

may be too involved a question for you to address in this venue, but if you can, would you please indicate to us how you were able to forecast this dynamic before the instruments which arguably caused this current crisis were even born?"

LaRouche: (That's a smart kid!) Essentially, I understood economics. That's why. My discoveries in economics were, of course, part of a childhood experience, in a sense. My father was a consultant in the footwear industry and a few other things, and I was never dumb. Got into a lot of trouble for that reason. No, but in 1953, I, in a sense, completed a phase of what, shall we call, my education, and by that time, I had adopted, understood, that we can not possibly deal with or understand economic processes, except by looking at them, first of all, as *physical economic processes* rather than monetary or financial processes.

And secondly, that we could not do this unless we abandoned the usual Cartesian-type methods of thinking about economy, even physical economy, which are prevalent in most universities today. That you had to use, you had to apply the concept of *dynamics*, as reintroduced to modern civilization in the 1690s by Gottfried Leibniz, and then the advanced concept of dynamics by Bernhard Riemann. And Riemann's conception, as exemplified by his famous Habilitation Dissertation of 1854, is the key to the competent understanding today, of any kind of physical process, and economic processes as physical processes can be only understood as Riemannian systems. Now, in Riemannian systems, the variable you're looking at, is dynamics, and you could go back to the *Dynamicum* of Leibniz in 1695, *Specimen Dynamicum*, for the definition of this.

The point was that the reductionists in physical science and so forth are idiots, and they should not be allowed—they can repair things, but they should not be allowed to try to design anything. Because, you see, the difference between man and the beast, is that no beast is capable of creating the discovery of a valid universal physical principle. Only an individual human mind can do that. This, of course, is the reason implicitly why Academician Vernadsky emphasized the question of the Noösphere, as distinct from the Biosphere: That human beings are essentially spiritual, you would call them, because what happens in the human body is a biological entity, apparently, but it has a function that performs intellectually which is not biological. And this function is called creativity, and it is most easily identified, that is, from a scientific experimental standpoint,

Bernhard Riemann concluded his 1854 habilitation dissertation on the hypotheses that underlie geometry: "This path leads out into the domain of another science, into the realm of physics, into which the nature of this present occasion [mathematics] forbids us to penetrate."



by the discovery of a universal physical principle. It also has a complementary way of being defined, in terms of artistic composition. But the most common approach is to physical principles.

Now, in physical principle, as in the case of the Leibniz differential, as opposed to all the other versions of the things, the calculus, is that this concept of Leibniz comes essentially from the discovery of gravitation by Johannes Kepler. And what Kepler did was to discover the differential, the infinitesimal, in terms of the characteristic of the planetary orbits, such as the orbit of Earth: that there's no way by quadrature of the ellipse or quadrature of the circle, that you can define the meaning of the infinitesimal in the curvature of the planetary orbit.

The Harmonics of the Solar System

Now, this was then treated again by Kepler in what is called *The Harmonies of the World*, and in Book IV

of *The Harmonies of the World*, he takes the thing up in a very specific way, which is later addressed by Albert Einstein. And that is that the harmonics of the organization of the Solar System are such, that you can not explain this from a visual standpoint, or from a simple aural system. That is, not from the sense of sight, the use of the function of the concept of the section of sight to portray the orbital pathway, or from the function of sound, simple sound, to define the orbital pathway. But rather, you would have to rely upon something from music, called harmonics. And you realize then, when you do this, that you are dealing with something, a phenomenon, in which neither the sense of sight nor hearing defines the phenomenon you're looking at, the phenomenon of change, which you're looking at, which defines the orbital pathway of the planetary system.

So, Leibniz in this sense, in the 1690s, returned to this conception, because he was a student of the work of Kepler—all modern science, all competent modern science, comes from the work of Johannes Kepler, of physical science. Anything else is—forget it. So, he recognized that the infinitesimal of the calculus, which he had originally discovered based on this appreciation of this work of Kepler, involved an ancient conception which is called the infinitesimal, of dynamics. And therefore, we understand that creativity is always expressed—creativity in terms of physical principle—is always expressed in terms of this kind of dynamics, of the infinitesimal, which has no finite quality, but is simply the appearance of a principle as a discontinuity in a system of action.

So therefore, what the difference between man and the animal is, is that mankind, by discovery of new physical principles, and applying these to production, is able to transform man's power to generate physical values, to increase man's power to produce something. That sort of thing. And so therefore, this kind of concept is the basis for all competent science, all competent economy. All present economists, as taught in universities, do not know this, and therefore they try to figure out, from a financial system, the idea of profit, in terms of a *financial* system or marginal income, in terms of a financial system, not in terms of a physical system. And all progress in science is based on that.

For example, let's take the simple case of simple stupidity among today's typical environmentalists. If you measure power in calories, you're an idiot. If you think a calorie of sunlight is equivalent to a calorie of nuclear power, you're an idiot. Because a calorie of nu-

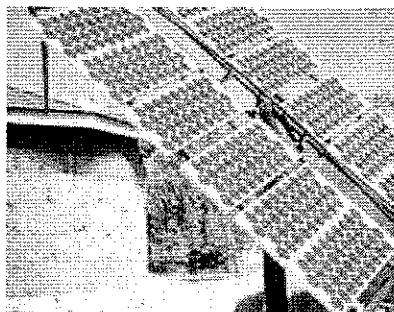
clear power is thousands of times more powerful than a calorie of sunlight. Sunlight is very useful, when it comes in the form of solar radiation, in terms of chlorophyll. Extremely useful. Then the sunlight increases its work, the power increases its work on behalf of man, or on behalf of nature, in many ways. Whereas if you simply use it as power, what do you do? You use up all the sunlight, you make a desert. If you take the sunlight and apply it to plantlife, you make prosperity. So sunlight, in a sense, as a living principle—the chlorophyll is a living principle—actually increases man's power in and over the universe, whereas the same number of calories consumed as solar power for a solar reactor, is a waste of time. If you have enough solar reflectors, what have you got? You've got a desert. Have enough calories, have enough chlorophyll, you've got a forest. That's the difference. And you've got human life, and all kinds of things.

