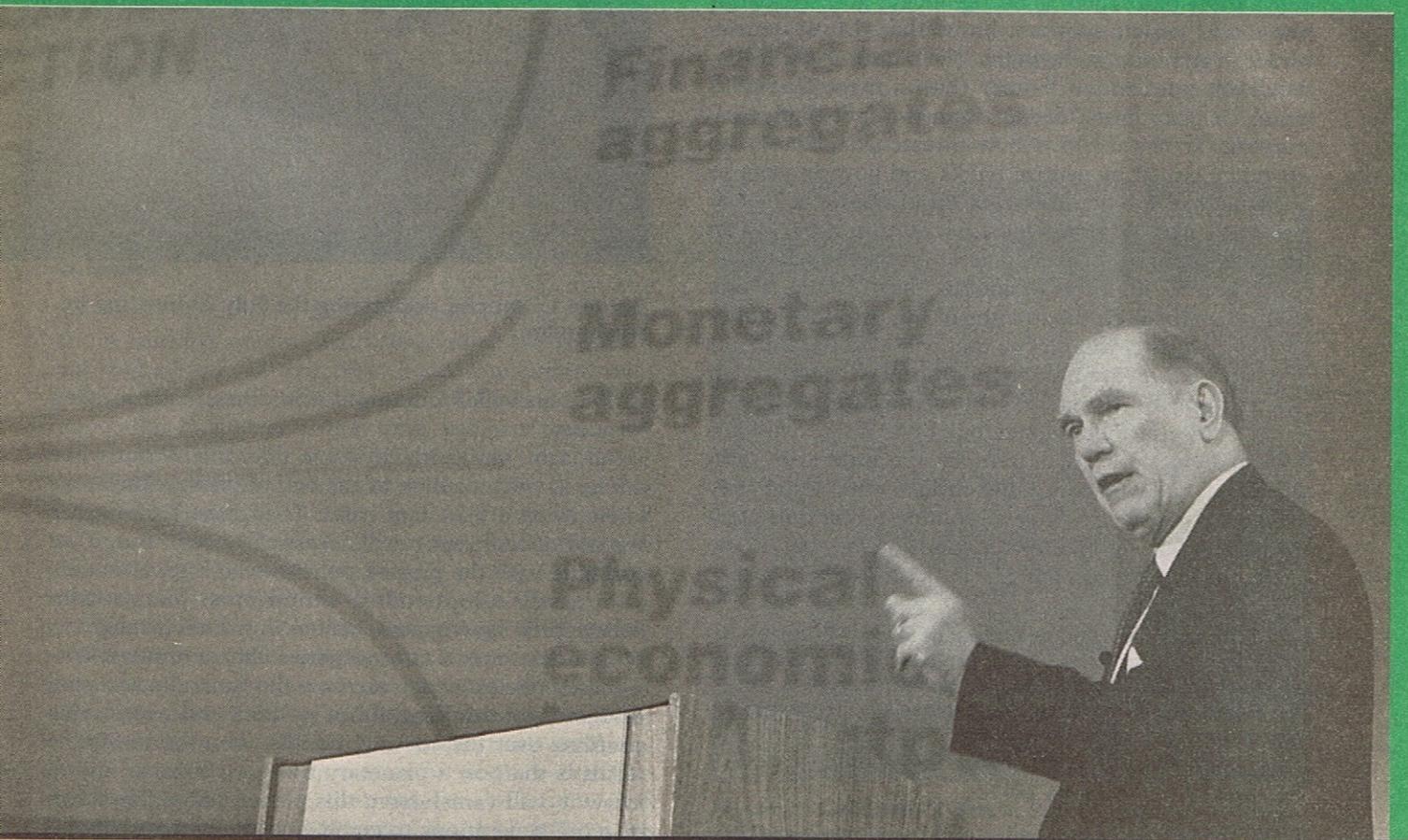


**The Coming
Disintegration
Of the
Financial
Markets**

LaRouche on How To Save The World Economy



LaRouche's
COMMITTEE FOR A
NEW BRETTON WOODS

Suggested
contribution **\$1**

Laying Down The Laws of

by Lyndon H. LaRouche, Jr.

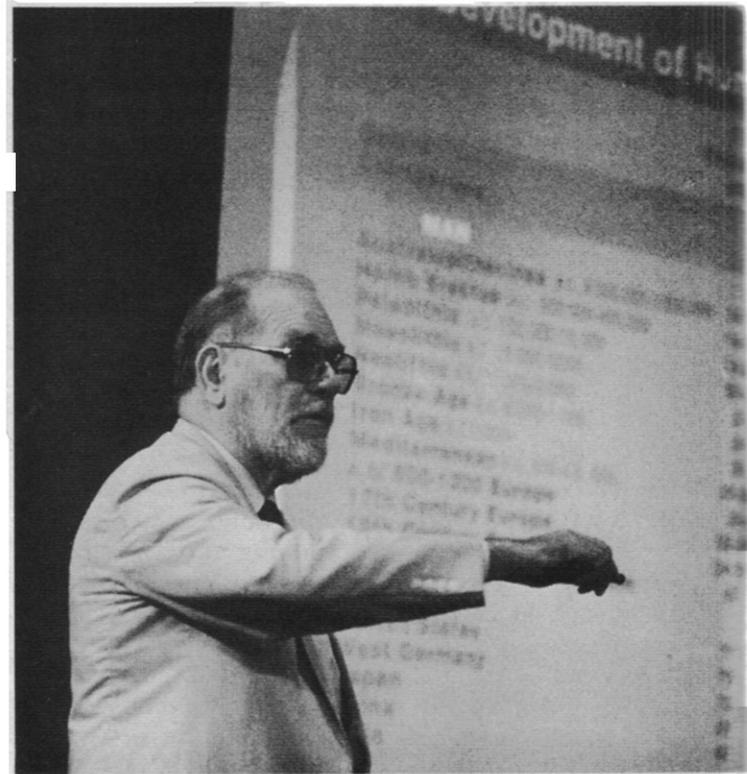
What follows is the full text of the speech Democratic Presidential pre-candidate LaRouche gave on July 23 in Washington, D.C., at an EIR seminar titled "War on the British, or, How To Save the Economy." Subheads have been added.

Today, the question of a worldwide financial crash, something far more severe than 1929-1931, is no longer a matter of forecasting. The crash is already here. You see it occurring in Southeast Asia, where the Asian Tigers are now dead pussycats: It's a dead cat bounce among the Asian Tigers. You see this in the fact that every currency in the world is threatened, and that will become somewhat clearer before the end of today's sessions, for those of you who don't know that. There is no significant government in the world which does not know that this system is about to go bump in the night. The nature of the crisis, however, goes much deeper than a mere financial crash. It goes much deeper than the fact that every currency in the world is now threatened; that is, the currency issued by central banks and governments in every part of the world is now up in question. It may become virtually non-negotiable within a period as early as months, in some cases, or maybe all cases. We're now on the verge of another major bump, which will occur between the months of August and October of this year. This will be one that will tend to clean out the suckers who are investing in the stock market or in the mutual funds market, those who are not smart enough to pull their money out first. Those who are foolish enough to stay in to make that little extra margin of profit, who are going to lose everything they have as a result of trying to gamble on getting—you know, the fellow who makes that one last bet at the table, and loses everything? That's an American trait,

ON THE COVER: Lyndon LaRouche is shown during his 1996 Democratic Presidential pre-candidacy, discussing his 'triple curve' Typical Collapse Function graphic, showing financial and monetary aggregates soaring, while the real economy plummets.

LaRouche's Committee For A New Bretton Woods
P.O. Box 89, Leesburg VA 20178

LBW-97-501



EIRNS/Stuart Lewis

Lyndon LaRouche, addressing the July 23 meeting in Washington.

isn't it? on which organized crime has made a living for years.

All right, so it's much worse than this. What we're doing, is we're coming to the end of civilization as we know it, on a planetary basis. That doesn't mean that the end of civilization will necessarily occur. But, if we continue with the present policies which governments adopt, still adopt today, which most people who believe their newspapers, believe in, which is taught in economics courses in universities almost universally—if these policies, which are now the generally accepted **mainstream thinking about politics and economics** continue over the coming months, then the inevitable result is that, on a planetary basis, civilization, as we know it, will vanish from this planet, for perhaps two or more generations to come, and the human popula-

Physical Economy

tion will fall, over two generations, to perhaps as low as, or lower than, the several-hundred-million level of population which dominated this planet between the period from the early Roman Empire through the Fourteenth Century of Europe.

So we're not talking about how to bet on the stock market. We're not talking about where to park your money while the storms blow over the financial system; we're talking about saving the very existence of this civilization, planetary-wide, as it presently exists.

The only comparable, relatively recent experience in the history of European Civilization takes us back to the

Fourteenth Century in Europe, where a collapse of the entire banking system, which was called the Lombard banking system, at that time, a collapse caused by a debt crisis, was associated with a 30% collapse in the population of Europe at that time, and over the period of the middle of the Thirteenth Century to approximately the middle of the Fourteenth century, the population of Europe collapsed by half. Half the towns and villages of Europe vanished from the political map in the 100 years between the middle of the Thirteenth Century and the middle of the Fourteenth Century.

People went **mad**, as they are going today. People everywhere are becoming a little bit crazier, day by day. Lunacy is now a mainstream opinion—we'll get into that. But, that is the kind of problem we face, and therefore, no ordinary economist, no ordinary politician has any conception of what to do. The smartest politicians on the planet are the ones who say, "We don't know what to do." So, don't believe the

newspapers, especially the U.S. press, don't believe the television; put our Federal Reserve chairman Greenspan on the sports page, where he belongs—you know the team which has lost every pennant in the past 10 years, is now predicting a victory for 1998! That's your Federal Reserve chairman! Before the sports page of the Washington Post this morning was moved up to the front page, headlined, "Alan Greenspan."

The Economics of Collapse

To understand the **economics** of this process of collapse, I'll refer again to a representation which I constructed in 1995, as a pedagogical device for introducing to people what is happening to cause the collapse of the world economy today. It's called the "Triple Curve," and I think we can show it now (see Fig. 1).

The top curve: financial aggregates refers to things like derivatives, stocks, property titles, things of that sort, including real estate titles. Remember real estate titles—the values of real estate titles are **fictitious**.

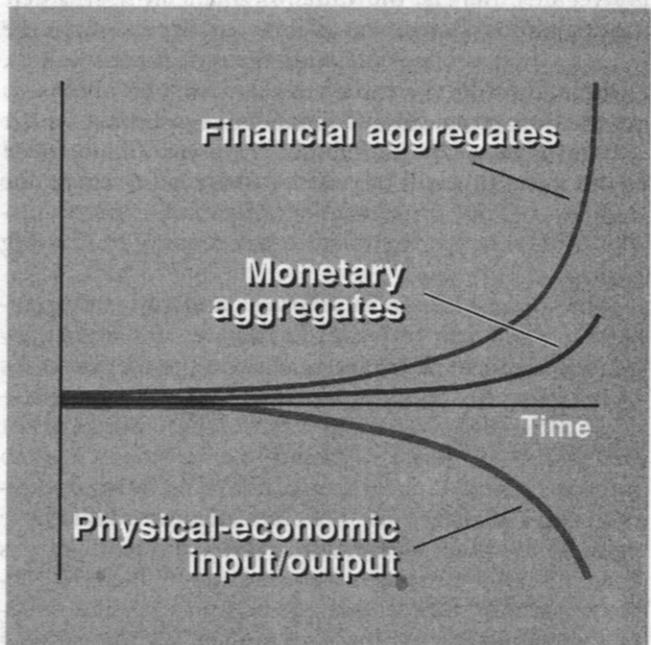


Figure 1. LaRouche's "Triple Curve" graphic showing collapse function, with real economy eroding.

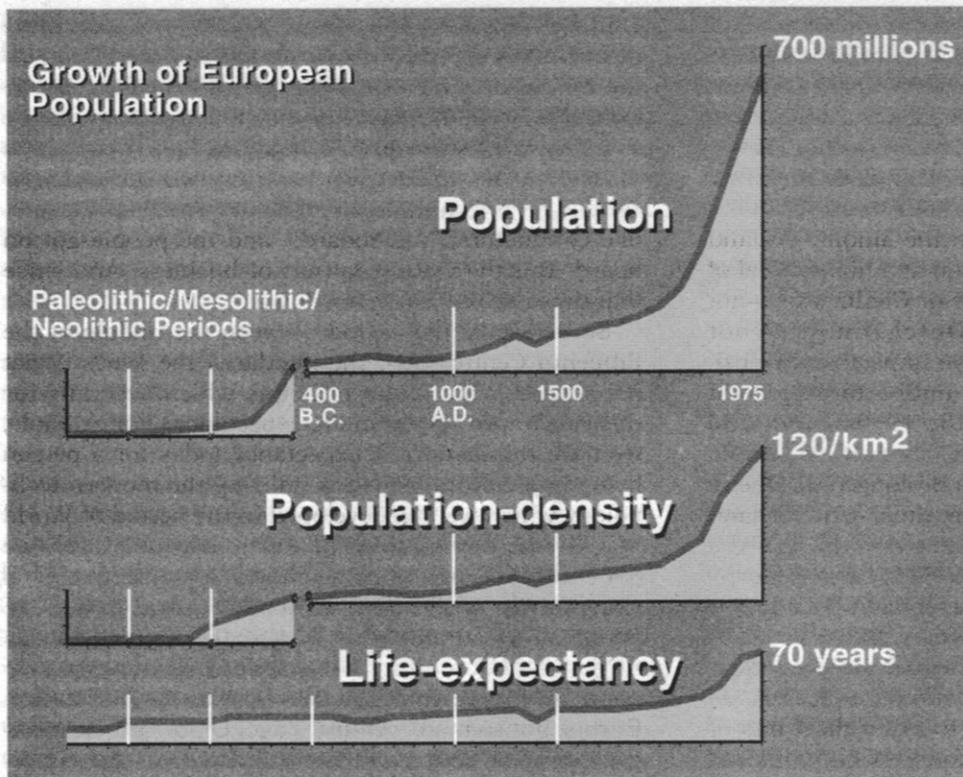


Figure 3: European population growth, with population-density and life-expectancy graphs. In the 15th century, a revolution occurred.

we have of human existence. We have traces, where we can infer things, but in terms of literate culture, ideas, as such, what kind of ideas people have, what explicit direct evidence we have of ideas, this goes back to about 6000 B.C., or about a total of 8,000 years. That's about the best we can do, and so that's what this table represents. The transition from prehistoric records into modern records, and you see what has happened to man—instead of a population which has a potential of one million, or a few million individuals: a great ape population, you have, in relatively modern times, you get into the Roman period, the Greek or Roman period, at which the **world** population reached the level of several hundred million persons, and that was consistent until the middle of the Fifteenth Century, when a great change occurred.

Now let's go to that next great change, the next chart (see Fig. 3).

Now some things up here, we're looking at things from the standpoint of Europe now. World population as viewed from the vantage point of changes which occurred in European Civilization during especially the Fifteenth Century, and onward. And, here (Fig. 3), you have what you saw in the earlier chart. The relative view of human population up till the Greek or Roman period: very low, tens of millions of persons population potential for mankind, was the maximum

reach during the entire period prior to the Hellenic or Classical Greek period, on this planet, and inferably, no higher. So that, in the period, the impact of certain developments in China, in one part, in India, parts of India, but especially in Greek, ancient Greek culture, beginning about 600 to 500 B.C., there's a general increase in world population, as a result of improvements in **culture**, in which China, northern India, and Greece, are the centers of this great advance in culture. And European culture is a direct product of an interaction between Greek culture and Egyptian culture; that is, Egyptian culture was the highest level of culture existing prior to Greek culture. Greek culture was, in part, influenced by Egyptian culture, as I'll

come to it, but Greek culture took one step above and beyond its sponsors in Egyptian culture, and that began with similar developments in China, and similar developments in northern India during the general period—a general increase in world population, which is this business here, which led into an increase of the human population, from tens of millions of persons living at one time, to hundreds of millions, or several hundred million individuals living.

A Revolution Occurred

Now, what happened then, in this period, especially between this part right here; what does this mean? This is approximately 1200 to 1250 A.D.; a high point of population. This is a collapse into the middle of the Fourteenth Century, the New Dark Age, a collapse which covered a period from 1250 A.D. to about 1350-1360 A.D., after which there was a general recovery, and, in the middle of the Fifteenth Century a revolution occurred, which led to this result: the increase of human population to beyond hundreds of millions in world population, not just European population, but world population—what was it? What was it? There's a factor in human capability which existed always, which set mankind apart from, and above the beasts, which suddenly came to a great florescence in the middle of the Fifteenth Century in Europe, and despite all

is what I shall do today.

