Monetarism Is Dead; Bury It Before It Buries Us

by John Hoefle

Nov. 7—We are quickly running out of time to avert the greatest catastrophe mankind has inflicted upon itself since at least the Dark Age of the 14th Century. It does not have to happen, but it will, unless we wise up pretty damn quickly. The world as we know it is breaking apart, economically, politically, culturally, and morally, as the financiers of the Anglo-Dutch Liberal empire scramble to steal all they can as their global financial system dies, leaving the vast majority of the population to fend for itself.

These imperial financiers have launched a concerted push to stampede nations into capitulating to their demands for a global corporatist dictatorship. We must act quickly, they assert, since they intend to ram their fascist reorganization through before people realize what is being done.

The monstrous policy they are presenting as a "solution" to the financial crisis is a fraud. First, it must be clearly understood that what is being proposed is geopolitical, not financial—under the guise of saving the values of financial assets, they are targetting for destruction the nation-state system itself, intending to take the world back to the days when empires ruled the world, and the people had no governments to protect them. Second, their attempt to "downsize" the global population, is explicitly genocidal. The financiers of the empire plan to wipe out large swaths of what they see as "useless eaters" and unwanted competition for global resources. In their view, these resources belong to the empire, not to the nations within whose borders the resources are located. Third, what these rabid imperialists do not understand is that they, by these ac-

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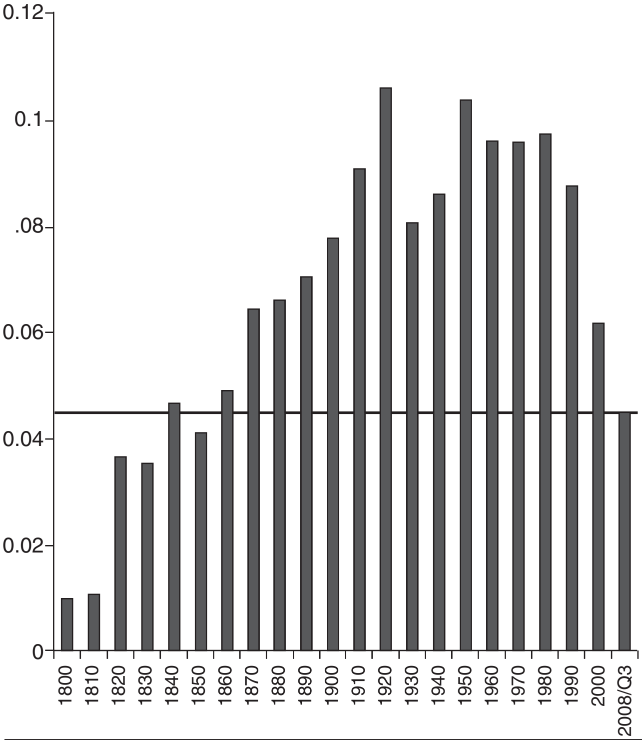
A gantry crane loads ships in Rotterdam harbor. If the banking system cannot lend for global shipping, what good is it? It has to be put under bankruptcy reorganization!

FIGURE 1
Shipping: Baltic Dry Index, 2008

Source: Capital Link Shipping.

FIGURE 2
U.S. Manufacturing Workers Per Capita, 1800-September 2008
(Workers, Per Capita)



Sources: Bureau of Labor Statistics; Census Bureau.

tions, are triggering a holocaust which they can not control and can not themselves escape. There will be no safe havens when the Four Horsemen of the Apocalypse are fully unleashed, and civilization crumbles into a new Dark Age.

Breakdown Crisis

We will look at how we got to this point, but first we should look at the consequences we face in the immediate period ahead, as the credit upon which global economic activity evaporates, starting with the breakdown of international trade.

The shipping of goods around the world revolves around a system of credit lines and letters of credit, in which the banks of the buyers guarantee payment for goods to the banks of the sellers. Shippers are reluctant to put cargoes on boats and planes without a guarantee that the buyers on the other end will pay for the shipments, and due to the banking crisis, such guarantees are becoming more expensive, and harder to come by.