So therefore, it is human creativity, individual creativity of the individual human mind, such as universal physical discoveries, the application of these to the productive process in particular, that is the means by which man is able to increase his power to exist on this planet.

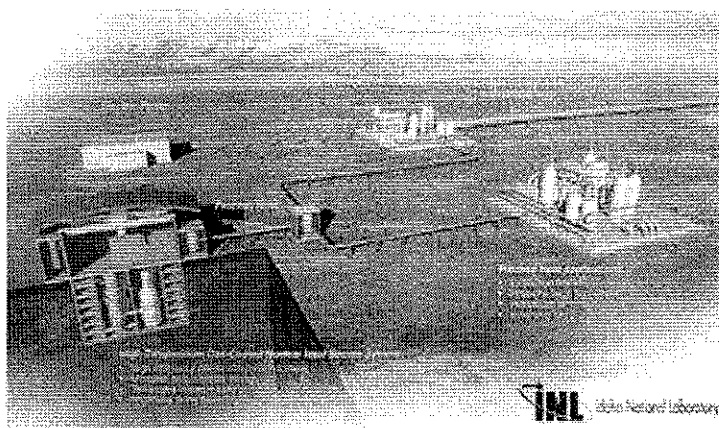
So what you have then, you have financial systems, all these financial systems in economy: They're not worth anything! Because they don't take into account the most important thing: How you increase the productive power of labor per square kilometer and per capita, in a world in which the key opposing factor is depletion. If you simply try to do the same thing over and over again, and expand the population on that basis, you're going to run down the planet. If, on the other hand, you use creative methods which involve this concept, which Leibniz defined as the differential, the infinitesimal, and you apply this as in the case of chlorophyll, or the case of nuclear power, which is thousands of times more efficient than the same amount of calories expressed in the form of sunlight impinging on the Earth.

So, what happens is, you find in the history of mankind that all backward societies, including especially societies of slavery, prohibit the slave from developing discoveries of principle. The slave is told to follow in the footsteps of his father, of his grandfather, of his great-grandfather, and not to try to change the way in which he produces. Now, the effects of this is in all societies which are fixed-mode societies, lead to the destruction of the society by itself, simply by continuing

A case of stupidity among today's environmentalists, who promote solar power and are hysterical about nuclear: "If you measure power in calories, you're an idiot."



Solar power is no solution to the need for more power for a growing world. Cover farmland with solar reactors and windmills, and you'll create a desert.



The Idaho National Laboratory's design for its Next Generation Nuclear Plant. It would use a high-temperature gas-cooled nuclear reactor (left) to produce the power for process heat applications (right), including the production of hydrogen for automobiles of the future.



Sunlight activates the chlorophyll in plant life, increasing man's power in and over the universe, whereas using the same number of calories for a solar reactor, is a waste of time. Shown, a lush field of lettuce in California.

to exist. All societies which are successful, take natural resources and increase the power of natural resources by these kinds of methods called discoveries, which reflect the same kind of principle which Kepler recognized in the organization of the Solar System, or that Einstein and others recognized in terms of the way the world is organized.

The Factor of Creativity

So, the problem with economists, generally, is they don't look at this factor of creativity. They call all kinds of things creativity, including the ability to masturbate in new ways—but that's not creativity, which is the discovery and use of newly discovered principles which increase man's power in and over the universe, and the organization of these discoveries in the form of production or other relevant ways to increase the power of man to exist, and to exist in a better way. So therefore, economy is not to be studied, first of all, as financial economy or monetary economy, but to be examined as a physical process, a physical scientific process, with attention to things like life, as in the case of Vernadsky's work, on life and on the idea of the Noösphere.

So, you're looking for the principle of change, which distinguishes, on the one hand, living processes from non-living ones, and human processes, which are distinguished advantageously from non-human living processes. And this is expressed by invention, by production, and also by the development of an appropriately improved infrastructure, such as an increase of nuclear power; and the greater the nuclear power in terms of per-square-centimeter power, the greater your productivity.

So therefore, if I go into India, and I find an Indian farmer who is what he is in his skill, and I bring in the factor of nuclear power in the form of enhanced water resources, freshwater resources, which you can only make efficiently from nuclear reactors, as with say the thorium-cycle reactor which is appropriate for the coast of India, then you have increased the productive power of labor of that farmer, without changing the way he produces, because you have

changed the conditions under which he produces, and therefore increased his productivity. So, all economy is based on that.

The problem we have, for example, is under the former director of our monetary system, the Federal Reserve system, [Alan Greenspan], who was an idiot and his idiocy has dominated the interpretation of what productivity is in the United States today. Forget Greenspan. Get rid of him. He's gone. Get rid of what he did. Therefore, we have to have a system which functions not on the basis of counting dollars, or counting marbles, but by counting the increase in the level of productivity per capita and per square kilometer of the United States, and of other countries. This means investment, capital-intensive investment, in technologies and in modes of production which multiply the effective productivity of the working individual or the producing individual.

Therefore, if you want an economy which is going to grow, you have to have capital-intensive investment. Because to build a nuclear power plant, that costs a bit of money. It wears out over, say, 40 or 50 years, if you maintain it properly. Say a 40-year investment. It's a capital investment, and the importance of the capital investment is not the size of the investment in money. The importance of the capital investment is the amount of the increased yield per moment of action that you get as a result of that power, at that intensity. It's just simply a matter of physical science. You raise the level of energy-flux density of any process, you raise the potential productivity of that process. And you simply have to know enough science, enough physical science and other things, to know how to make that work. That simple.