Now, first of all, the question is: What is the nature of Man? What is the nature of Economy? The first thing you have to do. Now, how do you—

Let's go to the next slide (see Fig. 2). What you're looking at here—we're talking about the higher apes—and you know that Prince Philip claims to be, not only a descendant of an ape, but an ape, himself. And that may have something to do with the problems of his children in the Royal Family! We don't know whether they're cloned, or he's actually sired them, but nonetheless, he claims that he and they are apes, and our pitch is, "Please, Prince Philip, don't try to make a monkey out of us!"

At this point, the higher apes such as gorillas, chimpanzees, baboons, and so forth, these have a certain population potential on this planet if they were the dominant population on this planet. Go back to, say—our knowledge of mankind's existence, the traces and evidence of **human** existence on this planet, go back approximately two million years to the beginning of the time of the northern Ice Age on this planet. We go through approximately 100,000-, 200,000-year cycles of ice ages, glaciation in the Northern Hemisphere, just as we do in the other extremity, in Antarctica. Now, these are separated by periods of between 10,000 and 20,000 years, depending upon what values you're choosing, of interglacial periods, periods between general glaciation. The difference is that when the glacier is at its highest, the oceans of the planet are generally 200 to 400 feet lower in level than they are today. And, once you get into an interglacial, the middle of it, which we hit about 1,000 A.D.—we're now in a cooling period—we're now approaching a new ice age, seven, eight, 10,000 years from now, but nonetheless, we're now approaching it. So that man's existence is associated with these ice ages, and what we know about early man, is based on what we know largely from interglacial periods, because when man was living in the glacial periods, men were living generally at a time when the seas and oceans were at a lower level than they are today. Therefore, the coastal areas on which man lived during the glacial periods, are now 200, 400 feet underwater.

But we know a good deal about man, and we know that through this correlation of evidence of human and hominid existence, dating back through the period of the ice ages, two million years ago—and we're going back to a new glaciation, unless we do something about it—we know a good deal about human beings and their existence. . . .

For example: From a site which dates from one of these interglacial periods in Germany, in the Hartz Mountain region, which is not far from Goettingen, the University of Goettingen in Germany, there's a site which is found in a deep mine, a metal mine, a site where human evidence of throwing spears, which are

very sophisticated in design, these samples, dates from 600,000 B.C. So that man, in a relatively advanced form, mentally, that is, existed 600,000 years ago! So man has been around for a long time, and we distinguish man from the apes by the fact that—certain facts I'll refer to here. There are certain differences between human behavior, and ape behavior which permit us, whenever we have appropriate evidence, to distinguish between man and the ape (except when you get to a case like Prince Philip, and it becomes a little bit difficult, particularly when he claims to be an ape).

The Difference of Man

So the difference is this: Under conditions, if man did not exist otherwise, and only apes existed as this type of creature on the planet, that under conditions existing during the past two million years on this planet, that the maximum population of a species such as a gorilla or chimpanzee would be in the order of several million individuals. That is, the total ape—higher ape, or great ape—population of this planet could never have exceeded several million individuals under conditions which have existed at anytime, on this planet, during the past two million years. And this becomes most interesting, because man, if you look at man physiologically as Friedrich Engels did (who also tried to make a monkey out of himself thought), then there's nothing about man physiologically, which ranks him as significantly superior to a great ape, except relative brain size, which itself is not an indicator. But it's something about man's behavior that is distinctive.

Now, not only is man a higher potential population than great apes, as this indicates—this is a summation of what ethnologists, anthropologists, archeologists, and so forth, have summed up from everything we know about the existence of man, prehistoric, as well as modern man—indications about the population density—and this is done sometimes by archeologists, experimentally. You take the tools, you take the mode of existence of a society, of a culture: For example, are they agricultural, or are they hunting and gathering? What kind of agriculture? Is it a crude agriculture, or more sophisticated? What are their tools—more sophisticated, or cruder? These are the kinds of artifacts which archeologists can dig up from sites, and thus, you can say: Let's reconstruct, given the environment in which man was living at that time, what—how many square miles of land area would be required to sustain a population with a certain life-expectancy under these conditions? And, we know enough about things to be able to reconstruct that. And on that basis, of this kind of evidence, you can construct an approximate census of what the human population was in various cultures at various times. And that's what this represents, up until relatively about 4000 B.C., between 6000 and 4000 B.C. is the earliest cultural indications

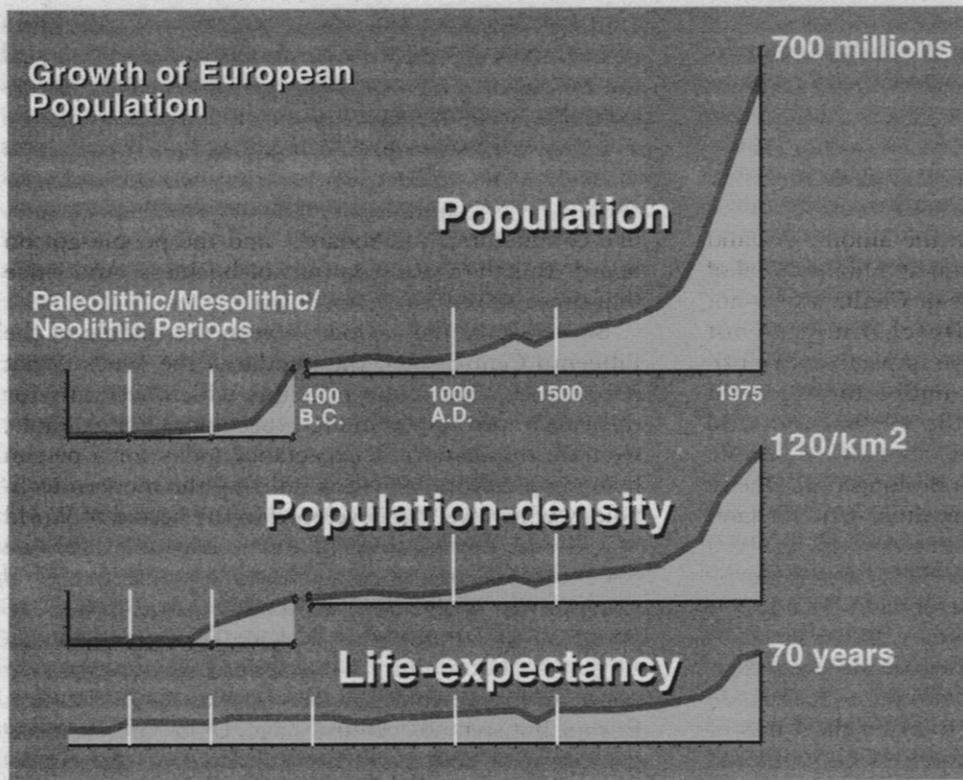


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the evil that was done since that time by agencies of European Civilization, in general up until the middle of the 1960s, the impact of European Civilization on the world was net positive, that is, if we measure the results in terms of life expectancy, and other demographic characteristics of households, if we measure, in terms of increase, of the number of people who could live, that is, or decrease in the amount of land area required to sustain one person at a higher level of living, the net impact of European Civilization—not the British Empire, or the Dutch Empire, but European Civilization—its positive impact was a positive impact on the entire planet, until a turning point was reached in the middle of the 1960s—about 30 years ago, or slightly longer.

We have been for 30 years in a prolonged decline in civilization. About 1966-67, at the time, '67, U Thant, who was then Secretary-General of the United Nations, issued a document, as Secretary-General, which was called the Second Development Decade, the United Nations Second Development Decade, which corresponded, in its perspective, to an encyclical issued by Pope Paul VI, called *Populorum Progressio*, on population: this was a proposal to bring the fruits of technological progress to the benefit of all mankind, especially to the so-called developing nations. This was not an original idea; this was an idea which President Roosevelt, Franklin Roosevelt had, during World War II, when Roosevelt had a major fight with Churchill and the British Empire, over the question of justice for the so-called former colonial sector, and Roosevelt's effort, in respect to the Good Neighbor Policy toward Ibero-America, was a beginning of that policy: that we must change our policy from the colonial exploitative policy of the British and other empires, and we must bring these people into what they wanted: equality in terms of access to technology, and other benefits at that time.

When Truman came in, after Roosevelt's death, Truman accepted the British policy. We went into a depression, from 1946, 1946-48; we went into hell, we went crazy as Americans, generally in that period. The parents, my generation, of the Baby Boomers, went insane. 95% or more of them are absolutely immoral and insane; that's why the Baby Boomers have some problems with their facing reality today. That came from—they were raised by insane parents. Generation X has a slightly different complaint, but of the same nature.

But then, in the middle of the 1960s, in the aftermath of the Kennedy administration, and the Kennedy administration's Moon landing program, which promoted a great surge of cultural and technical optimism around this planet, people began to think—we can **do things**. And out of this came this Second Development Decade idea, and *Populorum Progressio* from Pope

Paul VI, expressing the same idea. We can use these means, the same means that we used to put a man on the Moon, or were putting a man on the Moon. The Congress pays. We can use the same technology, the same spirit of science, to bring about justice for man throughout this planet. But . . . that was the end. The conductor, U Thant, the conductor, Pope Paul VI, said, like conductors, "All Aboard!" and the people got on board. But the train went out of business. And since that time, we've been going down.

So, let's take the period between the middle of the Fifteenth Century, and the middle of the 1960s. What happened? What is the principle which accounts for this vast improvement in life-expectancy? For example, we have the modal life expectancy today for a person living in a culture, which is utilizing the modern technology which we had developed in the period of World War II, and immediately following, is what? It's in the 70s and 80s, is life expectancy. How long has that been going on? In Africa, the life expectancy was in the 40s, about 50 for an adult male in most of sub-Saharan Africa. And conditions—if you look at the tables of population, you find conditions like what existed in Europe not so many centuries ago. Or, before the evangelization in South and Central America, the conditions of life were horrible. They were worse than they were under slavery in most of that region. Miserable conditions. Imagine tens of thousands of victims being sacrificed to the Aztec gods in Mexico, just prior to the Spanish conquest, in a religious ritual. Four lines of people, being marched, of prisoners, in tens of thousands, being marched up this pyramid, at the top of which Aztec priests were cutting out living hearts in seconds, and throwing the bodies down the stairs below. The procession went on for two days. Tens of thousands of Indians of Mexico, marched up the four sides of the great pyramid in what is now the site of Mexico City, and the priests at the top, in teams and tiers, were cutting out the living hearts of these prisoners, as part of a religious ritual. What kind of a culture is that, that the evangelization of Mexico freed the victims of the Aztecs from?

So compare our life expectancy. How long did we have generalized education of the young? Literacy was non-existent, except for a small part of the population, throughout human existence, up until modern times in Europe. Most people, 95% or more of the population, lived, in virtually in every culture on this planet, until the Fifteenth Century, in conditions of cattle, either as slaves, serfs, or like the victims of the Aztecs in this ritual. Worse.

How many people received an education? That grew. In my lifetime, changes occurred. At the time my parents were born, what you could expect in the United States, in the better areas, for most people, was what was called a grammar school education, which went up to as high as

between the 6th and 8th grades. Unless you lived in the hills of Kentucky, or similar places, or remote parts of Arkansas, in which you went to a blab school, where no books were used. It was just an obligation to provide an education—there was no education given. The teacher just blabbed; it was called blab school. The teacher blabbed at the students, and the students would blab back. If they managed to show up, and it was generally a one-room classroom, or something like that, with about six or seven grades all piled into one place, with two or three or four representatives of each grade, each age group, in there. And a “catch-me-if-you-can” attendance policy.

Then, in the middle of the last century, we introduced what was called a high school in the United States, which was introduced on the basis of the German model of the Gymnasium, the *Technische Hochschule*. It was introduced by a scientist by the name of Alexander Dallas Bache in Philadelphia, and became the model for the high school. But you didn't have a right to go to high school throughout the United States until the Twentieth Century, except in some localities.

It was not until the end of World War II, with the passage of the GI Bill of Rights, that the idea of a right of every qualified student to enter a university, and achieve a university degree, was established as a goal, a goal of practice. These were demographic changes in the characteristics of families, which constituted improvements in the human condition, and correlated with man's mastery of nature, extending out into space. So there's something about man, which is different than the monkeys (and some politicians, especially the neo-conservatives. They call them neo-lithic conservatives, hm?).

The Difference Is Reason

What is that difference? The difference is what we call Reason. Now, what is that? What's the relationship of this process of education, and the development of Reason? What's the relationship between this development of Reason and education, and the increase of man's power over nature? This was always there. It was always there—the demographic charts show you. Here's man, with a population potential, physiologically, apparently of an ape, or a higher ape,—especially on marijuana, a higher ape. Take enough marijuana, and you become a higher ape. What's this quality in man which is different than that monkey, taking marijuana on the street?

The difference is the Power of Reason.

What is this power of Reason? How can you demonstrate it? Is it an intangible? Is it something mystical? What has it got to do with education, with science, with productive power, with improvement of the demographic characteristics of populations, and things of that sort?

Well, anyone can demonstrate it.

What man has discovered, through his mind, principles of nature, principles of the universe, and man has changed his behavior toward the universe, on the basis of the discovery of these secrets of the universe we call principles. These principles—generally we associate this, with the discovery of scientific principles, physical science. But it also involves other kinds of discoveries of principle, including the principle of the mind. If we as human beings, have, unlike any animal, the ability to, through our will, increase man's power in the universe—that means that we have something within us, which will cause the universe to obey us, and change its behavior toward us, in such forms that we can increase our population potential, raise our standard of living in terms of life expectancy within the family, quality of life, and so forth—we can command the universe, “Universe, improve our life!” through our behavior.

How? Where does that power come from? It's the power of Reason. The power to discover and apply principles, which are so consistent with the way the universe is designed, that the universe is compelled to obey us, when we uncover its secrets.

Now, what we're supposed to do in schools, is just that. You are not supposed to go in there, and learn how to behave. No! You're not supposed to learn somebody's culture. You can get that with bad socks, or in a gym. That's called culture.

Now, what do you learn?

You learn that mankind has existed. So someone says, well, language. And some little kid says to the teacher, where does language come from? Man invented it, man developed it, it's a cognitive discovery. It's not essentially a principle of nature, we don't think of it as a physical principle, but nonetheless it's a principle of the mind which is part of nature, isn't it? And therefore, by uncovering the way our own minds work, we were able to develop language.

Who did it?

Who knows who did it? It happened so long ago, we don't happen to have the name of the inventor. We do have a lot of the names of people who improved it, who are sometimes called poets. Dramatists, and so forth.

Take another case, easier to replicate. So-called plastic arts. We can look, and we can examine from the standpoint of principle, the design of jugs, of buildings, of paintings, of sculpture. We have relics of this over many thousands of years, almost from the earliest indications of human existence, or human culture. We have evidence of how people were able to represent things, which we call plastic arts, to communicate ideas by representation, such as sculpture, painting, drawings, and so forth, and the design of tools.

So, by these processes, we have acquired, passed down from generation to generation, we have acquired



U.S. Department of Energy

Children participate in a Department of Energy lab program at Idaho National Engineering Laboratory.

certain discoveries. We call the transmission of these discoveries, by two words, nurture—as family nurture, societal nurture of young people, and older ones—and education. The function of education is to allow the individual person to re-experience an original act of discovery, perhaps made by someone originally some million years ago, or 700,000 years ago, a person whose name is lost forever in the dust, except in the simultaneity of eternity. And the child re-experiences an original act of discovery of that same thing, that was discovered by some remote ancestor. Now the child has not merely learned—you know, when you go to a blab school, “Here’s what you’re going to do when you get older.”

“Hey teacher, why do we do that?”

“Don’t ask, you’ll find out when you get older.”

And you never do. That’s called, learning. That’s what a lot of people of my generation did. They went to school to learn. As I often translate Schiller’s term “*Brotgelehrte*” into, people who learn to sing to earn their supper, not for the benefit of music. And that’s the way most people go to school, and go to university these days. Not to contribute something to human knowledge, but simply to make some money by retailing it, whatever it is, without knowing the content. It’s like a used-car salesman—he doesn’t know what the automobile is, but he’s selling it, and he’s making a living that way.

And that’s the way many people have knowledge.

Known by a Child in School

So, you find . . . look, well the greatest inventions of mankind, the most awesome discoveries of principle in science, can be learned by a child in school. Known by a child in school. How? If the child is given the opportunity to re-experience the circumstances of the original discovery, and to go through and re-experience the act of discovery, of the principle, the child now **knows** the principle; they haven’t learned it, they **know** it.

And that child thus has accomplished two things. First of all, the child has learned, one after the other, a series of discoveries. They discover what the meaning of language is, by trying to recreate it, and say, why does

it function this way? Why do different languages function in different ways? What common principle is there among, say, European languages, or Indo-European languages? What’s the common principle among all these different languages, such that the best principles of the languages, are the same we might discover from 500 B.C. in the writing of the great Indian philologist Panini. What are the common principles that you can get from Panini, in his writings from the Fifth Century B.C., and what are the best aspects of modern cultured language today? These are principles. And once the child, or the older educated person, has understood those principles, they have all these discoveries. And they have all these people, or moments from the minds of great people, from millions of years before, thousands of years before, centuries before, decades before, all living in their mind. Your mind can be a very busy place, heavily populated. You can have ten, literally, tens of thousands of people who you know intimately, from all kinds of pastimes, running around inside your mind.