Banks worldwide have significantly curtailed lending for shipping, both for cargoes and for the construction of new ships, with disastrous effects. The situation has gotten sufficiently serious for the World Trade Organization to issue a warning, and request a number of big trade-finance banks to attend a Nov. 12 meeting on the subject. This comes on the heels of the problems caused by high fuel costs in the past year.

The lag in global shipping statistics makes it difficult to show short-term trends, but the Baltic Dry Index does serve as an indicator, of sorts, of shipping activity; and it has dropped precipitously, off some 90% since its peak in May (**Figure 1**).

For the banking system to restrict world trade is insane, since without trade the world can not function. If the banking system can not perform this essential service, then the banking system must be reorganized. Banks which can not meet their responsibilities are of no use to anyone other than the parasites themselves.

Similar problems can be found in the United States, where unemployment reached 6.5% in October, the highest in 14 years. Some 1.2 million jobs have been lost this year, half of them since August. Manufacturing workers, a useful proxy for productivity, fell to 13.28 million in October, and on a per-capita basis below the level of 1860, before the Civil War (**Figure 2**)! The effects of globalization and foreign competition have devastated domestic manufacturing, most notably the auto sector, which is being further damaged by reduction in the credit available to potential customers. GMAC, the credit company owned by GM and Cerberus, is exploring the possibility of becoming a bank holding company, to tap into the Treasury bailout.

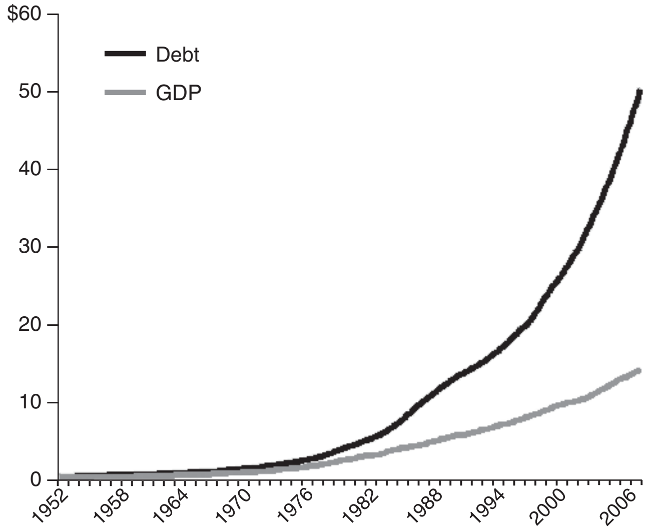
The lack of credit, coupled with other economic problems, is also causing problems for retailers, a significant problem for an economy as dependent on consumer spending as ours. Without credit, consumers can not buy, and if they don't, a large section of our economy, and the economies of our trading partners, such as China, will also collapse.

The issue here is not simply credit—in fact, one could argue that under current conditions, additional loans should not be issued, given the bankruptcy of the global financial system and the hyperinflationary effects of adding further debt to a world the productive capacity of which is rapidly falling.

We are in a breakdown crisis, in which the financial system has died, and can not be revived. The world is collapsing under the weight of an enormous mountain of debt, a debt which can not be paid. One need merely compare the rate of growth of debt in the U.S. economy with the rate of growth of GDP, to get an idea of the problem (**Figure 3**). Adding more debt makes the situation even more untenable, while cutting off new lending will stop the economy in its tracks. The same can be said for having the Federal government bail out the banks, since even before the new bailout program, the U.S. faced a severe budget deficit (**Figure 4**).