So therefore, what we need is capital-intensive, long-term investments, concentrating first of all on the basic economic infrastructure. First of all: water, power, mass transportation, and so forth. Make these more efficient. Therefore, even simple labor will be increased in its productivity, because you have created the environmental preconditions for enhancing the effective power of that act of production. And that's the point.

So, for me, it was simple to forecast. My forecast cycles always worked in these ways. The condition I was forecasting about was different. The auto industry forecast I did back in the 1950s, which was unique, was very simple for me. I was simply doing consulting in this area, knew a number of these auto industries, knew how the thing was rigged, and I said—along with other industries, which were doing something similar—this

is finished. It's gone. When I find that somebody has a vehicle which has a 24-month useful life, and it's sold on the basis of 36 months, with a giant balloon note in the 36th month, and I find that not just the auto industry is being run that way, but many other industries are being run that way, I can look at the capital factors and tell you at the point, this is going to blow out. It's that simple. And it's that kind of consideration, to give a simple illustration, which I used. It's always the same.

We kept coming back to one condition under Truman, we got to another condition, which is the Vietnam War condition—under the Vietnam War conditions, we were destroying the economy. And we were going to destroy the economy once the policy of Wall Street and London was introduced, the policy against which Kennedy fought in the steel negotiation issue. Once Kennedy's policy was eliminated, the United States was going to go the way these guys were going to send 'em, and it went that way. By 1968, it was going that way. In 1961, they blew it. The same thing happened in the 1970s. They blew it again: the Trilateral Commission. The Trilateral Commission did the greatest amount of destruction to the United States economy, in terms of rate, of any time in its modern history. Until we got to George Bush, George Bush I, the Emperor George Bush I, and he did a good job in this.

And then you had the effect of the green revolution, in effect, the anti-industrial, the anti-nuclear, all this kind of thing. And again, what we were counting upon as production was fake. The ratio between the cost of production to the U.S. population as a whole, and the benefits of production, was such that we were losing.

And what happened then, is Greenspan came in, and Greenspan said this doesn't work. (This is after the October 1987 crash. It didn't work. Well, I forecast that one.) And what he did is, he went to financial derivatives, self-inflating fake money. And the world economy now is sitting under the weight of \$1.4 quadrillion of absolutely fake money, and under the present conditions, that fake money is growing, like a cancer, while the world economy, in terms of employment and production and goods produced, is shrinking.

So therefore, what you have to do is you have to take the cancer and you have to excise it! The entire financial derivatives bubble created by Alan Greenspan has to be taken out in the backyard and shot! And then buried! That's the solution.

So, there was nothing mysterious about this, because if you think about how these curves function, it

Derivatives: LaRouche Knew

The history of derivatives trading dates back to the 1920s, when farmers spoke out against the deleterious effects of trading in "options" in agricultural commodities. The practice was banned in 1936, during the Franklin Roosevelt Administration. Then in January 1983, President Ronald Reagan signed the 1982 Futures Trading Act, officially lifting the ban. Derivatives trading began, taking off after Alan Greenspan became chairman of the Federal Reserve.

Lyndon LaRouche warned, again and again, of the danger derivatives represented, including publishing a mass pamphlet in July 1993. On Sept. 8, 1993, *EIR* economist John Hoefle testified before a House Banking Committee hearing on NAFTA, at the invitation of chairman Henry Gonzalez (D-Tex.).

Wendy Lee Gramm, chairwoman of the Commodity Futures Trading Commission, and wife of then-Sen. Phil Gramm (R-Tex.), exempted derivatives from regulatory procedures. On Sept. 8, 1993, the *Wall Street Journal* published her article "In Defense of Derivatives," complaining that derivatives have been unfairly "characterized as purely speculative instruments" that "pose grave risks with potentially dire consequences for the whole financial system." "Most important," she



GFDL

Nobel Prize winner and shyster economist Myron Scholes.

$$C = SN(d) - Le^{-rt}N(d - \sigma\sqrt{t})$$

where the variable d is defined by

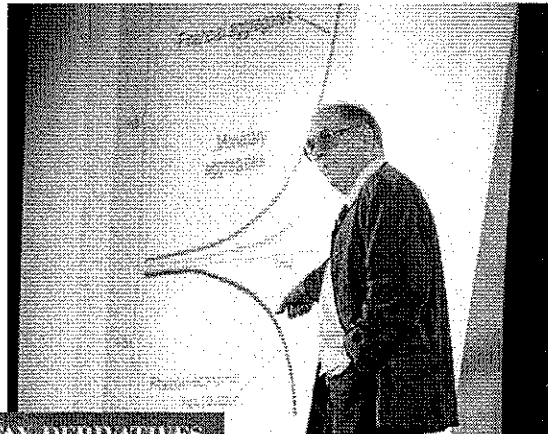
$$d = \frac{\ln \frac{S}{L} + \left(r + \frac{\sigma^2}{2}\right)t}{\sigma\sqrt{t}}$$

The Black-Scholes formula for derivatives. Get it?

wrote, "if another major default or market shock occurs, we must all resist the urge to find scapegoats, or to over-regulate what we just do not understand."

