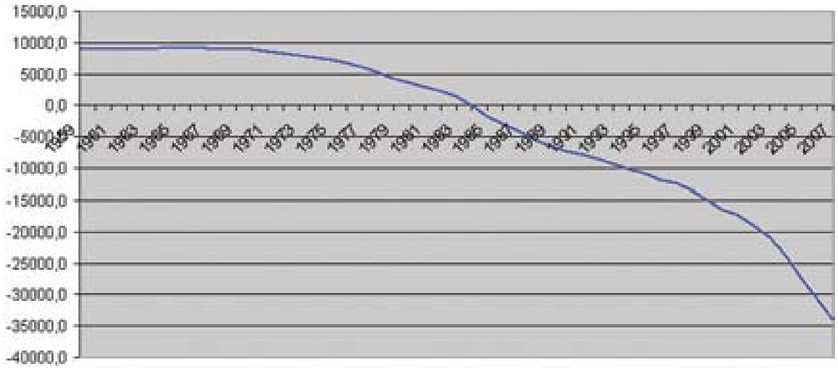
The timely panic in Europe (fanned by rating agencies and media which are under U.S. control) led to capital flight from Europe into the U.S. government debt pyramid. This bought time, or else the U.S.A. would already now be facing problems with refinancing the national debt, and the "GKO" pyramid would have already moved into a steep and rapid growth of interest rates, after which the collapse of the global financial system would become a matter of hours, considering the enormous mass of interest swap derivatives linked to those rates.

But the "rape of Europe" did not solve any of the U.S. financial system's fundamental problems. It only bought a little time.

FIGURE 1

Net Savings, U.S.A.

($ Billions, 2007)



Source: U.S. Bureau of Economic Analysis.

The graph shows the total of savings and capitalized profit in all sectors of the U.S. economy: financial and non-financial companies, small businesses and farmers, households, and federal and state governments, less the liabilities (debt minus corporate equities) of all non-financial sectors. (www.avanturist.org)

Fundamental Causes

Let us look at some long-term trends (**Figure 1**).

Here we see two key dates:

- 1968 was the turning point, since which time the U.S.A. has consumed more than it produces (first and foremost, by reducing investment in infrastructure and creating pension obligations with nothing to back them up). This should be viewed as the launch date of the greatest financial pyramid in the history of mankind.
- 1985: the net savings rate dropped into the negative, after which the U.S. financial system has existed exclusively at the expense of the rest of the world. The disintegration of the USSR was quite timely, allowing the base of the pyramid to be expanded, thus postponing its collapse. Otherwise, it would have occurred in the 1990s.

The degradation of the U.S. economy is easily apparent from looking at a key real sector indicator, energy consumption in manufacturing, expressed per capita. Taking 1973 as 100%, we see a gigantic shrinkage:[7]

1973	100%
1980	91.43%
1990	82.78%
2000	80.16%
2008	66.91%

The reduction of investment in infrastructure can be traced by such indicators as steel and cement output. In 1973, per capita U.S. steel production was 646 kg, but by 2008 it was 303 kg (47% of the 1973 level).[8] Per capita cement production in 1973 was 366 kg; in 2008 it was 285 kg (78%).[9] This contraction means that new facilities and infrastructure, such as factories, railroads, and power plants, were not built, depriving future generations of productive jobs.

The outcome was that the share of workers employed in manufacturing has been in decline since the 1960s (as a percentage of total employed). Productive jobs were replaced by non-productive ones:[10]

1960	35.5%
1970	31.6%
1980	27.2%
1990	21.7%
2000	18.7%
2010	13.6%

As a result, starting in the 1970s, the U.S. balance of trade shifted from being consistently on the plus side, to

7. U.S. Department of Energy, http://www.eia.doe.gov

8. U.S. Geological Survey, http://minerals.usgs.gov/ds/2005/140/iron-steel.pdf

9. U.S. Geological Survey, http://minerals.usgs.gov/ds/2005/140/cement.pdf

10. U.S. Department of Labor, http://www.bls.gov

being consistently in deficit. In the 1980s, it fell into an abyss (the table shows millions of dollars):[11]

1960	3,508
1970	2,254
1980	–19,407
1990	–80,864
2000	–378,780
2008	–698,802

The nation has long since ceased to be able to provide for the needs of Americans.

The gigantic gap between the "flourishing" virtual economy, measured in monetary indicators, and the decaying real sector, measured in physical units, should be seen as the fundamental cause of the crash.