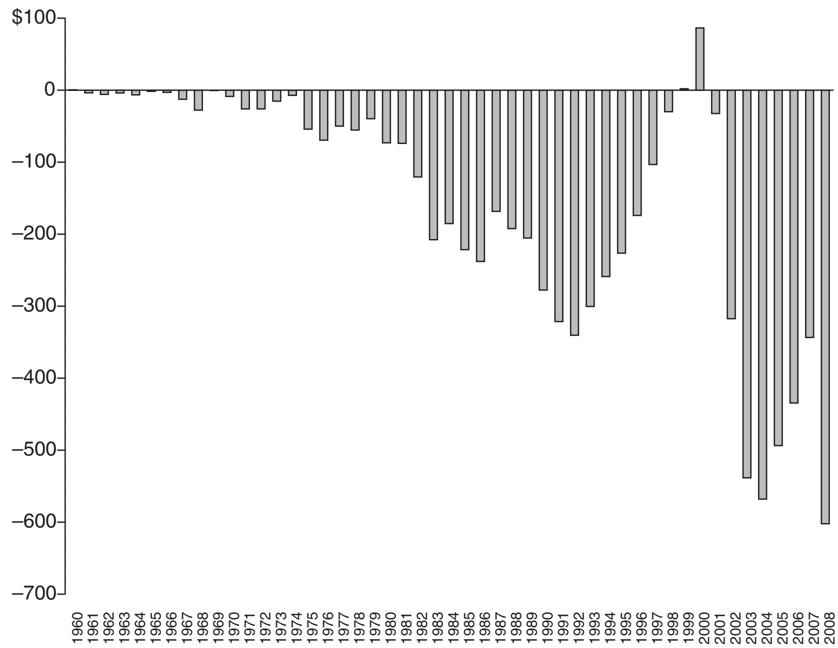
This is a problem that can not be solved by monetary policy, as the solution lies in the realm of physical economy, and the application of human creativity to raising productivity and energy flux-density. We must produce our way out of this crisis, and the first step is to write off the debt incurred by four decades of financial parasites under the thumb of the Anglo-Dutch Liberal system. It is that system which

FIGURE 3
U.S. Debt Outstrips GDP, 1952-June 2008
($ Trillions)



Sources: Bureau of Economic Analysis; Federal Reserve.

FIGURE 4
U.S. Federal Budget Awash in Red Ink
(On-Budget Surplus/Deficit FY 1960-2008, Pre-Bailout, $ Billions)

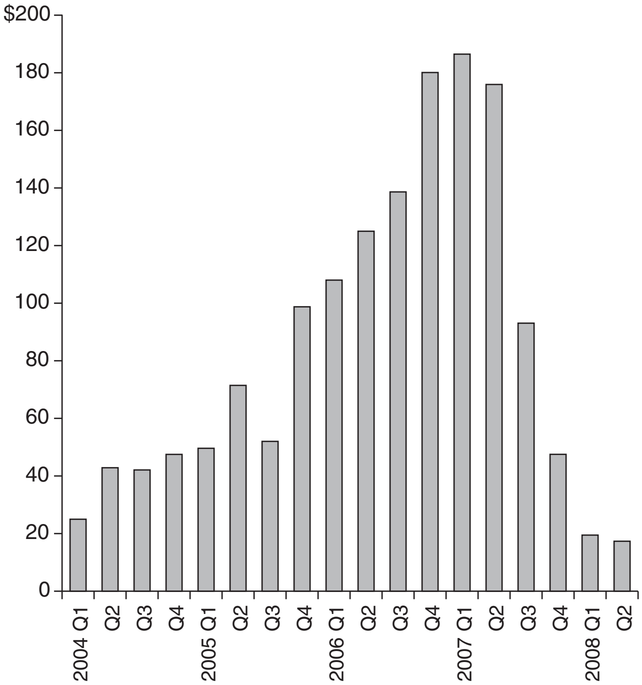


Source: Office of Management and Budget.

FIGURE 5

CDO Market Dries Up

(Global Issuance of Collateralized Debt Obligations, by Quarter, 2004-June 2008, $ Billions)



Source: Securities Industry and Futures Market Association (SIFMA).

has failed, and we must abandon it, and return to the American System of political economy, with its emphasis on scientific development and a Hamiltonian credit system. We are quickly running out of time.