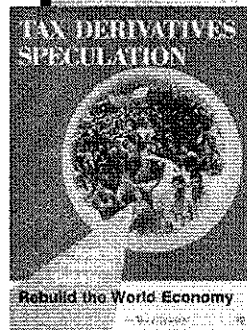
At a Rome conference in December 1995, LaRouche first presented his "Triple

Curve" schematic of a Typical Collapse Function, which he described as "a summary of three curves which

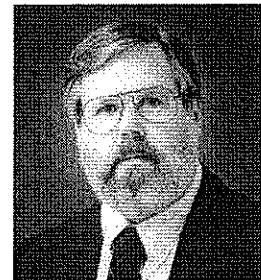
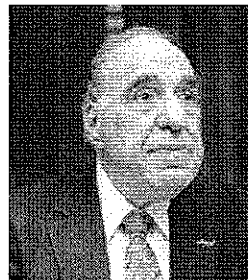


EIRNS/Stuart Lewis

Lyndon LaRouche speaks on the danger of a financial-economic meltdown in 1998, with his "Triple Curve" diagram on the screen.



A pamphlet issued by the LaRouche movement's newspaper *The New Federalist*, July 1993.

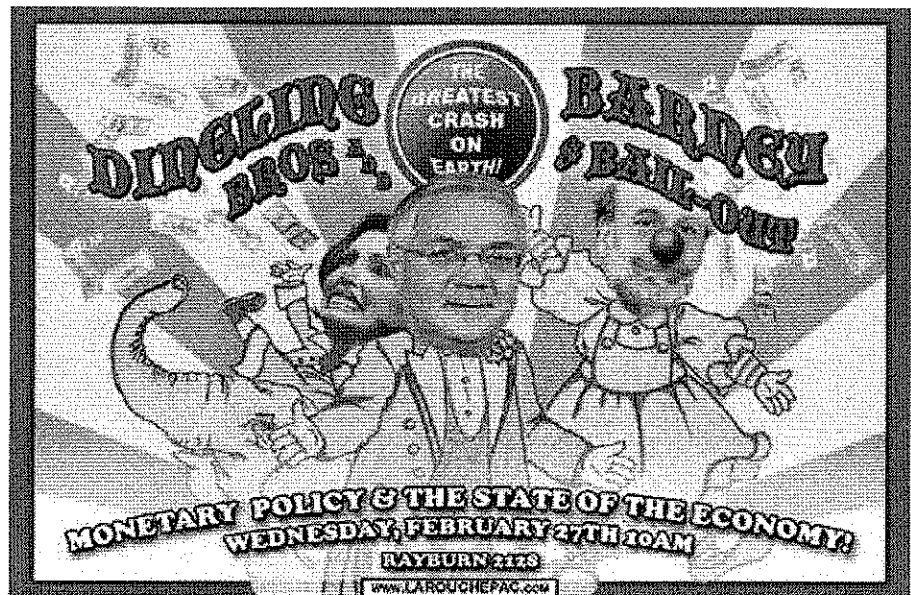


The late Rep. Henry Gonzalez (left), chairman of the House Banking, Finance, and Urban Affairs Committee, invited *EIR* economist John Hoefle (right) to testify on the derivatives danger in 1993. "I've been reading Mr. Hoefle's articles for two and one-half years," Gonzalez said. "He gets information I have been unable to get."

are characteristic of the process of monetary and financial disintegration of the world economy."

In 1997, Myron Scholes was awarded the Nobel Prize in Economic Sciences, as one of the authors of the Black-Scholes equation, for "a new method to determine the value of derivatives." He had been one of the co-founders of the LTCM hedge fund, a derivatives trader, which then failed spectacularly in 1998, with \$4.6 billion in losses.

simply was to me—I had a Vatican conference I attended, the way it happened, and it was on health care. So, I submitted a report to the Vatican on my participation in that conference, and later, in the following months, I was running for President, so I just published this Triple Curve on that basis. All it was, was a description of what I know about the way the system is working, and the way the system has worked ever since I first got into the business back in 1953, as a successful student of the work of Bernhard Riemann on the principle of creativity.



LPAC/Chris Jadatz (2008)

Put the Fed into Bankruptcy Reorganization

Freeman: The next question is similarly from the economic advisory group. It's a simpler question. They say, "Mr. LaRouche, whenever a discussion of the Federal Reserve takes place, there's a very vocal group that asserts that the Federal Reserve is unconstitutional. . . . We do not wish to address that question. However, both former Federal Reserve chairman Paul Volcker and Treasury Secretary designate Geithner have indicated that the current manner in which the Fed has been operating is way outside its charter. With that said, what, in your mind, is actually the proper role of the Federal Reserve in this current situation?"

LaRouche: It's to be gobbled up, and eaten by a higher species! That higher species should be a National Bank.

All right, first of all, the Federal Reserve system is bankrupt. I think no sane person who's familiar with the facts would disagree with that. So therefore, what we have to do, is the President of the United States has to himself, in a sense probably has to give an Executive Order, saying to the effect, that his finding is that the system is bankrupt, and therefore it must be placed now in receivership. That it will continue to function under Federal supervision of the Executive branch. In other words, assimilate the authority, take away the independence of the Fed, all semblance of independence of the Fed, and by putting it into bankruptcy, assimilate it into the authority of the Executive branch, directly, as a part

of the Executive branch, as an agency of the Executive branch.

Now, we want to move that around, so the way the Executive gets rid of it, is by going to the method proposed by Alexander Hamilton: Create a National Bank. what you want to do is this: First of all, go back to this chartered bank system. We want only essentially chartered banks involved with deposits which involve firms and regular borrowers and lenders. We want to secure, above all, the public, the saver, and the person who's depositing—as a manufacturing firm or something else—who's depositing their proceeds in this thing, they have to have protection. The individual saver has to have protection. So the Federal government must protect them, or the state government must protect them with Federal backing.

