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Federally Registered Political Party

LaRouche:
"Shut Down The Derivatives Markets To Save Civilization!"

By John Hoefle, Economics Editor, *Executive Intelligence Review*

October 10, 2008 (EIR)—"It is time to break the silence on derivatives," American statesman and physical economist Lyndon LaRouche said yesterday, after observing the carnage in the financial system and the pathetic response from the so-called regulators. "The true, hyperinflationary factor in the situation is the unregulated, insanely leveraged derivatives trade. This is what is killing us. This is the great crime of [former U.S. Federal Reserve boss] Alan Greenspan."

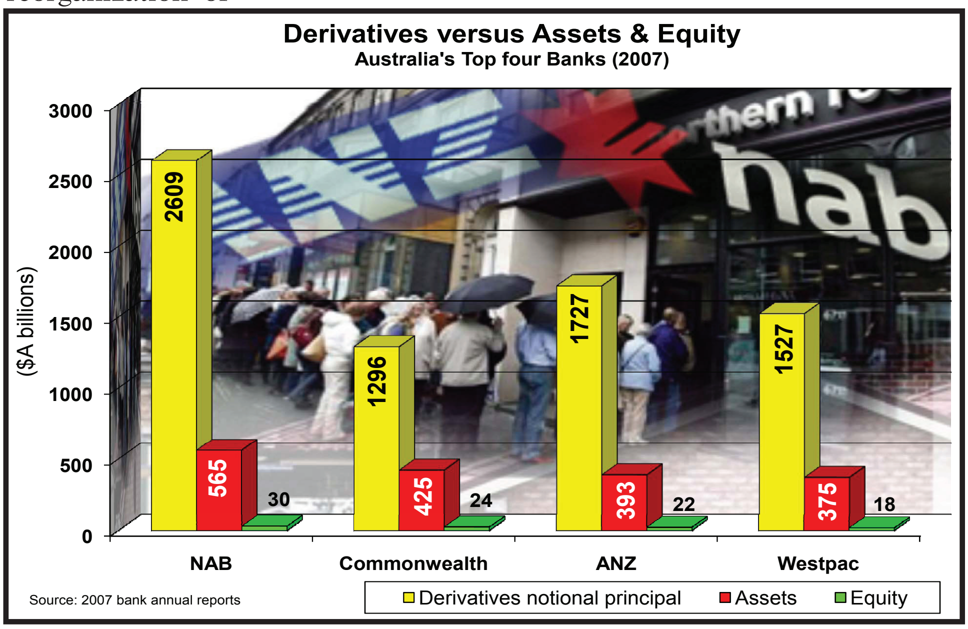
LaRouche described the derivatives market as a "hyperinflationary bomb, crushing the international financial system," warning that "Until you just shut down the whole derivatives trade—wipe these gambling obligations off the books of the financial system—you are just kidding yourself."

"Unless and until you deal with this derivatives bubble, which cannot be bailed out, you are just kidding yourself," he continued. "It is time for Hank Paulson to swallow the only real medicine: bankruptcy reorganization of the entire, dollar-based financial system. And the first step in any such bankruptcy reorganization would be the cancellation of these quadrillions of dollars in pure gambling obligations. Without such action, this planet is doomed to a horrible dark age, just like the dark age of the fourteenth century, that followed the collapse of the Lombard banking system."

Blood In The Streets

You don't have to be a financial insider to see that the entire global financial system is collapsing, since that collapse is now front-page news every day. The Bush Administration, its co-conspirators in Congress, and the Federal Reserve have passed the largest financial bailout scheme in history, and the Fed and the Treasury are cooking up new bailout facilities and increasing the money available in existing facilities on practically a daily basis. The stock markets are plunging, with the Dow Jones Industrial Index down 40 percent in a year, and dropping like a rock. The banks, particularly in the U.S. and Europe, are vaporizing faster than most people would have thought possible a year ago, with governments in most major European countries belatedly taking steps to prop up the banks and stop runs by protecting deposits. Yet despite it all, the crisis deepens by the day.