We draw the following conclusion. In the 1960s, the U.S.A. abandoned a productive economic model and launched the build-up of parasitical financial sectors, exporting them to other countries under the banner of "financial globalization" and "free trade," which have become the modern equivalent of colonialist taxation. The years-long decay of the U.S. real sector was masked by a superficial luxury, achieved by cutting investment in infrastructure, as well as through a stream of imported goods and national wealth from other countries, paid for in the form of "securities" of one sort or another. This is no different from any other financial pyramid. The only difference is the scale.

The gigantic gap between physical and monetary indicators is not only a U.S. problem. In many European countries, especially Britain, the statistics show exactly the same problem, compounded by a very high level of energy import dependency, which was 53.1% for the European Union in 2007![12] At the same time, energy consumption by industrial manufacturing, expressed per capita, is extremely low in Britain: 0.5 tons of oil equivalent in 2007, which is the same level as in Estonia, except the living standards of Britain and Estonia differ by orders of magnitude. *The U.S. financial oligarchy really copied the British model of imperialism only after World War II, whereas in London it was implemented earlier.*

This skewing, with the divorce between the real economy and the virtual, will be destroyed with the collapse of the global financial system.

11. U.S. Bureau of Statistics, http://www.census.gov

12. EU statistics, http://epp.eurostat.ec.europa.eu/

Scenarios

Thus, it will not be long before the crash of the global financial system. What may be expected to happen afterwards?

Forecasting is made difficult by the lack of historical precedents. A crash of the global financial system is a rare event. During the Great Depression, for example, only certain of its nodes were destroyed, such as the financial system of Weimar Germany with the hyperinflation that occurred. The difference is that, in the 1920s, the planet's world financial system looked entirely different. It was like a submarine with many hermetically sealed compartments, improving the viability of the system as a whole. *Since then, the partitions between compartments have been largely destroyed by "financial globalization." Now, when the key node of the financial system is destroyed, the entire assembly will go to the bottom.* The fate of Weimar Germany threatens most of the planet, with the exception of individual countries which have been able to preserve their sovereignty on questions of financial policy, and will be able to launch "lifeboats" quickly, i.e., to launch strong regional currencies and close their borders to paper trash from the dying systems.

Some experts think that the closest historical analogy to the present events is the bankruptcy of King Edward II of England in 1345, when England's "GKO" pyramid collapsed, after having sucked up a significant part of all the savings in Europe. This touched off a domino chain of bankruptcies of the entire European banking system and a large-scale economic collapse (see box p. 25).

Is it correct to expect events like those of the 1340s? We don't know. In any event, the analogy is not a complete one. Among other things, there were no arsenals of weapons of mass destruction at that time. But we can expect the scale of the events to be comparable.

The crash of financial globalization will lead to chaos in foreign trade and a review of the existing distribution chains, for things of economic value.

Things will be especially bad for those who have a large foreign trade deficit and critical levels of import-dependency in areas like energy and food. If we review major countries by physical productivity, and the composition and volume of exports and imports, we can identify the following risk groups:

1. The death group: Japan, Britain, Ireland, Greece; among Russia's neighbors, typical members of

this group are the Baltic countries, Kyrgyzstan, and Tajikistan. Countries in this group will likely face real shock processes. Mass famine, annihilation of the social infrastructure, and epidemics cannot be ruled out.

2. The high-risk group: U.S.A., Italy, Ukraine, France, India, Portugal, Spain, the Netherlands. A several-fold decline in the standard of living should be expected in the countries of this group. Coups and changes in the form of government cannot be ruled out. If society becomes ungovernable, such countries may move into Group 1.
3. The moderate-risk group: Germany, China, Brazil, Austria, Belgium. The main risk for these countries is their energy import dependency. If they lose their sources of energy, shifts into Groups 1 and 2 cannot be ruled out.
4. The low-risk group: Russia, Kazakstan. These countries are self-sufficient in energy, food, and defense, are not overloaded with foreign debt, and have excellent balances of trade. We estimate the chances for these countries to avoid chaos as high, compared with any of the BRIC [Brazil, Russia, India, China] or G7 countries. The main risks are associated with threats coming from fifth columns, coordinated from outside, as well as with the diversion of capacities and resources into conflicts on the periphery. If Russia can avert internal upheaval, as well as the destruction of the economies and political systems of such key neighbors as China and Germany, then it has the right to count on having the status of a leader, in partnership with them, of the new world.