So fine, we want to separate them. We want to take all this other stuff, and we call it trash. They call it a "bad bank." I call it big bunk. Take all this trash and don't pay a nickel for it. Just put it in the waste deposit for further disposition. But, in the meantime, what you must do is you must free the essential part of the economy to continue functioning, including the essential banking function. Now, what I had proposed back on July 25, 2007, was to put this Homeowners and Bank Protection Act in place, and that would have meant that we would have protected the chartered banking system entirely from the effect of this, and we wouldn't have this problem.

What happened is that [Rep.] Barney Frank, of

Barnum & Bailey, engaged in a swindle which he was instructed to carry out, to prevent—as ordered by [House Speaker Nancy] Pelosi—to *prevent* protection from being given to the chartered banks. In other words, Mrs. Pelosi was acting as a swindler in preventing something, doing harm to the vital interests of this nation and its people, by taking away the protection which their regular banks, chartered banks, require, and opening the gates for the swindlers of the world to come in and steal and steal and steal and steal. The United States government is not Las Vegas, and should not be Las Vegas.

So, that's where the problem came in, that we didn't do that. So now we have to reverse the effect of what Barney & Bailey Frank did, we have to separate—because the chartered banks have been cluttered up with this filth, this garbage. *Carry out the garbage!!* Go into the bank, and say this fits the quality of a chartered bank account. Protection! But this does not. No protection! You go without a condom. Then you've got to clean this mess up.

But don't go with these other half-way measures. You have to take a ruthless attitude. The American citizen has to have a clear understanding. The American citizen needs Presidential action. When the President has to act, the citizen has to understand clearly what the President is doing, and why he's doing it. No mishmash. Come straight to the point. This is theft. We don't allow thievery to invade your pantry. We're taking this useless garbage. We're putting it over here: That's the garbage pail. Don't call it a bad bank, call it a garbage pail! This is something in the bank which qualifies at a chartered banking account. This is protected. So essentially, you use bankruptcy proceeding. By putting the system through bankruptcy, the Federal Reserve system through bankruptcy, *you sort out the garbage from the valid accounts. The valid stuff must go forward, as if nothing had happened.* Just as it was supposed to go normally.

Now, the Federal government can now come up with money for bailout, but not for this garbage. Money in order to promote the recovery of production and employment, both foreign and domestic.

And what we have to do is create a system of National Banking through which private chartered banks of the United States, on the Federal or state level, are able to have a vehicle under the protection of the Federal government in dealing with domestic and foreign accounts in the way that Alexander Hamilton pre-

scribed. And do this in memory of the great 1837 Panic which was caused by Andrew Jackson in overturning the National Bank.

The Homeowners and Bank Protection Act

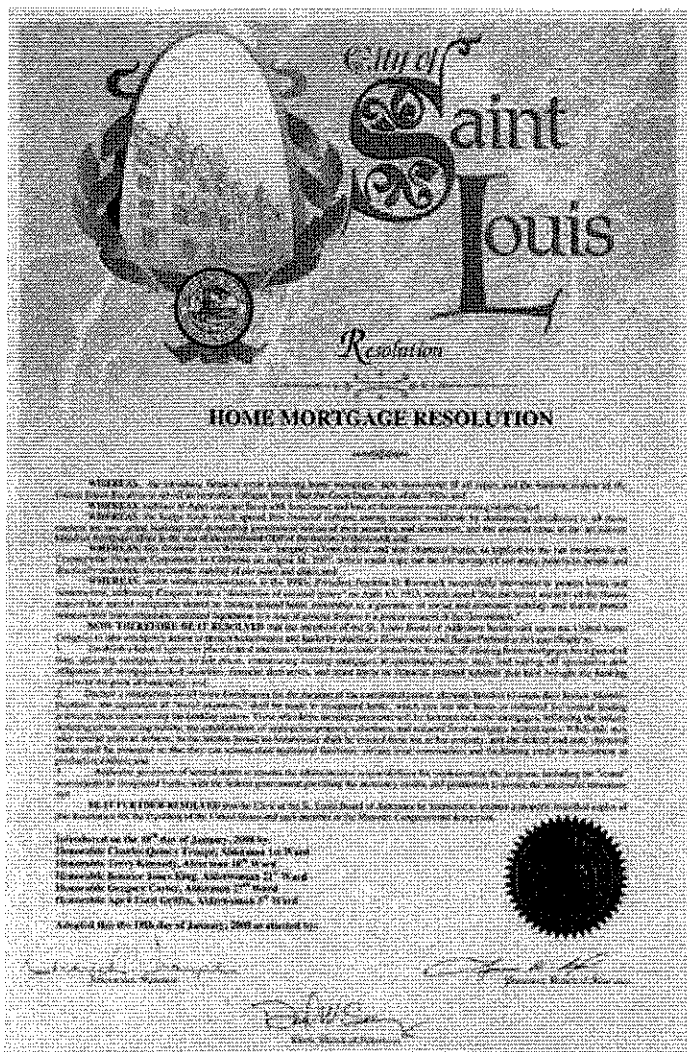
Freeman: The next question comes from the chief of staff of one of the Senate offices, who is tasked with dealing with questions around the TARP funds. He says, "Mr. LaRouche, as you know, former Federal Reserve chairman Paul Volcker, speaking on behalf of a group that includes Secretary of the Treasury Geithner, Larry Summers, and a host of others who now have official positions in the Obama Administration, issued a strong recommendation for a return to the Glass-Steagall framework, along with other strong regulatory measures. But, Mr. Volcker also indicated that for these measures to work, other issues would have to be addressed first. Specifically, the fact that in the absence of regulatory control, the banking system is drowning in toxic paper, and all U.S. banks are essentially bankrupt.