The carnage is becoming increasingly more visible in the daily lives of our citizens, as the effects of demise of the securities market "debt machine" wipes out the credit most Americans had come to depend upon, in their households and workplaces. Banks are cutting back on credit-card limits and other consumer loans; mortgages are harder to come by, cash-out refinancings and home equity lines of credit are drying up as home prices fall; and businesses are finding it harder and harder to sell new debt in the bond, commercial paper and other corporate



debt markets. For an economy which is dependent upon debt, and already in hock up to its eyeballs, these are ominous developments. The fabric of society is breaking down, and the blood in the streets is spreading.

Deadly Derivatives

The chief financial factor in this carnage is the world's largest casino, the derivatives market. The derivatives market is far larger than the world's stock and bond markets combined, with bets in the quadrillions of dollars compared to the trillions of stocks and bonds. While it is impossible to put an exact number to the size of the overall derivatives market, given its unregulated operations and the way most derivatives deals are privately negotiated, it is possible to put a number to the value of the derivatives bets outstanding, and the number is zero.

Derivatives were the great financial innovation of former Federal Reserve Chairman Alan Greenspan, a form of sleight of hand designed to hide the bankruptcy of the financial system after the stock market crash of 1987 (the largest in history until today), the collapse of the savings and loan sector, the bankruptcy of the banking system as a whole, and the collapse of the junk-bond bubble. The derivatives market was a fraud from its inception, a virtual market where the big banks and other speculators could bet on the movements of currencies, bonds, stocks and the indices associated with them. Because the derivatives did not require the ownership of the instruments upon which they were nominally based, the level of bets soon outstripped the levels of the underlying instruments, with, for example, far more derivatives bets on bonds than there were actual bonds.

The derivatives market also employed high degrees of leverage, placing bets with borrowed money. Using leverage, the speculators could place far larger bets than they could were they limited to their own money. This leverage was highly profitable—at least virtually—as long as the game was expanding, but turned deadly when the music stopped. The reverse leverage set in, and the players began losing not only their bets but the money they borrowed to place those bets. This reverse leverage made it possible for the gamblers to lose multiples of the money they put in, before the loans.

Another innovation that was highly "profitable" before it blew up was the market for credit derivatives (a.k.a., credit default swaps, or CDS), a form of insurance policy for bonds and derivatives bets. While the derivatives market was in full swing, banks, insurance companies and other financial firms sold trillions of dollars of credit derivatives to guarantee the value of a wide range of securities. The credit derivatives were a fig leaf, a necessary part of the derivatives scam. The derivatives sellers, for example, routinely created triple-A rated mortgage-backed securities and collateralized debt obligations out of pools of subprime debt, and through the use of credit derivatives, were able to sell such triple-A rated junk to pension funds and other buyers who had a fiduciary obligation to buy only high-quality securities. Without the fig leaf of credit derivatives, this scam would not have been possible, nor would all the losses which followed.

The obvious point is that, in any widespread securities crisis, the credit derivatives sellers would never be able to cover the insurance they wrote. A.I.G., for example, wrote hundreds of billions of dollars of credit derivatives, including a substantial amount based upon securities issued by Lehman Brothers. When Lehman failed, so did A.I.G., which has now received some $120 billion in emergency loans from the Fed.

The settlement date for credit derivatives written on Lehman securities was Oct. 10, at which point the Lehman securities were valued, optimistically, at just 8.6 cents per dollar of face value. This will be the largest payout ever for the credit derivatives market, assuming the sellers can afford the payments.

Shut It Down

The attempt to save the fictitious "values" and "profits" of the derivatives market is one of the prime drivers of the largest bailout attempt in history. We stress *attempt*, because the bailout is not working, and can not work—there isn't enough money in the world to cover all these funny-money bets, and the efforts by the central banks to print that money, is fueling a hyperinflationary bomb which will wipe out not only the remnants of the financial system, but also the governments, national economies and the means of existence for most of the world's population.

It is therefore essential that the bailout of the derivatives bubble be stopped, immediately. All derivatives trades should be declared null and void, and wiped off the books of the speculators. Any financial instrument containing a derivative should also be declared null and void, and wiped off the books. This unregulated, insanely leveraged casino should be shut down, and all claims arising from derivatives bets nullified, as if the bets had never occurred.

There can be no compromise on this. Shut it down, and shut it down now. Your life, and the nation, depends upon it.

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British Puppet Rudd Bails Out Banks By Looting *You*!