How?

Because you have relived a moment of their thought, their actual thought, by re-enacting it in your own mind. And in many cases, you have the name of the person, as in studying science. You have the name of the person who made the discovery. You know what the discovery is. You relive the experiment, perhaps in a school, perhaps otherwise. You’ve also relived the thinking-out of the experiment in your own mind, and that person is in your mind,

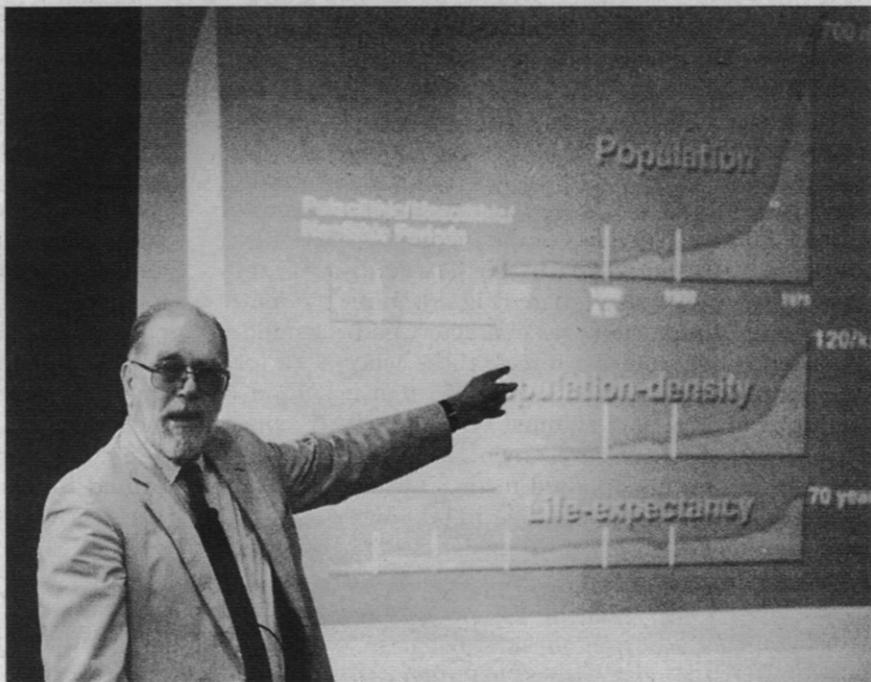
that part of their life.

So, for example, in the old days, a good teacher was very beloved by the pupils. Pupils would think back to that teacher who had died, and they would think back to the moments in which that teacher had passed on to them knowledge, by showing them how to re-enact the discovery of that knowledge in their own mind. And those pupils would always love that teacher. People would often love their parents in the same way, the parent who did this, and did that, and enabled them to, in the course of life and experience, to understand something, to know something. And because they shared a moment of the inner mind of that parents, or that teacher, or that other person, with themselves. That moment of the inner mind, of that teacher, that parent, that discoverer from long ago, lives on still in their mind today. And they can transmit that same moment to minds which come after them. No animal can do that. That is a very special beauty, about human beings, if they realize that beauty, and appreciate it, and know that's the way to live, not this other slummish way on the streets.

The Council of Florence

And that's how this happened. What essentially happened in the middle of the Fifteenth Century. It happened in a great convention called the ecumenical Council of Florence, and especially in sessions that were held at Florence in the years 1439 and 1440. It was a great change in civilization. The changes were in the direction of moving toward the kind of society which Plato, and the Christian Apostles, had presented. You find this, for example, in the conception of Man, the conception of love of Man and Truth in the Gospel of John, or the Epistles of Paul, which are the same principles but from a Christian standpoint, of Plato and others from ancient Greece.

So: the idea of a society, in which human beings are not cattle, in which most human beings do not live like cattle, in which every human being can live with the essential nobility of the human individual, as I just indicated, through knowledge. The nobility that you carry in your mind, have re-enacted in your mind, the great discoveries, or at least some of them, of people before you. That you share those with people who come after you, give you a nobility, a dignity as a



EIRNS/Stuart Lewis

LaRouche reviewing the graph showing the explosion in human population and potential relative population density associated with the Golden Renaissance (see Fig. 3).

human being, which no animal can achieve. And the idea was, you say, everyone has a right to live so. Every person has a right to be developed so, to live that kind of life as a true human being. So, instead of a society which lives for the benefit of a few, in which 95% or more of the people have to live as cattle, whose purpose in life is to support the pleasure, existence, and power of the few, we must have a different kind of society. A society which is based on the universality of the individual person, in which every person has a right to education, of the kind of education I indicated. In which society is organized to permit them to live long enough to fulfill that life.

In which the occupations which are offered to people, are occupations which correspond to the development of their talent, not to their biological hereditary destiny, to be serfs, or something else, as the Diocletian Code prescribes. The fact that we educated more people, the fact that society for the first time, was organized—beginning with France under Louis XI—it was **organized** for the benefit of the **whole** society, rather than a privileged aristocratic, or oligarchical, few. Which is a new thing in practice in history. It's the foundation of the greatness within European Civilization.

Unfortunately, the incumbent ownership of the premises did not agree. The vast aristocratic landown-

ers, generally did not agree. The financial oligarchy, such as the Venetians, the loansharks, who are loaning and practicing usury, did not agree. So the loansharks and the landowners ganged up against those of us, who represented the new form of society, and, for reasons which I won't go into here—I cover this in an article on the subject of this gentleman Dawkins in this issue of EIR, on "The Case of the Inedible Professor"—since from the beginning of the Sixteenth Century (that's 1500 on the chart there [Fig. 3]), until the middle of 1960s, this society was characterized by a standoff of kinds between two forces: those who stood for the **republican** idea, that is, the idea that every individual member of society must be equally well represented by the form of government, and by the organization of society, as opposed to those who said, "No, the ideal form of society is one in which 95% of the population is subjugated to the advantages which are chosen by the relevant few, 5% or less."

The latter we call oligarchical society, which is the name used by the Classical Greeks. It was called the Persian model, or the oligarchical model, in which a few people, an oligarchy, an emperor, secondary rulers, wealthy oligarchy, powerful landowners, loansharks, ran the world. They were the oligarchy, and they chose a form of government which was suited to **their** purpose, which left 95% or more of the population in serfdom, slavery, or other cattle-like conditions.

And there were the republicans, who said, "No, society must be based on the human individual with this quality which is called 'made in the image of God.' And that individual must be given access to reason, must have the kind of education and opportunity in life, which corresponds to an individual made in the image of God, as we know man to be, as a creature of reason."

The Standoff

So, it was a standoff. We republicans, who represented technological and scientific progress, who represented that kind of intelligentsia in society, as beginning with France under Louis XI, we are committed, and we're the capability, to **produce**. We're the ones who brought technology, we're the ones who brought science, we're the ones who uplifted and educated people. We are the force who, when any nation was in trouble, we are the ones who would organize production, produce the new technologies, produce the new weaponry, produce the new method for winning wars, and we kept society going, and therefore the oligarchy, which dominated society, could not do without us—until the 1960s.

Because as long as there was danger of war, a society which is based on scientific and technological progress, is always morally and otherwise superior to a society which is not. Any technologically advanced civilization can

always defeat any ecological, ecologist civilization in any war. We call ecologist civilization and culture, inferior culture, and the object of civilization is to lift man from relatively inferior cultures, to relatively superior cultures, and we measure inferior and superior, by the standard of which gives you the greater population potential, which gives you the better demographic characteristics of households, which gives the individual the greater opportunity for education and personal development, the opportunity for realizing a better role in society, as a person who's passing through mortal life, and wants to leave something behind, that locates their identity in the universality of eternity. That's what "better" is, the standard. And defines the standard.

So, therefore, in the history of the United States, the United States was the greatest nation ever created. There is no other nation whose political system was better than that designed by the principal authors of our Constitution, Benjamin Franklin and his associates (though we had some fellow travellers along who were rather dirty, like Aaron Burr, and people like that. Right?). But we were a small nation, which at our outset was only several million people, scattered along the North Atlantic Coast of North America. And, with the destruction of France, which had been the world's leading nation in terms of technology, and power, and influence, and had been a sponsor, in part, of the United States, the destruction of France over the period 1789-1814, until the middle of the last century, the United States was isolated in the world. As George Washington warned in his Farewell Address, we had no friends or allies in Europe. Every government in Europe was our enemy. The British government, and every government, was a part of the Holy Alliance. We had no powerful governments which were friends of the United States, no potential allies anywhere, during that period, from the time of the French Revolution, until the time, approximately, of Abraham Lincoln.

The first ally we got, was in the 1850s; it was Russia. After the French and British had conducted aggressive war against Russia in the Crimean War, a young prince of Russia, Czar Alexander II, decided to become a nationbuilder, to build his nation, and he chose us as ally, the United States. When the United States was in a civil war, in the early 1860s, under Abraham Lincoln, a civil war which was organized by London—the Confederacy was nothing but a tool of Palmerston and Company from London—and our existence was in danger, and Palmerston and Lord John Russell, the grandfather of Bertrand Russell, who was then the Prime Minister, and that pig, Napoleon III, the head of France, and the government of Spain, conspired to destroy the United States, by allying with the cause of the Confederacy.

And Alexander II sent a message to London, threat-

ening to make war on Europe, if this were to be done, and, not only that, but he sent the Russian fleet, which had been rebuilt with American help after the Crimean War, to New York and San Francisco, to assist—with sealed orders—to assist in defense of the United States, and to make war upon Britain, France, and Spain, should any attack in the aid of the Confederacy be done by the combined forces of the French, British, and Spanish fleets.

Later, after 1876, we acquired another ally, Germany. We had been close friends with many circles in Germany, particularly those of Gauss, and Alexander von Humboldt, and so forth, before. They had assisted us greatly in developing science in the United States. After 1876, this section of Germany—not the Kaiser—but other forces in Germany, entered into an alliance with the United States. And we worked together from that point on, until toward the end of the century, with Germany, to develop Russia, or those forces in Russia typified by Alexander II, by Dmitri Mendeleyev, the great scientist and railroad builder, and industry builder, and with Count Sergei Witte, who was a follower of the American policy, the American political-economy policy.

In the meantime, we had developed Japan, beginning the time of Lincoln's administration. We turned the islands of Japan, which was a backward, feudalistic nation, into a modern industrial power. This was done directly by the United States, directly by the people who were behind the Lincoln administration. Everything Japan is today, in terms of economic and technological achievement, is a direct result of the intervention of the United States **as its ally**, from the time of Abraham Lincoln, until an Emperor, in 1894, broke the agreement with the United States, and joined with Britain to launch the first Sino-Japanese war.

A Great Change

So, we had allies. But then there was a great change: 1901. A patriotic President, William McKinley, was shot by a British agent, and that brought to power a true spawn of the Confederacy, Teddy Roosevelt, a total Anglophile, who put the country, in effect, under the control of the British crowd, the Wall Street crowd, and the pro-Confederacy crowd. We had later a second President, who was brought to power, by the intervention of Teddy Roosevelt, who was also a spawn of the Confederacy, a great admirer of the Ku Klux Klan, from his past, a Princeton professor, which is suitable, and the man who, in 1915, organized the revival of the Ku Klux Klan, which later in the 1920s, had 4.2 million members, from the White House, Woodrow Wilson.

Calvin Coolidge was not silent, he was just wise

enough to keep his mouth shut in public. He was the most garrulous bastard you ever wanted to know, in private. But they said, if you want to stay President, you keep your mouth shut, and he got the reputation of being Silent Cal. Hoover wasn't bad; he just had a bad party. Then you had Roosevelt, a cousin of Teddy, who, in great crisis, brought this nation back to itself, at least to large degree. Then you had Truman, who represented the other side. (Democrat and Republican doesn't always mean too much. It's a convenience; it's like a local comfort station. It's where you go when you need to use it. But you have to know when to use it, too. That's a piece of wisdom some people forget.)

So, that starts, and then we had Kennedy. We had Eisenhower in the meantime. You didn't know which way you were going; I guess that was the androgynous administration of Eisenhower. Then, Kennedy, and that was good. Kennedy wasn't perfect, but it was a change in our policy. Remember Kennedy was a little older than I was, but he was about my generation. And we who went through the World War II experience, the Depression, who were raised during the Depression, and had the experience of World War II, had a different view of life than the people of our parents' generation, who had been influenced by this great change, the influence of Teddy Roosevelt, and Woodrow Wilson. The great corruption. You have to know the 1920s to know how corrupt the United States was. It was damned evil. It's simple. We were an evil population in the 1920s, and we got our comeuppance with the 1929-31 Depression. We brought it on ourselves.

But this was a turn back for the good. And the civil rights movement was a reflection of that generational change, which made possible the success of a Martin Luther King, who was, nonetheless, responsible for his own successes. This was a man of genius, a man of exceptional talent, whose importance is not truly appreciated even by those who seem to admire him the most.

Then we came to the middle of the 1960s. Now, the issue was very simple, what the change is. The change is, that we had been committed to a standoff, that is, to a balance of power between national economy, or republican economy, and oligarchism, as typified by Wall Street and the Confederacy, and so forth, throughout much of our existence. As long as there was a danger of a general, modern warfare, you could not run the United States without the capability of fighting and winning general warfare. Not local wars, but general warfare, like World War II, things like that. To do that, you required a concept of national economic security, which depended entirely upon the scientific, industrial, agricultural complex of the United States. That meant that, from time to time, whenever there was a prospect of an oncoming

war, or war was being fought, or there was rebuilding of the world to be done after a war, the only way this was done, was by calling upon people who represented, organically, my point of view, the republican point of view. Who are managers of industries, scientists, and so forth, progressive farmers—and we would be mobilized to rebuild the economy, the tools of war, and so forth, and progress in economy, to get this nation through that trouble. Under these conditions, Wall Street would allow itself to be constrained. The only way we ever got ahead in this century, was by putting restrictions on Wall Street. We went away from a free-trade economy, to a dirigist economy, in which government direction kept things in line, and that's how we progressed. We would never have progressed under so-called free trade.

So, as long as we were committed to scientific progress, to tax and other policies which favored scientific and technological progress, to restrictions upon usury, to restrictions on monetarism, to restrictions upon oligarchism generally, for the general benefit, as long as we were committed to improving the health of the population, as by more hospitals, and better hospitals, by more access to medical care, by improving medicine, by improving schools, by increasing the average level of education and content of educational programs, we were doing all right. And the standoff worked, between two groups which have absolutely different principles. There is nothing in me, which can find anything morally in common, with an oligarch, with a usurer, with a Wall Street loanshark, or with these types of people. We're two different species.

But we were forced to a standoff; to put up with a standoff, you have to put up with the other side, the oligarchs, the slaveowners, these kinds of people. That's the history of the United States, that's the history of European Civilization since the beginning of the Sixteenth century.

The Deal Was Broken

The deal was broken, in the 1960s. The standoff ended. What happened?

Well. We had a missile crisis in 1962. And people were going to church who didn't know what one was, at least during a week or two, that period. Everyone was convinced—and the television reassured them—that we could be obliterated on the following morning by an intercontinental thermonuclear rocket exchange. And up to the point that those Russian ships, the Soviet ships, turned around, which were headed toward Cuba, with the Kennedy there, symbolically, to stop them, the world was convinced we were headed toward a thermonuclear exchange between two superpowers, the Soviet Union and the United States.

Then, back up—the takedown occurred. Thirteen months later, the President of the United States, who

did not agree with certain aspects of this takedown, was assassinated, in the interest of what was called security, by an Anglo-American team, organized by London, and run out of Canada, by Bronfman's lawyer, who was the guy who's responsible for the assassination of Kennedy. That's a fact, that's not a conjecture, not an inference.

At that point, there was a great cultural change that occurred in the United States. We went—everyone was convinced, that now the danger of general warfare was over. We could have local wars, we could have surrogate wars, we could have other kinds of wars—all kinds of troubles—but the idea of a general war, winner-take-all, between two superpowers, or any similar kind of war on this planet, was eliminated as a possibility. Because they were convinced that the **terror** of the missile crisis, and the elimination of the one President who didn't go along with this deal—Kennedy—ensured that the process of detente (that was what it was called), and the process of moving toward world government, to replace the nation-states, was well underway.

Now, the changes that they wanted to make, could not be made all at once. Because the generations in positions of power at that time, were members either of my parents' generation, or, increasingly, of my generation. And anybody who's in industry, most of the people in Congress, most of the people in educational institutions, and so forth, would not go along with this radical change, which Prince Philip and others wanted introduced.