Watershed

September was a watershed month for the financiers, as one element after another of their system collapsed. Fannie Mae and Freddie Mac were taken into Federal conservatorship; Lehman Brothers failed; the Federal Reserve intervened to protect the credit-derivatives market from a failure of AIG; Merrill Lynch sought the illusion of safety via a takeover by Bank of America; Goldman Sachs and Morgan Stanley became bank holding companies in an attempt to survive; Washington Mutual became the biggest admitted bank failure in U.S. history, when it was closed by the Office of Thrift Supervision and sold to J.P. Morgan Chase. In Britain, two big banks, Lloyds TSB and HBOS, announced a merger, while the smaller Bradford & Bingley was nationalized, and its branches sold to Abbey, the bank owned by Spain's Banco Santander. Iceland began the nationalization of its banking system with the purchase of a stake in Glitnir, and the Belgian, Dutch, and Netherlands governments took effective control of Fortis, one of the world's trillion-dollar giants. September also saw a flight forward on the regulatory front, with U.S. Treasury Secretary Henry Paulson demanding virtually unlimited powers to intervene in the financial system, and the Fed significantly expanding emergency lending programs.

Now, in early November, we have reached the point where the U.S., British, and other governments are pumping hundreds of billions of dollars into their top banks, and the Fed, the European Central Bank, the Bank of England, and other central banks have injected more than $7 trillion into the banking system through a hodgepodge of bailout programs. Yet, after nearly a year of ever-increasing bailout operations, the system remains as Lyndon LaRouche described it in July 2007: dead. Trillions of dollars have already been spent, and far more has been committed via government guarantees.

One might be tempted to think that the bailout has therefore been to no avail, but the truth is far worse: The bailout has been quite destructive, from the standpoint of both triggering hyperinflation, and of blocking the attempt by LaRouche to organize a real solution.

Run on the System

Global financial markets are now in the deadly embrace of a run on the system, as banks, hedge funds, and other speculators (or "investors," as they prefer to consider themselves) flee to what passes for relative safety in a dead system. This run is centered in the derivatives markets, a multiquadrillion-dollar unregulated casino where bets have been placed on virtually every bond, stock, currency, company, and index known to man, and perhaps some which are not. As these derivatives bets proliferated, a vast pool of off-balance-sheet "funny money" was created, and treated as if it were real. As long as the derivatives market was growing, large profits were booked, even larger piles of assets were accumulated—all of which created the illusion of great wealth. Making things worse, this speculation occurred with large amounts of leverage, or borrowed money, which allowed speculators to place bets in amounts many times in excess of what they could have bet had they been limited to using their own money. The result has been the greatest specula-

EIRNS/Christopher Lewis

German autoworkers from the IG Metall union on a warning strike at a GM Opel plant near Frankfurt on Nov. 5. The global credit squeeze has slammed the already hard-hit automobile sector particularly hard.

tive bubble—and pyramid scheme—in world history, creating the largest pool of fictitious capital the world has ever seen.

That bubble has popped (see **Figure 5** for one indicator), and the edifice that was built with that leverage is collapsing with far greater speed, in a reverse-leverage death-spiral.

Reverse-leverage may sound complicated, but the process is easy to understand. Leverage was used to allow speculators to borrow money at low interest rates, and bet that money in the markets. When it worked, the profits on the bets were sufficient to allow the borrower to repay his loans, and turn a larger profit than would have been possible without the loans. The danger was that the speculators could lose their bets, leaving them in a position of not only losing their money, but still being on the hook to repay their loans. That is, their losses could exceed their capital many times over. Banks, hedge funds, and other gamblers caught in such a trap, could quickly incur losses far in excess of what their economic models claimed were possible.

As this pyramid scheme collapses, speculators worldwide are being hit with repayment demands and margin calls; and they are being forced to liquidate assets, to come up with the cash to meet their obligations. The result is a mob of desperate sellers driving down prices; and the more prices fall, the greater the losses, the more margin calls, triggering further selling, and so on, like water circling in a toilet.

At the same time, all the players are desperately trying to convert their funny money to real dollars before the system collapses completely. The problem is, despite the central banks' money-pumping frenzy, there isn't anywhere near enough money to go around. In this game of musical chairs, the music is stopping, and there are way too few chairs.