"Yesterday, Geithner made two tentative proposals to the Senate. One was to take all of the toxic paper and to place it in one place. This is not the Bad Bank proposal. He said that, in public-health terms, it would essentially be placed in quarantine, so that we could begin to work with what is otherwise salvageable.

"Geithner also indicated that the Administration's view is that they want the second half of the TARP funds to be released, and to be used not to bail out the banks per se, but that the banks would function essentially as clearing centers for the disbursement of funds directly to the people who are hardest hit by the credit crunch, namely homeowners, small businessmen, farmers, and others, whose access to credit has been largely cut off in the midst of the current crisis. This would clearly serve as a major injection of relief, delivered directly to those Americans being strangled by the cutoff of credit. Although I understand these measures fall short of what you've proposed, they've already provoked howls of protest from the world's financial capitals."

That's true. They called Geithner the anti-Christ yesterday!

"Our view is, however, that such measures could be taken almost immediately, and that they would go a very long way to providing the new Administration with the kind of support and goodwill from the majority of Americans that would then allow the Administration to move forward with what are deeper and probably



The city of St. Louis issued this proclamation in January 2008, one of many state legislatures and city governments that endorsed resolutions calling for Congress to implement a version of LaRouche's proposed Homeowners and Bank Protection Act.

more controversial restructuring measures. Could you please comment on this?"

LaRouche: Well, you have to remember that back in 2007, I proposed all the remedies that are required. And what I proposed then is better than what's being proposed now. The Homeowners and Bank Protection Act, which secured a tremendous amount of support on the state and local levels in the United States, still provides for this. You don't need to mix this thing up. You provide the Homeowners and Bank Protection Act because that's a very separate question, including the question of whether fraud was committed in creating some of these mortgages, or whether they were over-

priced or whether they should be reduced, and so forth, in what form, for the homeowners. Because remember, a lot of these mortgages were swindles, and today, the value of the property which is mortgaged is vastly below the mortgage. So therefore, separate the homeowner mortgages from the other questions.

If you don't like that, blame Alan Greenspan. He created the mess.

All right. Then go to the bankers as a separate issue. In other words, you provide protection for the banks and the homeowners on the one side, against foreclosure action, and on the other side, you then protect the banks to be able to continue to issue and honor loans. And instead of having the money disbursed like a one-time pass-out—it's all right to have a level of what you intend to bail out—but I would put that two ways: First of all, enact the Homeowners and Bank Protection Act. Simple. Then, go to the fact that that Act was proposed before the crime had been committed, and the crime was committed with the Barney & Bailout thing.

Convene a New Pecora Commission

So, then go to the bank question. What we want to do, on the turn of a dime, is have, on one day, the garbage is now declared out of the system. It's in a depository which is not going to be argued anymore. We're going to take what is valid in the banking system—that is, what corresponds to a chartered bank—and go straightforward with this thing. Don't go with this mishmash, maybe this or that—straight. You had a bank, which under the previous Administration, there is a question as to whether there was something criminal, or tantamount to criminal, in the way the Bush Administration handled this thing in 2007-2008.

Did the Bush Administration commit crimes? Are you going to compound this mess of crime before the question of whether the crime was committed or not is settled? Maybe the President committed a crime, committed a fraud against the people. Maybe his officials assisted a fraud against the people, against the United States. I think they did. I think after a Pecora-type investigation, the American people would think so.

So let's get the Pecora Commission process started. Let's settle the thing and put this thing in one compartment. If it qualifies as what had been a chartered bank consideration, under Glass-Steagall, then it goes in one



Where Is Our Ferdinand Pecora?

By Ron Chernow

BRACK GAMMA has assigned a top lawyer to conduct the investigation into the causes of the 1929 crash. He later wrote: "Undoubtedly, this small group of highly placed financiers, controlling the very springs of economic activity, holds more real power than any similar group in the United States."

New York Times

Historian Ron Chernow's Jan. 16, 2009 New York Times article picked up on LaRouche's call (first issued in September 2008) for a new Pecora Commission to investigate Wall Street's crimes. In 1932-33, Ferdinand Pecora, chief counsel of the Senate committee investigating the causes of the 1929 Crash, put the House of Morgan and other top bankers in the dock. He later wrote: "Undoubtedly, this small group of highly placed financiers, controlling the very springs of economic activity, holds more real power than any similar group in the United States."

category, and the bank goes back and starts functioning again in that department, as before. Credit can be supplied by the Federal government to these banks, through—not the Federal Reserve system right now, because the Federal Reserve system is not trustworthy; it's also bankrupt—therefore we have to go through a facility, by putting the Federal Reserve in bankruptcy. If we don't put it in bankruptcy, how are we going to do it?

And then you have to think of where you're going to

move this whole operation. You're going to move to what Hamilton conceived as National Banking. And you're going to take Andy Jackson, and say, "Andy Jackson, you may be a good Democrat, but you're a lousy American. Because what you did in repealing Hamilton's design was to set us up for the 1837 Panic, and *you* in a sense are setting us up for something like the 1837 Panic all over again, which almost destroyed the entire financial banking system of the United States."

So I think, go the other way. Put the Federal Reserve system into bankruptcy. It is bankrupt. Separate what we used to consider the chartered bank accounts from the crazy stuff, put the crazy stuff in a completely different department, sort it out, and see if there's something in the garbage you want to save, but put in a completely different category. Get it out of there. Reverse the bailout, because the bailout was a swindle against the American people, and I'm sure that a new Pecora Commission would have that finding. I have already made that finding, if anybody needed help on that. Proceed in that direction.

Don't try to compromise language extremely. It just makes things more complicated. You know, don't cut half the head off with the guillotine.