So, what did they do? In Germany, in France, as in the United States, they targetted the population of students then in the university populations in universities. This occurred also—we have a man here who will tell you—also in Italy. The generation of the youth. But targetted specifically, the university youth. Why? Because within 20 to 30 years, 25 to 30 years, the university youth of a generation will be in the topmost positions in government, in industry, business, agriculture, education, and churches. The idea was, to begin to destroy the society, knowing they couldn't do it all at once. Because those of us, of my generation, in particular, who were still in, or coming into top positions of powers, would not put up with this nonsense—wouldn't let it go that far. So they had to prepare a long march through the institutions—as it was called in Germany and here—to take and brainwash youth on campus, into a new idea, called the New Age, the rock-drug-sex counterculture. Get a new head, smoke one.

Then they took the people who were the most degenerate on campus, the worst degenerates that we knew, those of us—I was teaching in part on campus at that time—those of us who were on the campus, like Columbia and elsewhere at that time, or similarly, in Germany, would see that today, the very worst speci-

mens of brainwashed degenerates from that campus generation, are now in topmost positions in power—in government, in universities, and similar institutions throughout the world, and business, and Wall Street, especially.

Transition

So, now the time has come. During the 1980s, a transition occurred, which began with the Carter administration, but then, went on, in which the moral degeneracy of the United States, and every nation of Europe, went apace. A process which began with 1963, with the Kennedy assassination, with the beginning of the defeat of de Gaulle, which was finally culminated later, with the ouster of Adenauer in Germany, the elimination of the people who represent the postwar reconstruction generation, were gradually, systematically eliminated from power. . . .

For example, you have as the Chancellor of Germany today, Helmut Kohl. He was then in 1963 a member of a London-directed faction inside the Christian Democracy, the Christian Democratic Union of Germany, which was organizing to effect the ouster of Adenauer, and what Adenauer stands for. This man is today the Chancellor of Germany.

So, that's what happened to us. What happened is, that the past 30 years, we have turned away from the commitment of those policies of development—education, health care, science and technological progress, development of infrastructure, all of these things, on which the achievements of civilization occurred. In this time, in the past 30 years, the situation of people in the developing countries, in South and Central America, in Africa, and elsewhere, has gone generally from bad to worse. That the process of decolonization has gone to recolonization, as we see in Africa today.

Now what we have seen, is, on the one hand, the success of the enemy. The success of the enemies of mankind, centered in London, which is where the devil resides, eh? And I don't exaggerate. All **evil** is centered in London. Yes, there are little imps running all over the place, but there's no **evil** happening in the world today, which does not come from the London oligarchy. And we can prove that.

So, we've come to the point, that the principles upon which the **progress**—eh?—this progress in population, of world population, occurred—principles which are rooted in the whole history of mankind, principles which correspond to that which makes a difference between man and the apes. The principle that corresponds to Genesis I: 26-28, man and woman made in the image of God to exert dominion over nature. The principle of **Reason**. It is not in our flesh that we're in the image of God, but rather, in **Reason**, and in living a life which locates our identity as human

beings, through our mortal life, in the simultaneity of eternity.

That is the thing that accounts for the difference between man and the ape. That was always present, in all human existence. And, beautiful things were contributed to the present, by mankind, from all parts of the world, in that way.

But in the middle of the Fifteenth Century, in Europe, a revolution occurred: the creation of national economy, based on the assumption that every person in a society was equal in their right to access, to development, and to utilization of that talent in a way **fit** for a being made in the image of God. So, despite all the evil that was done in history, and done especially by European states and powers, the general result was the improvement of humanity, in terms of population, in terms of life expectancy, quality of existence, over a period from the Fifteenth Century, on a worldwide basis, into the middle of 1960s.

Satan Lives in London

Since the 1960s, that has changed. The world is going to hell, and Satan resides in London. Satan, who came to life in 1961, when two Nazis—Prince Philip, the Duke of Edinburgh, who was trained to be a Nazi, but instead of marrying a woman, married a Queen; and a guy who was actually a member of the Nazi Party, and of the Nazi SS; Prince Bernhard of the Netherlands, who sent a letter signed "Heil Hitler" to Hitler, the day he married the Princess of the Netherlands. But up to that point, he was a card-carrying member of the Nazi SS, and never gave up that kind of thinking—just gave up the uniform, but not the thinking.

These guys launched this, and since then, we're going downhill. Why? As I address this on this question on Dawkins: Because the principle, the underlying axioms, like the axioms of geometry, which guide the way that the society makes policy, makes theorems, responds to crisis—is **wrong**. We have gone from good, to evil. The changes. . . . It's not what we do, it's the changes we make in what we do. The changes we made prior to the middle of the 1960s, were overall, for the good. If they were bad, they could be corrected. The changes since the middle of the 1960s, overall, have been for the bad; and if, accidentally, we did something good, we'd fix it in the next election.

The result is, we've come to a point in which **this** economic crisis, does not represent a cyclical development in economics, as some idiot from an economics department might preach, or some newspaper might tell. This crisis is a failure of mankind to increase the productive powers of labor. And thus, we are looking **not** at a civilization going into a cyclical crisis, we're looking at a civilization which is self-doomed, like lemmings going over the cliff. You know what lemmings call, "going over the cliff"—exercising mainstream opinion.

Therefore, what we're talking about is an existential crisis of civilization, not an economic crisis as such. . . .

Under these conditions—and I'll just indicate more, and then we'll get later some commentary from John on some of the market aspects of this business, and then I think from the floor; during the question period, I think Richie Freeman will have something to say, perhaps, on the same questions.

What we're dealing with here, is a situation which is Sodom. We can solve the economic crisis, which faces the world now. **It can be solved.** But there are conditions—not IMF conditionalities, but **conditions.** You cannot find a solution unless you are willing to give something up. You have to give up . . . **sin.** Well, at least the big ones. The little ones, I suppose, will continue. (At least, I generally notice that, watching puppets: little sins they do, they tend to do all the time.)

You cannot have a recovery if you continue with free-trade policies. You cannot have a recovery, if you allow IMF policy to continue. You cannot have a recovery if you allow the ecology movement to dictate policy to nations. You cannot have a recovery if you ban scientific and technological progress. You cannot have a recovery unless you stop the movement toward world government, toward placing supranational institutions, above national institutions. **If you cling to any of these ideas, these New Age ideas, you're doomed!** And if any government comes up to you, and says, please, save us, I'll say to you, on the following conditions: You must give up free trade, and go back to the American System, the protectionist model. You must disband the World Trade Organization. You must disband the IMF. You must disband the World Bank. Eh? You must disband central banking, and establish national banking, and so forth, and on. We will save you, but. . . .

"But, who are you? Tell us what our conditions are to be saved."

"It's not my conditions, buddy. I just happen to know what God's conditions are. You're not going to make it."

The Moral Fitness To Survive

Because in the history of mankind, most of the cultures which have existed, are dead. All the great empires, that once existed in former times, before the Fifteenth Century, are **dead.** All the powers and cultures that existed before Roman times, are dead. Why are they dead? Like Sodom and Gomorrah.

Because at a certain point in their existence, they exhibited the moral **un**-fitness to survive. And the way the Creator has organized this universe, is, that if something doesn't work, it eliminates itself. It's what Leibniz called the "best of all possible worlds." And cultures which are morally unfit to survive, will be self-destructed, so that humanity, and this world, shall be purified of that which is destructive, and corrupt.

We have come to such a point, that is, a choice between your life, your family, your nation—and these crazy New Age ideas.

But it's not **sufficient** simply to go back to 1960s, the early 1960s, to the ideas of national economy, to the so-called standoff between republicans and oligarchs. The time has come when the republicans must act with the boldness which Clausewitz called *Entschlossenheit*, with a special meaning for the German term *Entschlossenheit*. To flank the enemy, at his point of greatest weakness, **his** financial crisis. We tell him, this is not **our** financial crisis; this is **your** financial system, which you insist it is. Therefore, if we have a financial crisis, it's **your** financial crisis. And we want to get rid of you, and your financial crisis, and your financial system.

Because we don't **need** you. We don't **need** your financial system. If we have magistrates in government, particularly in the United States, who will act according to the United States principles, Constitution, including the Preamble of the Constitution, which is the fundamental law of the United States—"and for our posterity"

Not Scalia. Scalia, unconstitutional person. He's got a bad constitution, and a bad disposition, too. And worse thinking. He's like the guy who's saying, "Shall we kill him? Hey, crowd, shall we kill him? Thumbs up, or thumbs down? Democracy will decide, who hangs or who doesn't? Thumbs up, or thumbs down? Shall we let the lions eat 'em, or not?" It's called a Christian movement, the lions moving toward the Christians.

So that's the choice before us. We can create a new monetary system, in a day. We can have an emergency act of Congress declaring national banking, which was done before. We've done it before. We can reorganize, put the entire banking system, by a single act, an emergency act, into financial reorganization, under government supervision. We can order that certain things will be paid, and certain things will not. They'll be suspended. As you do in a bankruptcy reorganization. We can bring nations together with us, such as China, India, and other nations, to establish a new world economic order, based on national banking, and on the conditions on which society can survive.

Now, let me just turn, in rapid succession, to a number of other points which are essential to complete the picture. First, let's go to this question of Machine-Tool Principle.

But first— Now, look at what determines this (see Fig. 1). So, the financial aggregates, that's fiction. What your financial system is, is something which is fictitious, that is, you determine it by law, you determine it because you choose to design a certain kind of financial system. Which you design by law. You say, what is allowed, what is not allowed. What kind of

instruments can be created, what can be negotiated, what cannot be traded, what's legal, and what's illegal—that determines your financial system.

Your money system, money must be created by government, as the obligation of the government, and distributed, largely through lending, by government, as a way of fostering the public good, in the form of infrastructure, loans to business, and that sort of thing.

What Principles Shall Govern?

What you have to look at, is the bottom line. Which is physical-economic output. How does this work?

The physical-economic output depends upon those things which directly affect demographic characteristics of population. These demographic characteristics include: knowledge, education. They include health care, obviously. They include science, and science services, obviously. Otherwise, how do you get the ideas to increase your productivity, hmm? They include those things which you must consume, as a household, to sustain a family which has this quality of productivity and education and knowledge. This kind of family culture. It includes the things which industry requires, which agriculture requires, to maintain this level of productivity. It includes the kind of infrastructure which protects you against century floods, of the type they had in California, precisely because the budget-balancers and ecologists wouldn't allow these systems to be completed. . . .

The same reason we've having killer floods in Czechoslovakia, or the Czech Republic. Killer floods in eastern Germany and Poland, Silesia, precisely because the infrastructure which could have been, and should have been, developed to deal with what are called "century-floods," that is, known capabilities, known possibilities, were not developed. That's part of your essential market-basket of consumption. Infrastructure, industry, agriculture, mining, and household community requirements.

So the question is, if we consume this much, in terms of market-baskets, can we produce more than we consume, in terms of these things we require, for industry, infrastructure, and households?

If we can produce more, that's profit. That's **real** profit. And we don't want a financial system, or an economic system, that measures profit in any other way, than taking the entire national economy into account—and ultimately the world economy—and saying, what is the level of consumption, in terms of infrastructure, in terms of industry, agriculture, and household existence, which is necessary to maintain a certain level of productivity? And, does the way this is structured, result in an increase in the output of these kinds of required things, over what we have to consume, to perpetuate this level of productivity? That's **real** economy. That **physical** economy. Forget money,

forget financial things. Those can be determined by law, by designs of systems. What you require is, what principles shall **govern** the way we design law, financial systems, and monetary systems.

So, don't start with money, don't say, money works this way, money works that way. I can make money work any way you want it to work. I know how to design the laws, to make money do anything you want money to do.

So, don't tell me money has any will of its own. Money has no will of its own, it's only a fiction. It's like an actor on stage. The playwright determines what the action's going to be. The playwright of law will determine what money will do, will determine what financial instruments will do. It determines what you can do without going to jail. That's a fairly effective way of dealing with the definition of financial instruments. . . .

All right. Now, how do you get this to work? Let's go to the next chart, which is this (see Fig. 4)—

I don't know if you can see that from where you're sitting, but anyway, just to describe it. Assume that everything else is right. Let's assume you have a family—it's in reasonably decent health. A family which is reasonably, decently nourished. Decently housed, with adequate medical care. You got a child, going to school, or living in the family getting a family-nurture kind of education, before going to school. Or that child, becoming a young person, going to secondary school, and then going on to university.

All right, let's start there. Obviously, that's the first place we look. We look at the development of man, the development of the human individual. What do we mean by development? We mean the development of cognitive power, the power of Reason. The power to do things that cause the universe to say, we'll help you out. You say: "Universe, I want to improve the standard of living."

"It's very simple: You've got to find the puzzle. You've got to answer a riddle. You've got to make a discovery. You come back with a valid discovery, I will improve the standard of living for you."

So, that's Man. Reason. Man's relationship to the universe, is **Reason**. And the universe won't obey you, unless you solve the riddle, of Reason.

Now, what do you do in education? In education, you do two things. First of all, as I described it, you put people, students, through the experience, generally in class sizes of not more than 15 to 17 or 18 students at a time. Very important, class size. Because individual instruction sometimes works, but it is not the ideal way to educate children. What you want to do, is that you want to educate children with a class interaction, among a group of students, where there are not too many students, because, if you have too many students you can't get the degree of intensity of interaction you

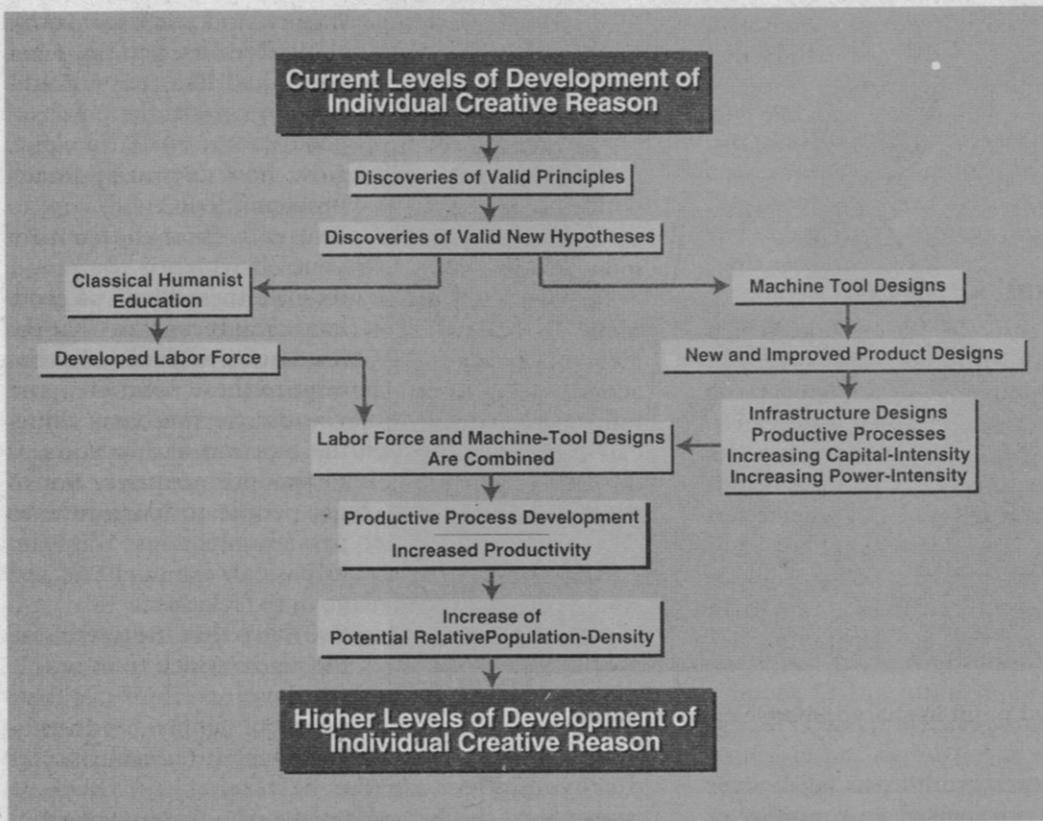


Figure 4: The process of advancing from current levels of development of creative reason in the individual, to higher such levels.

require. Fifteen to 17 students, approximately, is the best class size. Sometimes with younger children, it's better to have even smaller sizes. Because you want to get an interaction.

Now, everything that's going to happen, is going to happen inside the head of the student. It's not going to happen at the blackboard. It's not going to happen in the textbook. It's going to happen **inside** the mind of the student. Because there's nothing on the blackboard that can think! I never saw a textbook think! Because ideas, discoveries, are generated not by blackboards, not by paper, or even printed paper (especially the *Washington Post*). They're generated by human minds, individual human minds, which think. And our concern is, to develop the thinking potential of each individual person, and to realize the benefit of that increase in thinking potential in practice in society.

But what you want at the same time, even though it's an individual process, you want to have the effect of the social interaction among students who are all focussed upon solving a particular problem of thinking. Because this interaction will help them, by asking questions back and forth: "What are you thinking?"