The Crash of the European Financial System in 1345

Published in VVP *with this article.*

Giovanni Villani, who lived during these events, wrote these entries in his diary, the *New Chronicle*:

"In January 1345, the Bardi company, Italy's largest enterprise, went bankrupt. The reason was that they, like the Peruzzi, had invested their own and others' funds in the affairs of King Edward of England and the King of Sicily. Therefore they were unable to pay people of the city and others, to whom the Bardi alone owed more than 550,000 gold florins. Many other, smaller companies and private persons, who had entrusted their property to the Bardi, the Peruzzi, and other bankrupts, went under in the crash. . . . Let the reader try to imagine what money and valuables our citizens lost, having trusted them to kings and rulers out of thirst to make gain. O cursed and greedy she-wolf, full of vicious avarice, which reigned in the souls of our blinded and deranged citizens, who handed their own and others' property to the powerful of this world in hope of enrichment! By that cause, our republic lost all influence, and the citizens remained without means of subsistence, except for a few tradesmen and the usurers, who extorted the last crumbs from the inhabitants of the city and its surroundings. But it is not without cause that the Lord's vengeance strikes the towns and their citizens, but it is a punishment for their sins, as Christ himself spoke: "Die in your sin," etc. That is enough, and perhaps too much said about this indecent subject. *Yet, in gathering together the reports about those memorable events, the truth should not be concealed, but it should serve to teach and forewarn future generations."*

The chain of defaults cascaded throughout Europe, as even the Papal Curia defaulted.

Villani wrote: "For Florence and the whole Christian world, the losses from the bankruptcy of the Bardi and the Peruzzi were more severe than from all the wars of the past. Anyone who had money in Florence lost it, and outside the republic famine and fear reigned everywhere."

The 100-150 years that followed are known as the "late Middle Ages," a period Europe remembers for such events as the Hundred Years War and the Black Death, and for numerous uprisings and rebellions.

The elites of the high-risk group countries are working very hard not to depart from the world scene as nonentities held in contempt by all. *The financial oligarchy of Britain and the U.S.A. is currently the highest threat to civilization.* The scenario of a controlled hyperinflation of the dollar is the most favorable for those groups, since it would allow them to avoid nationalization and to concentrate a maximum share of real assets in their hands.

The financial oligarchy's ideal Operation Barbarossa looks like this: hyperinflation of the dollar, introduction of dictatorship in the U.S.A., enslavement of neighboring countries (Canada, Central and South America), chaos throughout the rest of the planet, inducing rivals to do themselves in, if possible, and a replay of the Marshall Plan for the purpose of achieving control over those who survive. The global chaos will allow them to stake a claim to hold on to their power, despite what happens in the U.S.A., because the majority of the planet will be in even worse shape.

Special attention should be paid to the Middle East, which serves as the "battery" of the Eurasian economy. A blow-up in the Middle East will plunge most of Eurasia into chaos.

This means no future. It is the most likely course of events. There are others. But what can be said with certainty is that the Autumn carnival called "Financial Globalization" is coming to an end, and the planet is on the threshold of a severe Winter.

Thank you for your attention.

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LaRouche Replies: One Crucial Error

July 14, 2010
TO: ALEXSWORD
The entire report, "Endgame for Financial Globalization," fails on only one crucial account; it draws mistaken conclusions respecting the effects of the present world crisis, by accepting the currently prevalent, international presumption respecting the role of money as such. Specifically, most of the current financial accounts of nations and governments depend upon the presumption that money, as presently defined, represents economic value. Whereas, in fact, since August 1971, the introduction of financial derivatives launched under U.S. Federal Reserve Chairman Alan Greenspan, created an implicitly hyperinflationary global effect by unleashing a flood of worthless financial capital, called financial derivatives, which now vastly exceeds money circulating within the physical economy, that by orders of magnitude, by the accelerating hyperinflationary ratio of mere financial speculation to the throughput of the physical economy.

What occurred, exactly as I had warned in a July 25, 2007 webcast, has been a planet-wide general breakdown-crisis of the planet as a whole.

Thus, without the urgently needed, immediate expulsion of U.S. President Obama from the U.S. Presidency, there is no chance that any part of the world economy and social order will outlive the continuing chain-reaction steps of collapse, marching down the steps of Odessa—step by step—as in the Russian soldiers in *The Battleship Potemkin*.

We are currently crafting a tensor model of the type of our model of Gauss's defining of the orbit of Ceres, to show the actual essentials of the currently onrushing breakdown-crisis of the U.S.A. The breakdown of the U.S. economy would launch an immediate breakdown-crisis of the entirety of the Trans-Atlantic world, and the ensuing collapse of the Trans-Atlantic world would generate a breakdown-crisis throughout the Trans-Pacific sector of the world.

The stipulations we are employing are identical in form with the 11-minute video treatment of this determination of the Ceres orbit on my LPAC website.

Greetings!
—Lyndon.