A Four Power Agreement

Freeman: This is a question that was submitted by an economist who is tasked with advising the State Council of China, and he says, "Mr. LaRouche, the trouble to the world economy has been caused mainly by powerful financial interest groups on Wall Street. Within the confines of the U.S. system, how can these groups be constrained, and do they have to be in order to rescue the current economy?"

LaRouche: Well, again, on the same thing, I think you know we can extend the idea of the Pecora Commission to the claims and grievances of China. Why not? They belong there, don't they? In the meantime, again, this is my reason on this proposal of the Four Power Agreement. We four nations, as an initiating group of nations—not four exclusive nations, but four nations which are called together to initiate a general reform for the benefit of humanity—Russia, China, and India, with groups of nations associated with them in this effort—and we have to put the world through reorganization, financial and related reorganization, with a view to launching a general recovery which ensures the security of humanity. For example, if China were to disintegrate, would that have an effect on the security of

humanity? China must not disintegrate, and China is being threatened in a way which borders on that. Therefore, the United States has a vital security interest in the security of China, and this is a part of the problem which threatens the security of China. Therefore, the United States, as a friendly nation, is vitally concerned with the security of China, to make sure that China is able to function as it should, as quickly as possible, without any further threat.

If we have an extended Pecora Commission—which is what we require obviously, because the amount of filth and lies and thievery that’s been going on recently under the Bush Administration is beyond belief, particularly the last year of the Bush Administration, the first step is to simply have a gesture from the United States, from the President of the United States to the government of China, that the United States is expressing its concern for the welfare of China in this matter. That statement of concern can then become operational in various ways. It can lead to practical discussion of ways and means by which China and the United States and other nations can cooperate to prevent this crisis from running out of control. That’s the case in which you don’t necessarily want to have a specific proposal, because you want to minimize the kinds of specific proposals which you make as formal proposals to other countries. In some cases, you have to make a proposal that’s formal and specific. In some cases, you don’t. In some cases, you simply have to say that we’re opening the doors for a discussion of measures of common goodwill. Let’s have the discussion. But, in this case, I think it’s a borderline case. We have to express that concern.

You know, there’s a lot on the plate of this newly installed President, of that nature, and he requires advisors who’ll just step in on his behalf, and according to his will, and express these concerns. Because nations will, with reasonable patience, accept promises from this Administration. If it is in some cases doing the work that it promised to do, then that’s reason for them to believe they should have confidence in what it *will* do, in addition to what it’s already done. So the quicker the President gets on to the major things which are of importance to his administration *now, immediately*, the more patience he will get from other countries to wait and consult with him on negotiating other things.

Recall the Governor of California!

Freeman: We have a pile of questions that I’m not going to be able to get to, that came in from legislators

across the United States. These are legislators from California, from Michigan, from Florida, from Nevada, from West Virginia, from Kentucky. In just about every case, one of the things that they do always express is, first of all, the fact that they had worked during the course of the last two years for the HBPA, and that they intend to continue to work for that measure [see *Appendix*]. They also invariably have lent their endorsement to Lyn’s call for a new Pecora Commission.

But they also are all addressing the problem of state budgets in extreme distress. Lyn, because California is the biggest problem, in this regard, I’ll read you just one question along these lines, and you can either answer it specifically or generally, as you wish. It is from a member of the California legislature, and he says, “I think I know what you’re going to say, but I want to hear you say it. Is there anything that can be done about these ballooning deficits in state governments? While most states are running deficits, California has by far the biggest problem. It’s now estimated at a \$42 billion shortfall. The governor insists that this must be covered by budget cuts and disguised tax increases, and that nothing else can be discussed until this is resolved. Meanwhile, desperate members of the legislature are now appealing to President Obama for a bailout of the magnitude of that offered Citibank. The problem is that the state will run out of cash reserves by next week. What can we do?”

LaRouche: Well, I think we need a California Recall commission. I think that the popularity of the governor [Arnold Schwarzenegger] is at a low point about this time. Obviously, we have to have—especially between the Federal Executive and relevant people in California—there has to be a discussion. Now, I don’t know how Mrs. Pelosi is going to treat this thing, because she’s been one of the major problems in this. and she’s said to be from California, although I understand she’s actually from Maryland. Or maybe from some other place called Hunger.

But there should be a negotiation on this, right away. This is an emergency, there’s no question about it. But, unfortunately, the governor himself *is* the emergency. I mean, the guy has a pedigree from Austria, which is not exactly the most reassuring, shall we say. His father was a leading Nazi official—and he’s acting like one in California, so I don’t think that we can be soft on that. No, there has to be, there obviously has to be an action and it has to come largely from Washington, from the Executive branch.

You see, one thing you can do—you see, a President can encourage people to do something, even if he can't do it himself. He says, "You do it, and I'll back you up, I'll support you." And I think this is one of those cases. We can not have California sliding off like the fault into the Pacific Ocean. We can throw the governor into the ocean, if the fish don't object too much. Obviously, I'm very serious about that. We have to do something, and the point is, is to make it clear that we intend to do something. And I think also a number of measures simultaneously unleashed, such as an immediate recall motion for the governor, that is a minimum thing that has to be started. And then, gestures of goodwill, and then, also an alternative, and to put the state into bankruptcy, bankruptcy protection, and maybe Federal bankruptcy protection, Federal receivership, if necessary. And that would do it. Put it in receivership, put the governor in recall, and get some credit in there for, worthwhile credit, because \$42 billion is not that big when you consider what happened in Wall Street recently.

So to bail out a whole state is worthwhile, if that's going to stabilize the situation for the nation. And a combination of such measures, an array of such measures—you know, open up with a battery of artillery fire and see what that does.