The Child as Discoverer

See, the objective of the class is to have the child make an original discovery of an idea, and then, the teacher says to the student, another student, "How did he come to that conclusion?" And this other student will say, in a good class, "Because he was thinking what I was thinking."

See, you can't look directly inside the mind of another person, can you? Well, how do you communicate ideas which exist inside, only inside, the mind of another person—how do you communicate those ideas, from one person to another, from inside the mind of one person, to inside the mind of another? When the person says, "I know what he was thinking! Because I come up with the same result myself. I know how he came up with this. Here's how I came up with it."

Now, these two children now know what each other is thinking, don't they? They know it! It's not a guess, it's knowledge. The other students then get in on the act. You go over it again, until the other students catch on. Until each person says, "Ah! Now I see it!" And it's like the light turning on in the child's mind. And they walk out of the class . . . what do they know? They walk out with some words, but are the words the idea? No, the words aren't the idea. The words are the flags, the symbols, they are the short-hand notes, by which you agree to recognize that this idea, which you've all experienced, now will be referenced by these words. You say, what these words mean is this idea. Now, if you all agree on what the words mean, you know the idea exists in your head, you can now call up the idea from each other's mind by referring to those words. It's like a code. You open the door with the right words.

But it has to be there! If you get a key to an empty safe, you don't find much inside it, right? The words only work if there's something in the head, to work. So, you want to create a situation in which these students,



EIRNS/Philip Ulanowsky

A violin lesson: teacher and pupil in shared intense concentration.

through re-enacting a discovery, so it exists inside their mind, they know how they re-enacted it. A number of students, by referring to the same words and the same experience—for example, you refer to a discovery in science. You'll say, you'll give somebody's name. Who is the discoverer? Leibniz discovered that. Gauss discovered this. Usually the name of a scientist, or a discoverer. . . . Or Columbus discovered America. . . . That sort of thing. So you refer to an act of discovery, often by a name of a person who made the discovery. Or some other aspect, so-and-so's, Gauss's discovery in terms of biquadratic residues, or Gauss's discovery of the principle of curved surfaces, hmm?

Now, the words don't contain anything. You can recite the words all day, and they will not invoke the idea. But if you know what the idea is, now you can talk about the idea with others who know, by using these common agreed terms.

All right. So that's what the object is. It's not to teach people to use the right words, when the examination comes up . . . which is what's wrong with education today. What word should you use? What is politically correct usage? Not what's the truth, what's politically correct usage?

All right, so that's—there is something else going on. If you as a child are in a school in which you are learning to re-experience the great discoveries of minds of the past, you become familiar with the personality of each of the discoverers. You also become familiar with something else. You come to know that these are the great minds of history, or typical of the great minds of

history. And you know something else. Hey, you say, **I can think just like they think!** I have in myself, the power of genius!

Now, how do you approach problems, then?

You call upon that within yourself which is the power to solve these kinds of problems. You recognize what the kinds of problems are that require these solutions, and you do. So the basic thing, the function of education, is to produce geniuses. Not to get people to learn how to pass examinations. You want to pass an examination, you go in the relative facility.

So, that's that. So therefore, the places which train people to develop this creative power of genius, are institutions which naturally foster

discovery. Because the best teachers, the best researchers, the best scientists, who were involved in education of younger people, are the people who are steeped in a love of thinking, and who would rather think than eat. Now, from these places, they make discoveries.

So, what happens? You have the discovery, original discoveries are coming out of these circles, the same circles which are the educational facilities; that's been the case generally throughout history. So you have the discovery. . . . Then from discoveries of principle you have discoveries of what are called, new ways of thinking about the universe, which are called hypotheses, entirely new ways, we've discovered new principles.

Now, what do you do? It goes in two directions. One direction it goes into, is a general form of improved education, eh? We call it Classical humanist education, which means simply that you study things in terms of reliving the act of discovery in great science, in great art, so the student should relive the greatest work of humanity in the past, and re-experience the act of discovery associated with the greatest science and the greatest art, going as back as far as possible in knowledge of what human beings have done, to cause humanity to advance in its knowledge. Classical humanist education.

Now, what do you get out of that? You get an adult labor force which can do anything, in a sense. When a guy walks into a place for a job. . . . You know, the old thing is, in the United States, you didn't go in and say, what the guy's profile is. You hired somebody off the

street? You didn't get a big resumé in there! You look at the guy, you talk to him, and you say, well, I think we ought to hire the guy, I think he can do the job. We'll start him out here. That's how people were employed, back in the 1920s and 1930s and 1940s and 1950s. . . .

How did you employ somebody, before this resumé nonsense came up? You looked at the guy, you talked to him, had him fill out a form or something. You going to hire him? Yeah, you wouldn't even look at the form. You'd say, oh, he's all right, the form's all right; he probably lied a bit, so what? But I think he can do the job! I talked to the guy, and I think he can do the job for you. So the guy says, okay, I'll talk to him. You said, okay, take him on, we're going to start him out here, and see how he works out. That's the way people were hired.

Then you would see them on the job, and you say, hey, this guy can think. Well, we have a job opening over here, let's put him over here. And that's how people advance in life. Why? Because even as bad as it was in my time, in school, as bad as it was, you got something like this coming out of the school system—a guy who could think, looked at by an employer—the employer would say, I think the guy can work out for us. Let's hire him, and let's start him out here.

Now, what happens on the other side is, when you're dealing with science, scientific discovery, when you discover an idea, you've got to prove it, haven't you? You say, I've discovered a solution to this problem. Someone says, well, how can you prove it's true, how can you prove it's right? How can you prove it exists in nature?

The Crucial Experiment

So, you construct what's called an experiment. It's called a crucial, or proof-of-principle, experiment, to prove that nature works the way your discovery says it works. That's called a Machine-Tool Principle. Now, when you take the apparatus, which you used to construct that experiment, you walk into a guy who designs machine tools, or similar kinds of products. This guy, having seen your experimental device—he probably helped you build the experiment—now says, look, I can design a whole group of new kinds of products, and new kinds of machine tools, on the basis of this discovery which you demonstrated, by looking at your experiment, understanding your experiment, I can see how to build a whole new class of products and processes out of that.

Right? So now, this goes into new product designs, and better machine tools. Now, you got the guy who's being employed, he goes into the factory, and these new machine tools are coming into the factory where he's employed. . . .

Now, unlike Russia (this is the big problem they had

with their civilian, non-military economy in Russia), unlike Russia—where the general population had a peasant mentality, because they'd recently come out of serfdom, and out of horrible conditions. They resisted **progress**, because they were poorly educated, had a poor cultural background, so they couldn't carry . . . , they were stagnant, they could not even use improved technology. They would prefer to use the old ones.

In **our** population, in my time, you put a new machine tool, a new type of machine, in the factory, a better process, a better product, you would build morale in that place. The worst thing that the person who works for a living has to face, is monotony. You introduce new ideas, improvement, betterness. You take the old days, when we had 60% of the population working in factories, eh? Produced things. What do they talk about when they get together, socially? It'd always come around to talking about the different jobs they worked on, talking about the experience of the improvements that were coming down. Oh, we're making a better product now, it's really good. More fun.

And that's the way it works. You combine the development of the mind, with the development of the products and processes, which the mind's discovery of principle has devised. And that's how you produce—that's called scientific and technological progress.

Which starts with **education**. And that's how it worked.

And we stopped that! It's on that basis that mankind has progressed. That's the secret of European Civilization, the political organization of the institutions of national economy, and the state, to foster this process, and that's the basis on which. . . .

We have now come to the point, we say "No! Science is bad. Progress stinks. Untrammled nature is good. Let's get back to the monkeys." And then you get some guy like Dawkins, whom I referred to, who comes along and says, "Man is nothing but a Great Ape." And others who say, on the same basis, but man is no better than an ape, therefore, why aren't monkeys allowed to vote? We say, they do. Didn't you see the composition of the Congress? What they elected recently. Must have been monkeys. It's neo-conservatives.

And you realize that what's happening, is because the axioms, the assumptions, about nature are changed—we now have a Hobbesian conception of man. One man beating up another. One man killing another. One man eating another. That's not human! Once you know that another person can think, and you can think, and you know that their thoughts, their thinking processes, are something beautiful—that this is the process by which mankind exists, and what people think, the thinking process of Reason, in every individual is beautiful, that person's mind is beautiful, you can't go around with that attitude toward people, killing them. Because there is something potentially

beautiful in every human being, who is born thus in the image of God. But you go back to this Hobbesian conception of each in war against all, this swinishness toward each other. And you oppose progress. You say progress is bad, pot is good. And you have a society that's gone to pot.

And that's what's happened to us.

Now, we have, finally, just this other thing to say in conclusion.

The Most Evil Thing I'd Seen

Next—as we've said a number of times, and I don't have to elaborate it fully here, that, over a period of time, I first recognized the problem I've addressed today, now about 35 years ago, which got me into politics, indirectly. I recognized that, because of my experience with some of these New Age ideas which I'd had in science and related things earlier, I recognized that when these things began to be pushed, in a heavy way, in the '63-64 period, I recognized that this change that was being proposed by these circles, circles I knew, were not only the most evil thing I'd ever seen, in terms of effects on civilization, but the fact that these things were becoming mass-produced, and becoming not kookish things in a corner someplace, like science fiction, but were actually becoming influential ideas upon the new generation of young people—I saw this as the greatest possible danger to civilization, greater than any other danger, was what we call today, the New Age.

And I knew that, over 30 years ago, this civilization could not **survive** unless we got rid of it. I understood the standoff, which I've described today, the standoff between the republican against the oligarchical point of view, which dominated all European Civilization and its member states. I understood what the United States represented in history, and I saw this, and I said, this idea, if it takes over, with our youth, with this young generation, this nation, down the road, is **finished**. And this civilization is finished.

So, therefore, my concern has always been, during the period of the so-called Cold War, and afterward, to find a way in which to bring nations into great projects which corresponded to human need, especially to justice for developing countries, of Africa, South America, Asia, and so forth. And you'll note, that in the history of this organization, which I'm associated with, that this concern with the so-called Third World has always been our defining concern, not because we were concerned only with the Third World, but because my view was, that unless you addressed yourself to the places where the greatest injustice is being perpetrated against humanity, and proposed a system to address that injustice, you're not going to solve the problem for any part of humanity.

Now, in this process, my concern was, how do you deal with this division of the world, in a sense of false division, between the Soviet Union and the West? And both had evil in them. As the Pope said recently, in a recent period, the structures of sin. Both had this kind of standoff. They had in the communist system, they had a standoff between an oligarchical tendency of that form, as opposed to the aspiration of the citizen, in the same system, for realization of the individual, and for scientific and technological progress and its benefits.

You had in our system, you had the oligarchical evil of Wall Street, as against the aspiration of all kinds of people, for justice in terms of scientific and technological progress and their benefits. Now, my question was, how can you organize the world into some great projects, which will tilt the balance, so that throughout the world, and among nations, the influence of the struggle for scientific and technological progress will become once again hegemonic, and we can beat these oligarchical—you'll forgive the expression, Patton's language—bastards.

The Soviets Reject the SDI

So, that during the 1970s, we became engaged with the Soviet science sector, in things such as inertial confinement modes of thermonuclear fusion. And in the process later, our efforts constantly were, to find ways of bringing this principle of Third World justice, as an organizing principle for the planet, into place. I knew, as I told the Soviets when I was engaged in a backchannel discussion with them for the Reagan administration, back in 1982-83, I told them that their system, if they continue with their present course, would collapse in about five years. And so, thus, during the middle of the 1980s and thereafter, I was looking forward, after the rejection of what was called the SDI—which to me, meant that the Soviet system was doomed, the economic system was doomed, within about five years. It collapsed actually in about six years, not five.

But thus we were concerned, all through that period, with what kinds of programs would be attuned to the circumstances of the collapse of the Soviet system, which I saw as inevitable within a period of about five years, or so, at that time. And thus, when the crash occurred, Helga and I and others worked to devise and carry out, an elaboration of what I'd indicated in a Columbus Day address on Oct. 12 of 1988, in Berlin, on the basis of the imminent collapse of the Soviet system. And that was to develop the idea of development corridors, centered upon the most highly developed section of Europe, which I called the industrial triangle, and extending in galactic spiral-like arms from centers of concentration of

machine-tool capability, into other parts of the world.

And out of this, through the work of Helga and others, this became what we call the Land-Bridge program, which associates of mine went to China, and elsewhere, to boost this program of recovery. These are not simply railroad routes, but they're corridors of development, a concept that was developed in the Nineteenth Century, by people who were associated with Abraham Lincoln, who were the people who had designed the transcontinental railroads of the United States. On the basis of the development of the transcontinental railroad design, for development corridors from Atlantic to Pacific in the United States, Carey and others, Lincoln associates, proposed this in Europe, and this became the basis for the thrust of Europe, for Eurasian railway corridor development, in Europe, in the late Nineteenth Century, and the early Twentieth Century—a development which the British stopped by organizing World War I to prevent this from being realized.

So we revived that, in a modern form. Today, with the United States and other countries collapsing, what we require is a task-orientation akin to a space program, but bigger—not excluding a space program—

which will be a basis for a mobilization of the scientific and economic potential of bankrupt countries, to get them back into business.

The example of what happened with Roosevelt, is a case in point. Those of us who are old enough remember: In 1939-1940, when Roosevelt started the mobilization, which became the recovery, we did not close plants because they were deemed inefficient, we reopened them. We did not export our jobs; we imported them. We put everybody to work. We took them out of useless work, and put them into useful work. We built the greatest productive machine this planet had ever seen, within a period of three to four years, by those methods. We're going to have to do it again, on a planetary basis. And this idea of bringing nations together, for great infrastructural projects, which will mobilize the productive potential within each of those nations, to the benefit of each and all, is the idea on which the future is based.

Today's Land-Bridge Alliance

Let's go to the next graphic, just to indicate quickly (see Fig. 5).

Just to describe this. What do we have in this politically? You have the largest of the nations

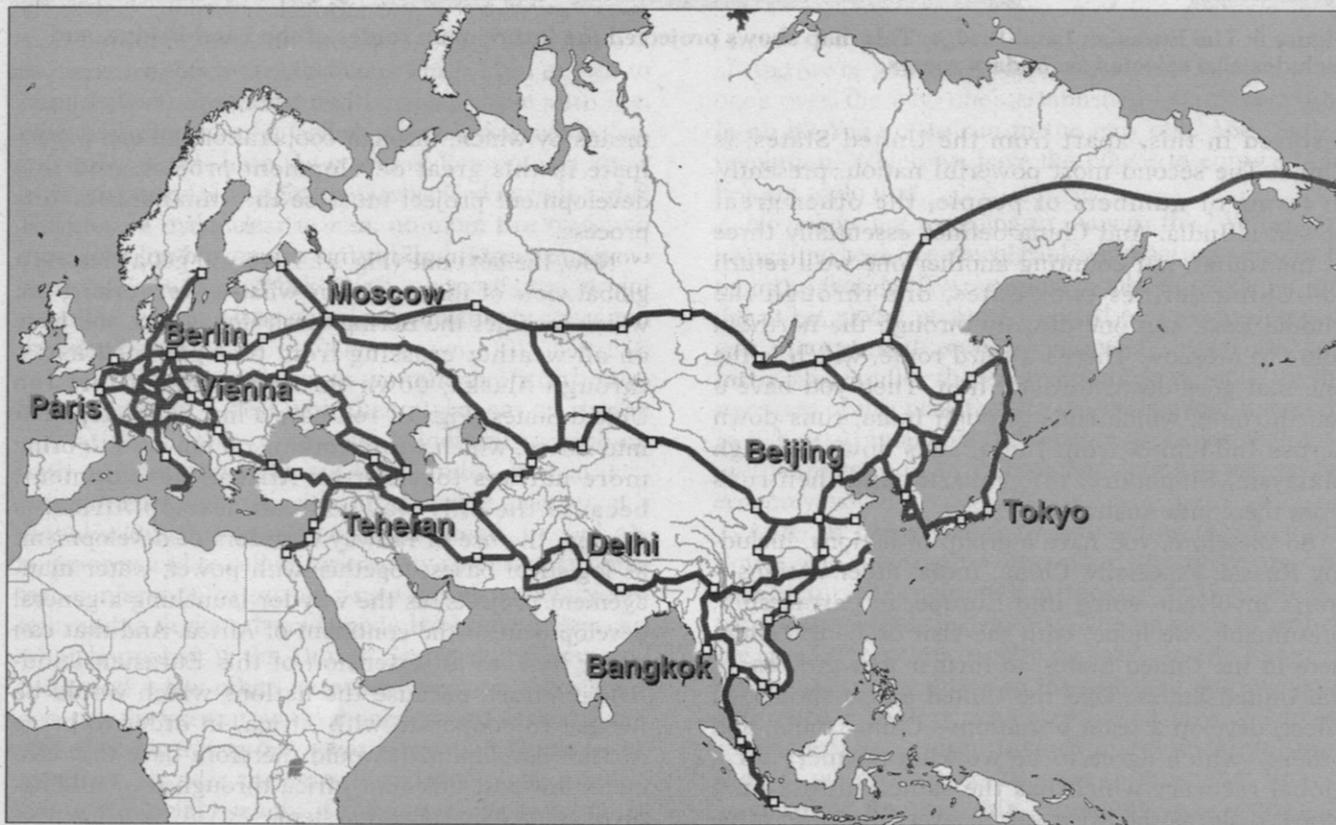


Figure 5: The Eurasian Land-Bridge: This map shows the future main routes of this vast complex of infrastructure projects.