Stealing from the Public

When everyone wants to sell, who does the buying? Increasingly, the answer to that question is: a government or a central bank. In the early days of the crisis, before it exploded so publicly, the big banks would unload their bad paper on state and local governments, but that only worked for a while, until those governments started taking big losses. The banks also sold some of their bad paper to vulture investors who believed that the markets would return, and big profits could be had by buying assets "cheaply"; the vultures were soon disabused of that notion. The banks also sold off bunches of their bad paper to hedge funds and special purpose vehicles they set up as toxic waste dumps, often lending the buyers the money to make the purchases. At this point, the financial world is littered with more buried bodies than a mafia garbage dump.

As the speculators' desperation grew and they ran out of suckers to rip off, they increasingly turned their attentions to governments. Initially, the banks began unloading their bad paper on the central banks as collateral for loans, and as the crisis deepened, the central banks both increased the size of their loan programs and loosened their collateral standards, taking in ever-larger amounts of bad paper. The nominal reason for these loans was to deal with the "credit crunch," but they were really intended to deal with a solvency crisis by exchanging worthless securities for cash.

It was not enough—by a long shot. Though the tens of billions turned into hundreds of billions and then into trillions of dollars, the losses grew even faster, leaving the banks with more bad paper than ever before. With the hole growing faster than it could be filled, a new plan was launched, to have the Federal government buy the bad paper directly.

The result was Secretary Paulson's bailout plan, submitted to Congress in mid-September, accompanied by a demand that the plan be passed without modification. What Paulson got was a bill that gave him most of what he wanted, including giving him the power to decide which institutions might survive for a while and which would not. In presenting the plan, Paulson asserted that it was well thought out, carefully crafted to deal with the problem, and absolutely necessary.

Then, a week after he got what he said he needed, he threw out the plan, and adopted one cooked up by the British.

Under the British plan, the governments would inject capital directly into the banks, by buying equity stakes. The British injected some $87 billion into several large banks—the Royal Bank of Scotland (RBS), Lloyds TSB, and HBOS. All three banks had been mortally wounded, with RBS suffering the indignity of runs at its Coutts unit, bankers to the Queen. RBS had also been one of three banks which won a battle for Dutch giant ABN AMRO; the other banks in the consortium were Fortis, the Belgian-Dutch bank, and Spain's Banco Santander. Like RBS, Fortis was semi-nationalized by its governments, while Santander is on life-support from the European Central Bank.

Despite having rejected the idea of buying equity in the banks, Paulson adopted the British plan. We suspect it wasn't entirely voluntary, since the change followed a visit to the United States by the plan's spokesman, British Prime Minister Gordon Brown. Paulson quickly announced that the Treasury would spend $250 billion of the $700 billion authorized by Congress to buy bank stocks, with the first half of that money going to nine banks (J.P. Morgan Chase, Citigroup, Bank of America, Wells Fargo, Goldman Sachs, Morgan Stanley, Merrill Lynch, Bank of New York Mellon, and State Street), with the rest to be spread among smaller banks.

However, the real purpose of the cash injections was not simply to save banks, but to force a consolidation of the U.S. banking system. This intent was demonstrated in the takeover by PNC Financial of National City Corp., when Treasury denied National City the funds it needed to stay independent, instead telling it to find a buyer, while giving PNC significantly more in cash than it needed to buy National City.

Corporatism, and Worse

Unless we break with these Anglo-Dutch Liberal system policies, we are heading inexorably into corporatism, a world run by a small group of global financial and corporate interests which will savagely loot the people of the world to protect what they see as their right to rule the world, and exercise control over all of its resources. The oligarchs have made their intent clear in many public statements, despite the veneer of the "saving the little people" propaganda they spin around their plans for public consumption.

As the physical economy collapses, our ability to support human life plunges. People will die not only in Asia, Africa, and Ibero-America, but in the United States and Europe as well. People will die, nations will die, cultures will die, all because those who could turn the situation around—people who could force a change in policy that could save humanity—refuse to act.

This great tragedy does not have to happen. The policies to solve the problem exist, as do significant numbers of people devoted to organizing the solution.

To those of you still on the sidelines, we say, join with Lyndon LaRouche and his political movement, and help us save mankind. Taking on the empire is not nearly as risky as refusing to do so, and there is precious little time left.

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