'The Party's Over'

Freeman: I'm going to read a short statement that came in from Assemblyman Jerry Claborn from the Nevada State Legislature, just because it captures statements that we've gotten in from so many others. He says, "Mr. LaRouche, my question is more in the form of a statement. I wanted to say that I wholeheartedly support your call for convening new Pecora hearings. It is long overdue. The party's over. The public are dead set against the banks, and hopefully will not stand for any more bailouts. We've had enough. The well is dry. These bankers should be put on trial. The evidence is right there in front of us. Look at the shape of the nation. We are a wreck. They, the Madoffs, the Sorosés, and others, have killed the American Dream. That is all the proof we need. Only an animal would do what the Wall Street boys have done. They're like Jesse James or John Dillinger, without guns. March them off to jail, just as you said. I've been a union organizer for over 25 years, and now I serve in the State Legislature. I built bridges and power plants, and now these guys are tearing everything down. I support your call for Pecora hearings in the Congress. I know that many of my colleagues do

as well. The only question is, what are we waiting for?"

The President Needs Our Support

And then the final question comes from one of the people who is coordinating the transition. And he says: "Mr. LaRouche, over these last months, you've been extremely generous in providing not only the context in which this new Administration must consider its policy, but you've shared detailed analysis and specific policy initiatives. Your input has been invaluable, and we'd like you to know that it has been greatly appreciated. If, this very afternoon, you had a few moments to give advice directly to the President, what would you say to him?"

LaRouche: Well, I would say the things I've said today, above all. This is a time—I know the feeling of this kind of situation. I understand the situation he's in, probably in some ways, better than he does, being older and having lived through this world longer, and probably having more influence on me, from various parts of the world, that I can feel strongly the effect in various parts of the world of what the world has been subjected to, under the U.S. toleration of the British Empire. And that's the best way to put it.

That the President has been given, as I believe others would assure him, he has been given a moment as President, where his popularity is at the very height, probably the highest it will ever be, because there are frictional things in being President which tend to tear down some of your popularity around the edges, on one grievance or another, or one issue or another. And this is the time to make a couple of decisions which are crucial, and I think they have to be made up front.

First, we have to deal ruthlessly and decisively with this world monetary-financial economic crisis. We have to establish, again, the position of the United States in the specific tradition of President Franklin Roosevelt, to act as Roosevelt would have done, had he lived beyond the time of his death into the conclusion of the war which he led in winning.

And I think, at this point, President Obama has inherited that legacy from the deceased Franklin Roosevelt, to pick up the world from a period of decline and despair, by taking a decisive action, which, above all other things, establishes the United States in the opinion of leaders of the world, as being the leader of nations out of the darkness through which we have lived in recent times up to this point.

I think that the general economic reform, including

that of cooperation extended toward Russia, China, and India, is crucial. But to make that work, we must first make a sweeping reform in the U.S. credit system. We must establish, as Roosevelt intended, a fixed-exchange-rate system of credit, not a monetary system, but a credit system, among a number of leading nations of the world, including our own United States, Russia, China, and India. And around this group of leading nations, to lead the world into a general economic reform, with the kind of objectives which I've referred to today. We have to take mankind out of this abyss, this abyss which we've been sliding into more and more and more, since Franklin Roosevelt died, and especially since 1967-1968.

We've got to get back, and we've got to recognize also in our actions, that the United States, whether some

people like to hear it or not, the United States is the greatest nation which has ever existed. Not because of something magical about it, but because we are the representatives of what we call the melting pot nation, of the hopes of the people of the world. We were what they hoped would become their destiny. That what we would achieve would become available to them, for their benefit. And the President of the United States, I think, must express that in practical ways, as well as in voice, to the world as a whole. He must be again seen, as we saw President Franklin Roosevelt during World War II, as a man who took a leading position in a leading nation in saving the world from Hell. And certainly President Obama is faced with a challenge of approximately that magnitude, and I think he needs all the support he can get on that account.

APPENDIX

The Homeowners and Bank Protection Act of 2008

Here are essential points of LaRouche's HBPA, as updated on Sept. 30, 2008. For the full text, see www.larouhepac.com.

Whereas, the present financial crisis now threatens each and every U.S. bank and all related banks, and all individuals and institutions associated with those banks....

Whereas, this financial crisis has already wiped out both state and federally chartered banks, eliminating both personal savings, and the states' and municipalities' access to funds, and there are currently no measures in place to prevent the accelerated collapse of the monetary financial system from plunging civilization into a prolonged new Dark Age....

This act includes the following provisions:

1. Congress must establish a Federal agency to place the Federal and state chartered banks under protection, freezing all existing home mortgages for a period of how ever many months or years are required to adjust the values to fair prices, and restructure existing mortgages at appropriate interest rates. Further, this action would also write off all of the

speculative debt obligations of mortgage-backed securities, derivatives and other forms of Ponzi Schemes that have brought the banking system to the point of bankruptcy.

2. During the transitional period, all foreclosures shall be frozen, allowing American families to retain their homes. Monthly payments, the equivalent of rental payments, shall be made to designated banks, which can use the funds as collateral for normal lending practices, thus recapitalizing the banking systems. These affordable monthly payments will be factored into new mortgages, reflecting the deflating of the housing bubble, and the establishment of appropriate property valuations, and reduced fixed mortgage interest rates. This shakeout will take several years to achieve.

In the interim period no homeowner shall be evicted from his or her property, and the Federal and state chartered banks shall be protected, so they can resume their traditional functions, serving local communities, and facilitating credit for investment in productive industries, agriculture, infrastructure, etc.

3. State governors shall assume the administrative responsibilities for implementing the program, including the rental assessments to designated banks, with the Federal government providing the necessary credits and guarantees to assure the successful transition....