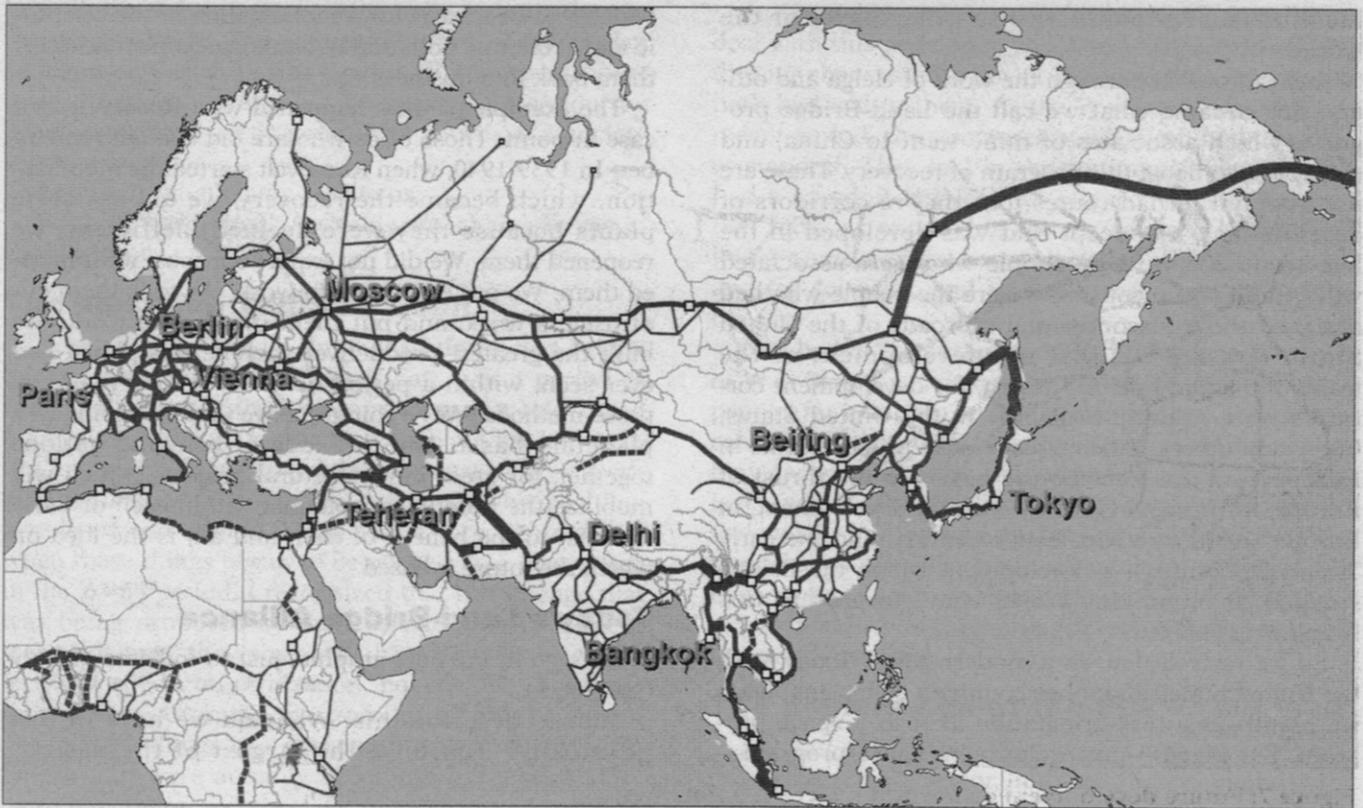


Figure 6: The Eurasian Land-Bridge: This map shows projected the future main routes of the Land-Bridge, and includes also selected secondary routes.

involved in this, apart from the United States, is China. The second most powerful nation, presently, in terms of numbers of people, the other great power, is India. And China defines essentially three of the routes, not counting another one we'll return to—China defines two routes, one through the Middle East, and one directly through the northern route to Moscow. There's a third route, which is the one that goes down through Iran. Then you have a fourth route, which runs through India, runs down across Indochina from India, runs down through Malaysia, Singapore, into Jakarta, and then runs from there into Australia.

So therefore, you have a group of nations, including Russia, especially, China, India, other nations—Iran's involved—going into Europe, in partnership, presumably, we hope, with the visit of Jiang Zemin, here in the United States, to further that process, of the United States. That the United States should, in effect, develop a team of nations—China, India, and others—which agree to be working partners for a global recovery which has the same purpose on a global scale, as the Roosevelt recovery under wartime conditions had for the United States. It's to take the existing resources of various nations, and provide the

means by which, through cooperation, all can participate in this great development project. And this development project must be the stimulant for this process.

Now, the next one (Fig. 6). Here you get a picture, a global view of this, which is what we're working on, which includes the Bering Strait line, where you have an all-weather crossing from that part of Russia, through Alaska, down through Canada, into the United States (Fig. 7). You have a link, a development into Africa, which we're working on now. It's to bring more nations together on African development, because the only way you can develop Africa, is through the use of railway corridors of development, as logistical bases, together with power, water management projects, as the way for launching a general development of the continent of Africa. And that can occur best, as an extension of this Eurasian Land-Bridge effort, because the nations which would be needed to cooperate with Africa, in order to bring African development, would therefore have that efficient, low-cost link into Africa through the building-up of an African railway system.

And the last chart (see Fig. 7). So, that's what has to be done. This President of the United States, has got to find

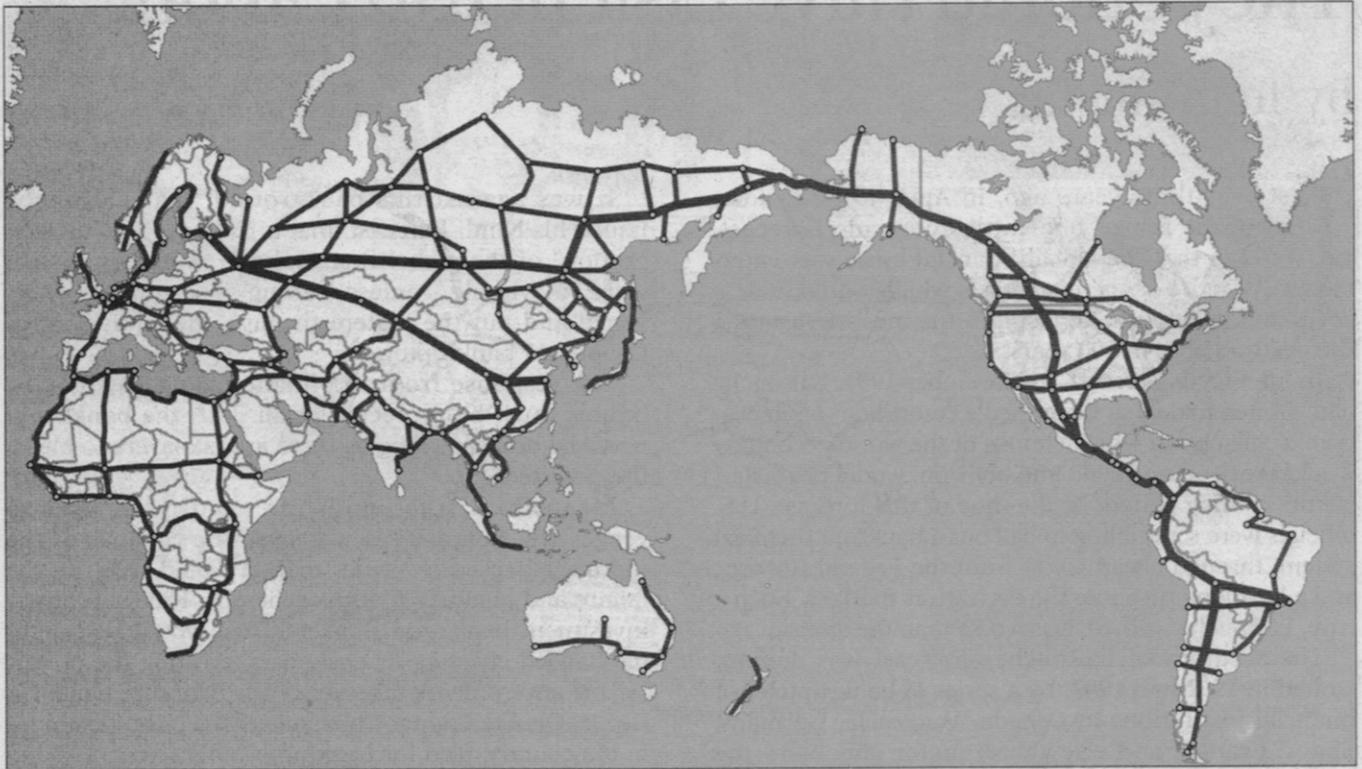


Figure 7: Future development on a world scale: the main lines of a worldwide rail network.

the nerve, to accept the conditions which I can explain to him, as God's intention. So, he can't argue with me, because I'm speaking for God on this one. You can do that, you know. If you have the power of Reason, you know what's right, and if it's right, that's what God intends, right? Therefore, I make clear to him: no more free trade; no more globalization; no more World Trade Organization; no more IMF; no more World Bank; no more crazy ecologism. Don't worry about global warming; we're going into the ice-cube age.

Under these conditions, if we take the British on—don't try to cut a deal with them, take 'em on, smash 'em, at their point of greatest vulnerability. Link up with our potential allies, China, India, Russia, etc. Bring those who agree with this principle together, as a global alliance. Prepare to steam ahead, first of all, being prepared to call an emergency conference, monetary conference, to set up a new world monetary system, and to declare the old one in bankruptcy. Because, what happens? If the United States and China and India and a few other countries, meet, on a weekend, and say, the present world monetary and financial system is bankrupt, guess what happens? That's it, it's bankrupt, it's over, the show is ended. No one can sustain a financial system, if those nations, a group of nations such as that, say, it's over, it's over, that's the end of it.

And we're going to create a new one. Well, the old one's over, the new one's established—you want to be in on it? You got to run to the new one. And that's a revolution. Which we have the power to enforce. And he's got to do that.

Now, how are we going to manage this? Well, we're going to go back to national banking. What are we going to do about that? Well, we're going to take this great project, this great global project, centered on railway corridor development, with power development, water management, and similar things, we're going to mobilize the resources of this planet, as Roosevelt, Franklin Roosevelt, in 1939-40-41 mobilized the forces of the United States for war. We're going to take what's there, put it to use, get the economy moving.

And, in the process, if you know what you're doing, you're going to remember that there are certain principles which European Civilization got from Greeks and Christianity. The republican principle, the conception of man as made in the image of God, to exert dominion in the universe. And we have to create a society which is based, always, in its characteristic assumptions of policy-making, upon that. If we do that, we'll come through just fine. **If we cannot do that**, Mr. President, if you can't do any of the above, then, bend over, and kiss your rear-end goodbye.

They Should Have Listened to LaRouche

by John Hoefle

Just over three years ago, in April 1994, Lyndon LaRouche issued his Ninth Economic Forecast, warning that the global financial crisis was entering a new, more dangerous phase, which would, unless governments intervened, result in the most devastating financial collapse in 500 years.

In his Eighth Forecast, in November 1991, LaRouche had warned that what he termed a "mudslide" of an economic collapse, in which chunks of the world's economy would break off and slide into oblivion, would characterize the coming period. At the time of this forecast, U.S. officials were scrambling to bail out a bankrupt financial system, through cheap credit from the Federal Reserve, and a headlong rush into the derivatives markets. Such a cure, LaRouche warned, was worse than the disease.

The accuracy of LaRouche's forecast was demonstrated in 1992 and 1993, by a series of bankruptcies of financial institutions in Canada, Venezuela, Germany, Spain, France, and elsewhere; major shocks to the international bond and currency markets; and the collapse of Olympia & York, the world's largest real estate company. Financial SWAT teams were dispatched around the globe, to control derivatives disasters. Despite these losses, the bubble continued its cancerous growth, with the face value of derivatives outstanding internationally doubling between 1991 and 1993. The effects of decades of neglect of the nation's infrastructure, was dramatically illustrated by the Great Flood of 1993, which left large sections of the Missouri and Mississippi River basins devastated. In subsequent years, such floods would be repeated in Northern California and along the Red River, in North Dakota and Manitoba. The message was clear: Flood control infrastructure proved both effective and cost-effective, where it was built, and huge losses were incurred where flood control was neglected. But the financiers were not interested in such lessons, continuing to demand that all available funds be diverted into speculation, instead of being "wasted" on infrastructure.

As 1994 began, the Federal Reserve became frightened that the bubble it had helped create, was soaring out of control, and it raised interest rates, ever so slightly, for the first time in five years. The result was a bloodbath in the speculative markets: The bond markets lost more than \$1 billion, some of the big hedge funds took losses nearly that large, and the mortgage-backed securities market disintegrated. In March, David Askin's "toxic waste" hedge funds collapsed, and rumors of the derivatives-induced insolvency of Bankers Trust swept the market.

It was against this background, that LaRouche issued his Ninth Forecast, that a "collapse into disintegration" of the global financial and monetary system were "inevitable," unless leading governments intervened and put the system through the equivalent of Chapter 11 bankruptcy.

The response from the financiers was swift: The bubble must be protected at all cost; the banks will never be broke, as long as there are taxpayers to bleed, they insisted.

Meanwhile, the mudslide continued with a vengeance. Before 1994 was over, the collapse of the mortgage-backed securities market would result in the failure and liquidation of the venerable Kidder Peabody investment bank, and Bankers Trust would be caught red-handed cheating its customers, creating the pretext for the government's takeover of the bankrupt bank. On Dec. 6, Orange County, Calif., one of the richest counties in the country, filed for bankruptcy after losing \$1.7 billion in the derivatives market. Also in December, the Mexican financial system imploded, with an imminent worldwide blowout stopped only by a \$500-billion rescue package organized by the U.S. and other governments.

Hoping to make up for losses incurred in Mexico, Barings, one of the most prestigious and oldest banks in the world, took a big risk in Asia; the bank lost, and failed in February 1995. It was a bad year all around for British banks: Swiss Bank Corp. bought S.G. Warburg, Dresdner Bank bought Kleinwort Benson, and Merrill Lynch bought Smith New Court. A wave of consolidations also swept the U.S. banking system in 1995, led by the takeover of Chase Manhattan by Chemical. That year also saw a string of derivatives losses by state and local governments across the U.S., forcing cutbacks in essential services.

Meantime, the physical economy and the state of infrastructure showed what it meant to cut back services and infrastructure maintenance. In June of that year, the Federal Highway Administration released a report showing that one-third of all U.S. bridges were either functionally obsolete or structurally deficient, with the situation worsening. Several major municipal water systems were contaminated with the *cryptosporidium* bacteria, rendering the water dangerous to drink; in many areas of the East Coast and the Midwest, 70-90% of the iron pipes used to distribute the water, at ages of between 100 and 140 years old, were breaking faster than they could be repaired or replaced, leaking huge quantities of water. Seeing the handwriting on the wall,

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Stock market shows an air of buoyancy, according to the poll of opinion that preceded the crash and crash of 1997

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Tuesday July 15 1997

Global risks in banking

Central bankers around the world are becoming nervous that their countries are not covered by the current financial turmoil in Asia. The recent annual report from the Bank for International Settlements (BIS), the central bankers' bank, warns that the likelihood of major banks having systemic consequences. The study of the international payments and settlement system is a continuing focus of BIS attention. These reports come after 10 Alan Greenspan's

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Nations Acting to Head Off Bank Crises as Threat to Global System Rises

...the market shows an air of buoyancy, according to the poll of opinion that preceded the crash and crash of 1997

the international financial insiders began quietly moving out of paper and into commodities such as precious metals, strategic minerals, food, and oil, covering their tracks by luring billions of dollars of sucker money into the paper they were abandoning.

The combination of a growing bubble and a decaying physical plant was again demonstrated early in 1996, when a rash of deadly accidents struck the nation's railway system, thanks to inadequate facilities, maintenance, and operation. In August, the electrical grid for much of the western U.S. went dead, for similar reasons. An EIR study showed the depth of the collapse (see pp. 30): The average age of the U.S. aircraft fleet had risen from four years in 1970, to 14 years in 1996; the miles of railroad trackage in operation per household had fallen 73% since 1950; and 90% of all the workers who had entered the work-force since 1947, had gone into overhead, rather than productive, jobs. The overall U.S. infrastructure deficit, the study found, was \$7-\$10 trillion. Furthermore, in 1996, it took three average paychecks to equal the buying power that one manufacturing-worker paycheck provided in the 1950s.

The resulting erosion of workers' income led to record borrowing, as people used credit to make up the difference between income and expenses; the resultant collapse of the tax base triggered budget crises in governments at all levels in the United States. The response of the Conservative Revolutionaries was to slash gov-

ernment expenses, throwing millions of people on the scrapheap; in Pennsylvania, the medical cuts demanded by Gov. Tom Ridge were, literally, killers.

Meanwhile, the bubble reigned supreme, with corporations slashing and burning their own workforces and productive capabilities, to satisfy the demands of the markets. Exemplary was the action of "Chainsaw Al" Dunlap—a protégé of Sir Jimmy Goldsmith—who cut the workforce in half at Sunbeam Corp., causing the company's stock price to soar.

By 1997, the situation was coming to a head. Many of the so-called experts, who had previously insisted that a stock market crash was impossible, began to change their tune. In February, Federal Reserve chairman Alan Greenspan—who in December had complained of "irrational exuberance" in the stock market—warned of the danger of an "atomic erosion" of the financial system, a not-so-veiled reference to the disintegration forecast by LaRouche. In March, a series of articles in the British press warned of a looming "\$55 trillion horror" in the derivatives markets, a warning LaRouche identified as a signal that a major derivatives disaster was coming down the pike. During the spring, the financiers and their regulators led a fight for further deregulation of the markets, in an effort to weaken the power of the government to intervene in the looming crisis. The regulators effectively overthrew the last vestiges of the Depression-era Glass-Steagall

law, which barred banks from the securities business, with the acquisition of the Alexander Brown investment bank by the government-run Bankers Trust.

On June 9, the Bank for International Settlements, the central bankers' central bank, issued its annual report, in which it admitted that the financial crisis was out of control, and that the system was finished.

Going into August, the signs of a financial blowout were beginning to be overwhelming. Instability in Japan, speculative attacks on the currencies in Thailand, the Philippines, and Malaysia, the continuing saga of the bankrupt Credit Lyonnais in France, financial crisis in Brazil, the \$250-million derivatives loss just announced by Union Bank of Switzerland, all point to a **systemic crisis** which could easily overwhelm all attempts to control it.

With the Dow above 8,000, up 26% for the year, and the German and Amsterdam stock markets up 50% for the year, all but the most gullible are nervous. "Brace yourself for the crash of '97," the London Sunday Times warned July 27, noting that "October is shaping up to be the cruellest month on world stock markets." The "present euphoria" cannot continue forever, and "the danger of a backfire is growing," the German Frankfurter Allgemeine Zeitung warned July 26, adding that "a stock market plunge always comes suddenly."

On Aug. 3, Time magazine, which just a few months

earlier had encouraged investors to buy stocks, carried a cover story titled, "Stocks—Preparing for the Crash," which outlined how the "crashmeisters" of the President's Working Group on Financial Markets have contingency plans to deal with a financial "doomsday." Money magazine, the yuppie investment sheet, followed days later with a cover which warned, "Don't just sit there. . . Sell Stock Now!"

Despite the alarming nature of these press warnings, what they leave out is more important than what they say.

"Any time that the U.S. or the Americas, Europe, and Asia all have crises in the same time frame, you have the potential of an unrestrainable, uncontrollable reverse-leverage, chain-reaction implosion, which will disintegrate the entire financial and monetary system," LaRouche commented in an interview with the radio program "EIR Talks" Aug. 4. "No government, or no combination of governments today, presently has any plan, or any means by which they can control such a crash."

What is coming, is not a 10%, 20% or even 50% collapse of the stock markets—although such a shock may well strike in the August-October period. What is coming, is the **disintegration** of the global financial system, unless governments find the courage and wisdom to adopt the emergency measures outlined in this pamphlet by the one man who has consistently called the shots, Lyndon LaRouche.

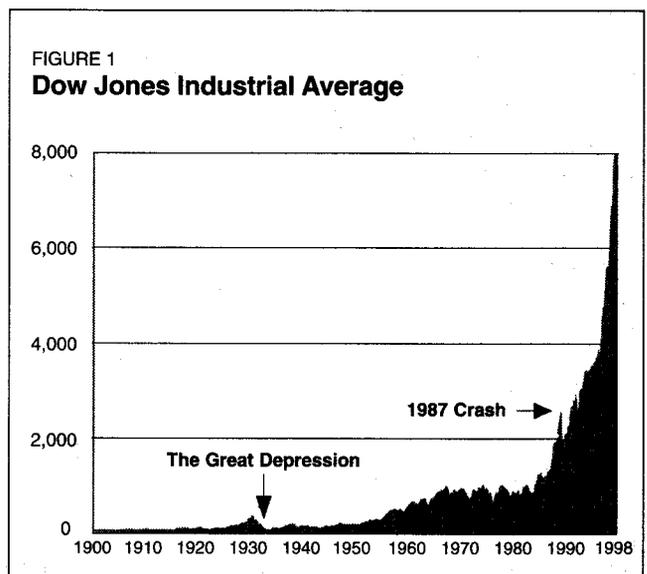
Take the Economics IQ Test

by John Hoefle

What follows is a slightly expanded version of the speech given by John Hoefle of the EIR Economics Desk at the July 23 EIR seminar in Washington, "War on the British, or, How To Save the Economy."

To begin, we start with Fig. 1, which shows the weekly closings of the Dow Jones Industrial Average, since 1900. As anyone can see, the Dow is going virtually straight up. Now, if you look at this and think, "Oh my gawd, we're in trouble!"—then you pass. If you look at this and say to yourself, "Oh boy! We're rich!"—well, then you're an expert. And you're qualified to be an investor, a stockbroker, or a financial writer for the Washington Post.

The Washington Post, of course, is the newspaper that periodically reminds its readers that the major danger in the U.S. economy today, is that the economy is growing so fast, it can overheat, and lead to inflation. So, you know right away that they're insane.



If you look at the Great Depression, you had a stock market drop in two days, of about 25%, in the neighborhood of about 60 points. In 1987, the great crash of about 23%, was 500 points—both of which were mere blips in this great bull market, according to the experts. That's all history; we've left that all behind, and there's your empirical evidence, plain as day.

The stock market, since 1987, back when we were warning people to get out of it, and when LaRouche predicted that there would be a crash: It has quadrupled. Since 1995, it's doubled. Today, if we had a crash equivalent to the 23% crash of 1987, it would have to fall about 1,800 points.

Now, you look at this curve, and the way that this is going up: Here's a nice hyperbolic curve. Now think about the Triple Curve. While this has been going up, the real economy has been going down. The real economy has collapsed at about 50% since 1970, at the same time that this thing has skyrocketed. So, what you're dealing with is not a measurement of anything real. What you're dealing with here, is what you might call a fantasy index. It's a tool for brainwashing the population. Everybody talks about the Dow Jones—this is what the big economic measure is. "The economy doin' okay? The Dow go up? Good! Oh, it fell back a little bit, maybe we're not doing so good." None of it means anything.

What the Dow is, is a reflection of the biggest financial bubble in history. Figure 2 shows the same thing, but from a slightly different perspective. This is how long it takes the Dow to rise 1,000 points. From its inception, it took over 100 years to break 1,000. To break 2,000, it took another 14 years. Breaking 3,000 and then 4,000 took about four years each time. And then, when we have the real economic recovery, we switch to days—now it's a matter of a few hundred days, to break thousand-point barriers. So, our hyperbolic curve is picking up steam.

A Bubble Bigger Than The GNP

Now, with the market going up, the market capitalization, which is the value of all of the shares of stock, has also gone way up, to about \$10 trillion (Fig. 3), which is bigger than the U.S. GNP of just under \$8 trillion. And you can see it's risen nicely over the last few years. Back in 1990, the market capitalization was about \$3.5 trillion. Today, it's \$10 trillion. So, while a 10% correction of the stock market wouldn't drop the Dow to anywhere near what it was, say, at the time of the 1987 crash—it would still wipe out about \$1 trillion of value. Since the experts are talking that we might have a 20% "correction" on the stock market—dropping the Dow to 6,000 or so—they're talking about wiping out a couple of trillion dollars of value. That's mostly paper money; it doesn't really exist. But, of course, if part of that money is yours, and you have to

FIGURE 2
Years To Rise 1,000 Points

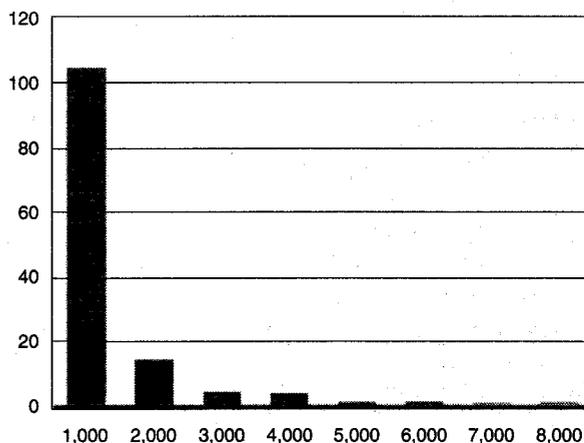
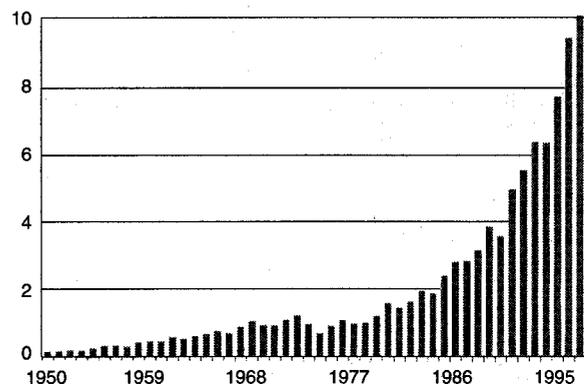


FIGURE 3
Capitalization Value of All Stocks Traded on
U.S. Stock Markets, 1950-97
(trillions \$)



come up with something to cover it, you might see it slightly differently.

What's behind all of this? The Dow is a reflection of a financial bubble, the most egregious element of which is derivatives. What's a derivative? Forget the technical explanations. A derivative is basically an IOU: It doesn't exist. It's a bet. You bet that something's going to go one way; somebody else bets it's going to go another way. And, it's like a casino; it's much more like a casino than a financial instrument.

Derivatives are now—we estimate—at about \$100 trillion a year, outstanding, worldwide. And turnover, which is the number of times these things are bought and sold during the year, is probably well over a

quadrillion dollars a year. Now, remember, all this grows, while the real economy, which is responsible for **paying** for this stuff, is declining.

So, this is unsustainable.

Now we'll get to the U.S. banks (Fig. 4). The U.S. banks now hold about—as of the first quarter—\$22.4 trillion in what the FDIC calls “off-balance-sheet derivatives”—now, that’s against about \$4.5 trillion in assets; so, the derivatives are five times the assets—and against about \$300 billion in equity, which is the net worth of the banking system itself.

Figure 5 shows the relationship: The top line is derivatives, which is rapidly growing. Then you have three

lines that are pretty flat, down at the bottom. The top line, of those three, is assets, the middle line is loans, and that bottom line, the one that runs right along the bottom, that’s the equity. So, here you have a banking system in which the parasite is taking over, rapidly taking over. They’re not banks any more: They’re speculators. This has become a casino, rather than a banking system.

The Thousand-Pound Flea

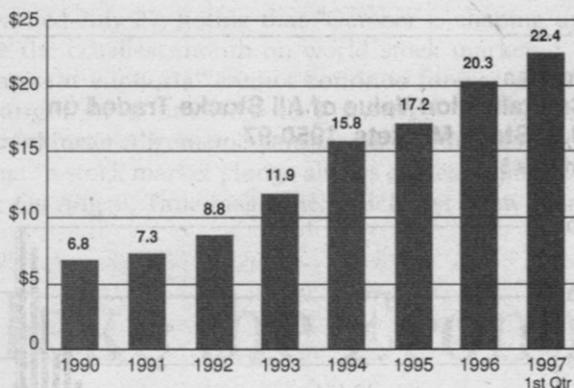
To take an example: Here’s Bankers Trust (Fig. 6); this is 1994, which is a significant year for Bankers Trust, because that’s the year that the federal government stepped in and took it over. And you can see why they had to step in and take it over. The little, bitty black square—the thing that looks kind of like a smudge—that’s the equity of Bankers Trust, it’s about \$4 billion. The second square is their assets, of about \$97 billion. And the really nice big one? That’s their derivatives portfolio.

If you look at that, you see that the derivatives—they’re not carrying them on the balance sheet; they’re (again) off-balance-sheet derivatives. So, when you look at the balance sheet of any bank—basically, it doesn’t mean anything, any more. I mean, if you’ve got something this huge, that’s hidden, you’re not dealing with reality, when you talk about the balance sheet.

Another way to look at this, is to think of a dog with a thousand-pound flea on it. You can see that both the dog and the flea have a real problem: The dog has a problem, because the flea is sucking it dry. The flea has a problem, because it’s killing the dog. And there’s your banking crisis, and there’s your financial crisis, in a nutshell.

While this financial bubble has been growing,

FIGURE 4
**U.S. Banks’ Derivatives Holdings:
‘FDIC Off Balance-Sheet Derivatives’**
(Trillions of \$ at year end)



Source: FDIC

FIGURE 5
**U.S. Banks Addicted to Derivatives:
Derivatives vs. Assets, Loans, Equity**
(trillions \$)

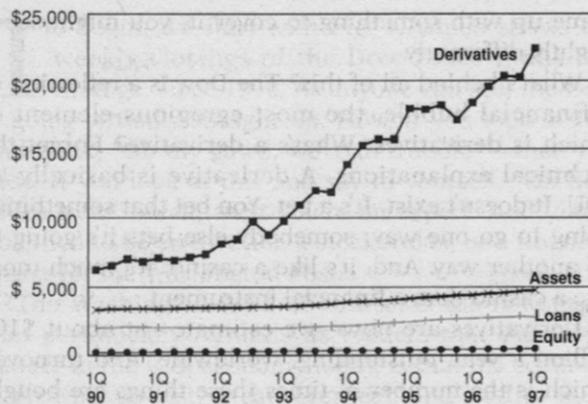


FIGURE 6
Bankers Trust New York Corp., 1994

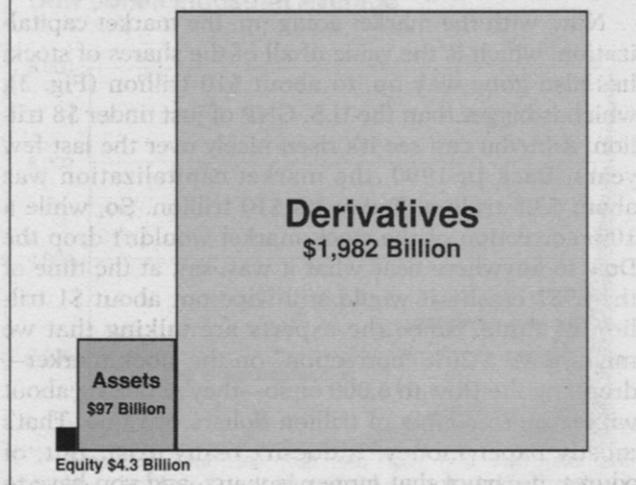


FIGURE 7
Consumer Credit
 (billions \$)

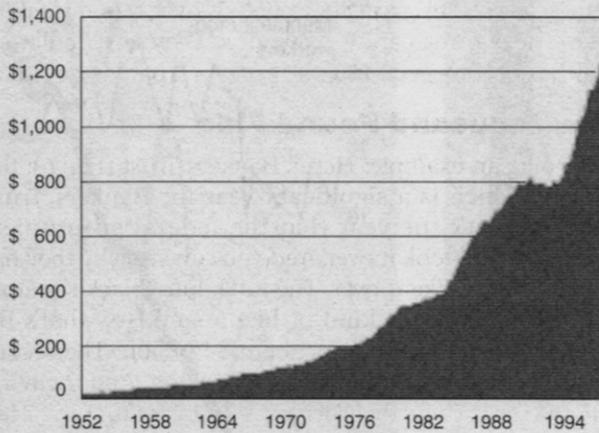
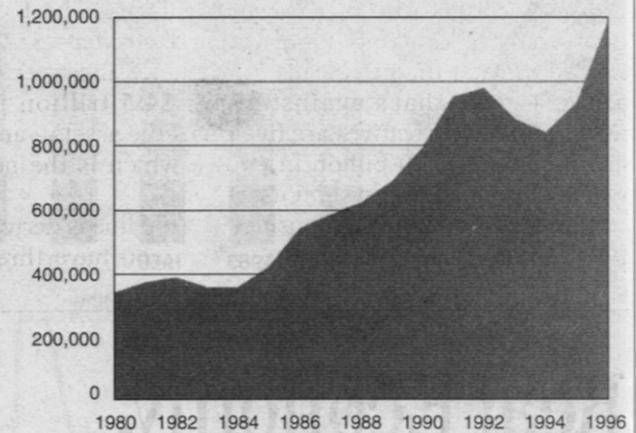


FIGURE 8
U.S. Bankruptcy Filings
 (thousands)



we've had a collapse in productivity and the standard of living, of about 50% since 1970. It used to be that a father could support a wife and two or three kids on one income. Now, everybody in the family is working—and they're not doing as well as they used to, on one income. What we have is, we have an income shortfall: People aren't making enough money. To make up for it, they've been borrowing like crazy. Figure 7 shows the escalating growth of consumer debt. The Reagan/Bush "economic recovery" of the 1980s was built on debt: During the 1980s, GDP grew by \$2.9 trillion while debt grew by \$8.6 trillion, meaning that for every dollar rise in GDP, we went \$3 in debt.

Some people are even borrowing to buy stocks. Now, that's really smart! As one of the LaRouche movement political prisoners reported to me the other day, there are people who are now in jail, because they were out stealing; and they were taking the money that they got from stealing and they would put it in the stock market. That's really nice: Here you have small-time crooks, stealing from people, to turn their money over to the biggest crooks in the world!

What happens when you have to pay off all this debt? Today, some \$113 billion has been borrowed on margin, to buy stock. How much of that will be paid back when the stock market collapses? Today, households in the U.S. owe some \$4.9 trillion in household debt, or about \$48,000 per household, and pay an average of \$9,300 in debt service a year on that debt, or nearly one-third the average household income. It used to be that credit cards were used mainly to cover big expenses, things that would be paid off over a long period of time, but today, large numbers of Americans are

using their credit cards to buy groceries and other daily essentials, charging on their cards, the difference between what they take in, and what it costs them to live.

The result of this, is that increasing numbers of families and companies are being thrown into bankruptcy; Fig. 8 shows the growth in bankruptcy filings, and the truth is even worse, since many people go under without even filing—they can't afford to file!

The danger here, is not just that there's a big crash coming. The problem is, also, that **the very existence of this system is killing people**, just like the flea is killing the dog. Money that should go into infrastructure; money that should go into education; money that should go into all of the things that people need to survive; money that should go into decent wages, is all being sucked away, and fed into this financial bubble to keep the system afloat.

But, even so, the system can't survive, because the very process by which it is trying to ensure its survival will, like the success of the thousand-pound flea, guarantee its demise.

So, that's where we stand. So, when someone says to you, "Hurray!" The Dow Jones is now—what?—10,000 by the end of the day? Maybe 100,000 by year's end (unless, of course, it disintegrates)—you never know how fast it's going to rise, but you know one thing for sure: It's not going to keep going straight up. So, when someone starts talking to you about the market, give them the Economics IQ Test. See if that causes them to think. And, when you read the Washington Post, the best response is to just laugh at them.

FIGURE 1
Size of U.S. labor force, 1947-96

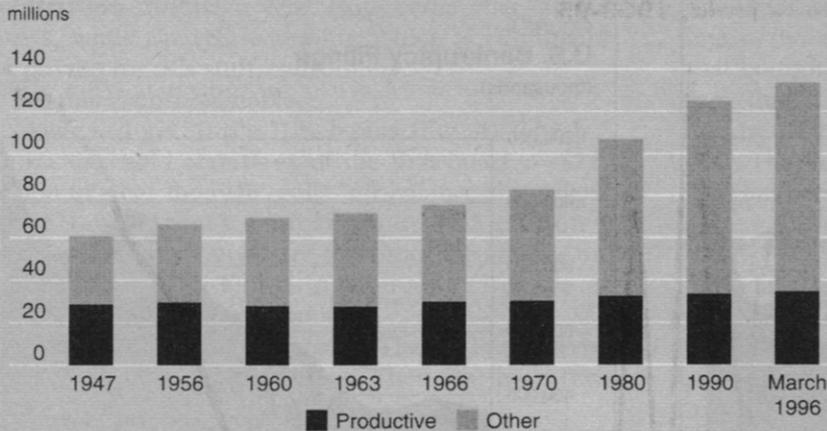
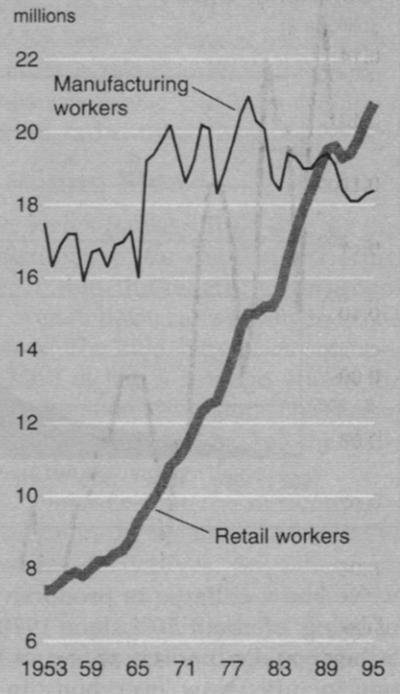


FIGURE 3
Retail employment surges as manufacturing employment declines



Real Economy, Consumer Market Basket Shrink to Crisis Point

While the stock market inflates like some monstrous balloon, the underlying physical economy—the bottom, downward-headed curve on the “Triple Curve” of a typical collapse function—is heading into the abyss. To give some indication of the collapse of the real, physical economy, we reproduce here a selection of the huge number of

graphics and charts which appeared in a special 25-page report in Executive Intelligence Review magazine’s issue of Sept. 27, 1996.

In Fig. 1, the darker portion of the bar represents the combined productive and essential infrastructure workers of the labor force. Notice that the height of this portion of the bar remains the

same over time, even as the height of the overall bar more than doubles.

FIGURE 2
Productive compared to non-productive labor force

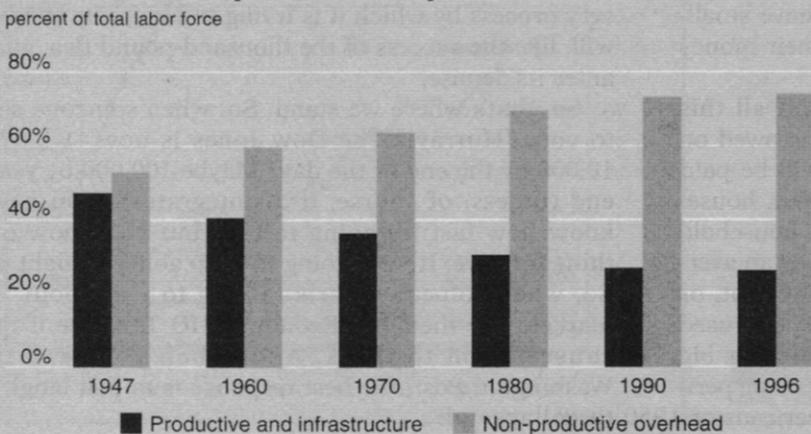


FIGURE 4
Number of weekly paychecks required to buy new car

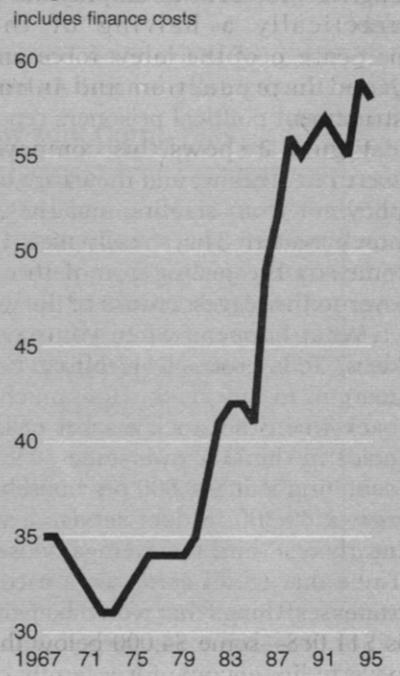


FIGURE 5
Cars produced per household, 1967-95

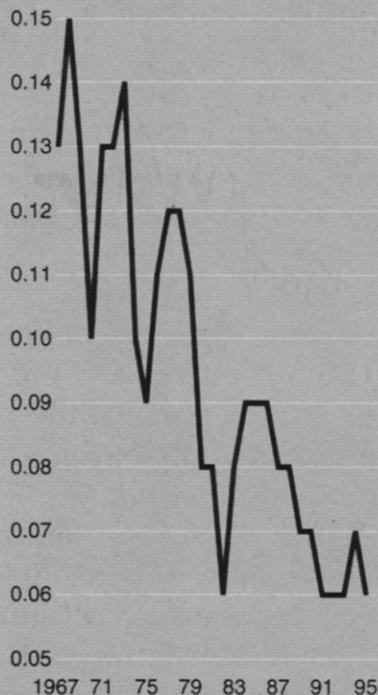


FIGURE 6
Housing starts per household, 1963-95

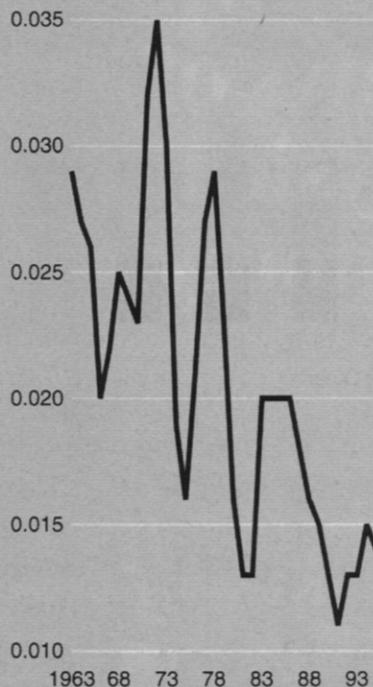
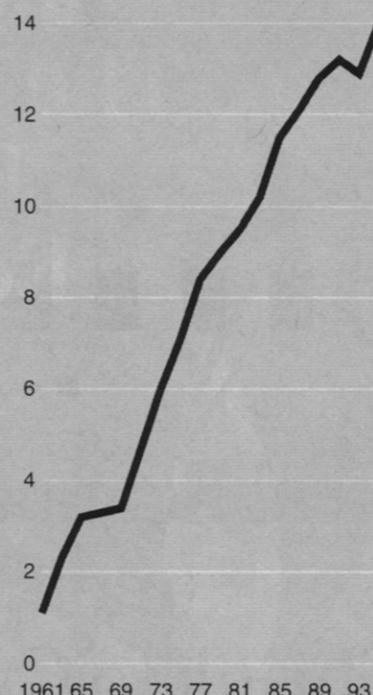


FIGURE 7
Average age of jetliners
 years



In 1947, America's labor force had 60.9 million workers, of whom 47.2% were in productive or essential employment. By 1996, the labor force had grown to 133.7 million workers, of whom just 26% were in productive or essential employment: practically a halving of the percentage of the labor force engaged in production and infrastructure.

Figure 2 shows this comparison in another way, comparing the percentage of workers engaged in non-productive overhead activities today, to the percentage of those engaged in productive and infrastructure activities (74% overhead, 26% production/infrastructure).

Figure 3 shows the enormous growth in retail employment—that is, selling things—as compared to manufacturing employment—making things—over the past 40 years. The average wage of the United States's 20.8 million retail workers is \$11,088—some \$4,000 below the poverty line-income for a family of

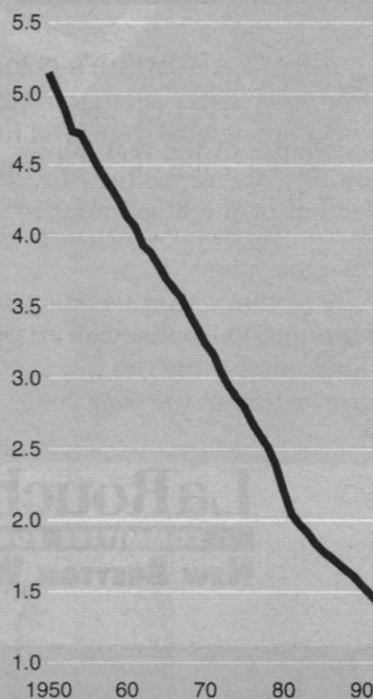
four.

In Fig. 4, we see the erosion of the average American's paycheck, expressed in terms of the number of paychecks required to purchase a new car. In 1967, it took 35 paychecks to buy a new car, including finance costs; by 1995, it was taking 58 paychecks—or 23 more weeks of work than were required in 1967.

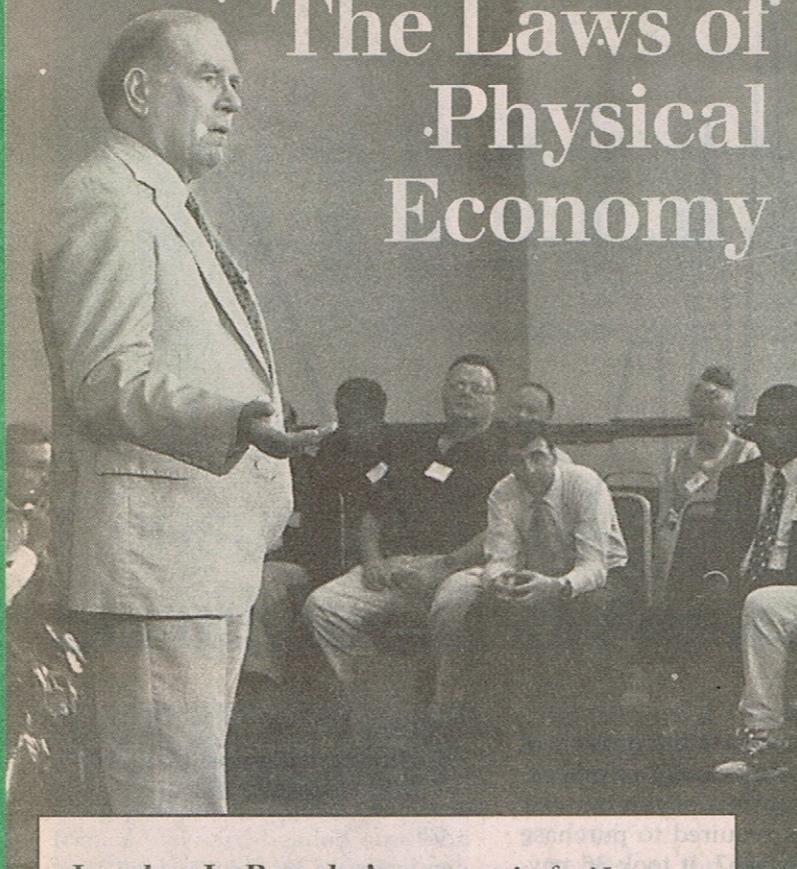
As to production of the necessities, Figs. 5, 6 show the production per household, of two basics: automobiles and houses—a drop since 1967 of 54% for cars, and a drop of 60% since 1963 for houses.

Lastly, in Fig. 7 we see the ageing process of the airlines industry—the ageing of the planes we fly in, that is. The average plane aircraft is now 14 years old. But what if, upon hearing that, you decide to take the train, instead? Forget it; you'll be hard pressed to find one. Figure 8 shows, on a per-household basis, the collapse in railroad mileage since 1950 (a collapse of 73%).

FIGURE 8
Railroad mileage per 1,000 households



Laying Down The Laws of Physical Economy



Lyndon LaRouche's concept of a New Bretton Woods system to replace the bankrupt world financial system, and his approach to reindustrializing the world through Eurasian Land-Bridge development corridors, are the only alternative to the onrushing collapse he describes above.

To put forward this policy alternative for adoption, LaRouche has announced his campaign for the Democratic Presidential nomination in the year 2000.

LaRouche's
COMMITTEE FOR A
NEW BRETTON WOODS

“ . . . We're coming to the end of civilization as we know it, on a planetary basis. That doesn't mean that the end of civilization will necessarily occur. But, if we continue with the present policies which governments adopt, still adopt today, which most people who believe their newspapers, believe in, which is taught in economics courses in universities almost universally—if these policies, which are now the generally accepted *mainstream thinking about politics and economics* continue over the coming months, then the inevitable result is that, on a planetary basis, civilization as we know it will vanish from this planet, for perhaps two or more generations to come, and the human population will fall, over two generations, to perhaps as low as, or lower than, the several-hundred-million level of population which dominated this planet between the period from the early Roman Empire through the 14th Century of Europe.

“So we're not talking about how to bet on the stock market. We're not talking about where to park your money while the storms blow over the financial system; we're talking about saving the very existence of this civilization, planetary-wide, as it presently exists.”

—Lyndon H. LaRouche, Jr.

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