In an international Webcast on July 25, 2007, American statesman and physical economist Lyndon H. LaRouche, Jr. proclaimed:

"The world monetary financial system is actually now, currently, in the process of disintegrating. ... What's listed as stock values and market values in the financial markets, internationally, is bunk! These are purely fictitious beliefs. There's no truth to it; the fakery is enormous. There *is* no possibility of a non-collapse of the present financial system — none! It's finished, *now*! The present financial system can not continue to exist *under any circumstances, under any Presidency, under any leadership, or any leadership of nations*. Only a fundamental and *sudden change* in the world monetary financial system will prevent a general, immediate chain-reaction type of collapse. At what speed, we don't know, but it will go on, and it will be *unstoppable*!"

LaRouche then outlined his three-point solution to the present global collapse:

1) Immediate passage of his *Homeowners and Banks Protection Bill* (see p.4, 2) establishment of a two-tier credit system with vast amounts of new, government-issued credit at preferential, low interest rates for great new infrastructure projects or other necessary

physical production, and 3) A Four Power Alliance between the United States, Russia, China and India, to spearhead the establishment of a New Bretton Woods international monetary system based on nation banking, tariff protection and exchange controls, to replace the collapsing globalist system.

The time has come for LaRouche's critics to swallow their pride and admit that he was right, that he uniquely knows what to do, and that every other economist, government leader or other so-called expert who proposes anything else is either incompetent or a liar. Kevin Rudd, Australia's "business community" led by the British raw materials cartel BHP Billiton and Rio Tinto along with the major banks, as well as the Reserve Bank and all of Australia's financial "experts" are all such liars or incompetents. And while they continue to lie, and to plot to loot the population to bail out their companies and banks, the collapse is proceeding like a nuclear chain reaction.

A frenzied Friday, 10th October of panic selling across the world saw $US 7 trillion wiped off the value of global shares. Australia's share market lost more than $190 billion in value over the week, typified by its worst one day fall of 8.3% on Friday, since October 22, 1987. Not to mention the billions vaporising from retirement super funds over the last year.

The bailout bills rammed through a terrified U.S. Congress and European Parliaments and the simultaneous rate cuts are utter failures, which will only unleash a worldwide hyperinflation far worse than that of 1923 Weimar Germany.

Rudd et al. chant the mantra, "Our banks are well capitalised and well regulated so the crisis won't hit us too badly." They are lying and they know it, and so does everyone else in the world, which is why our dollar has plunged some 30% in value since July. Each and every one of our major banks is bankrupt, *right now*! They are only standing because Rudd and his trusty swindler Wayne Swan along with the Reserve Bank have already bailed them out to the tune of tens of billions, with more money being poured in almost every day.

Since January, tens of billions of dollars have been pumped into Australia's banks by the Reserve Bank of Australia, and by the Commonwealth Government through its Future Fund and soon, the Infrastructure Fund. The last two were designed as swindles in the first place, whereby tens of billions in taxpayer funds are stolen out of the annual budget from health care, education, physical infrastructure, our rural sector, etc. and sequestered as a giant slush fund for the banks and Rio Tinto/BHPBilliton.

Three of Australia's biggest banks (ANZ, NAB and Westpac) tapped long-term loans from the $35 billion taxpayer funded Future Fund, as cash dried up from other sources in the wake of the collapse of Bear Sterns on 16th March. The vague details emerging through a Freedom of Information request by *The Australian* newspaper reveal that Future Fund notes were issued with as much as a 10 year maturity! It's been argued that the size of the loans and terms of the agreements are too sensitive to be revealed and would have an adverse effect on the fund's ability to operate in the private placement market. According to a leaked document, the ANZ was issued with $500 Million worth of notes with a 5 year maturity. The deals were finalized for the NAB on 19th March, the ANZ on 3rd April and Westpac on 4th April, way before the current period of turmoil.

On 29th September, within hours of the initial failure of the US bailout, a panicked Wayne Swan injected $4 billion of taxpayer funds into Australia's banking system, poorly disguised as promoting "competition" among non-bank lenders, while merchant banker-cum-Opposition leader Malcolm Turnbull demands that we hand the banks another $6 billion.

Kevin Rudd: Robin Hood in Reverse

On 7th October, Kevin Rudd warned voters to prepare for "…tough decisions, some of which will be unpopular." What he means is, he intends to slash health care, education and other vital necessities even more, in order to reroute more taxpayer money to the major banks and British raw materials cartel which own him. Take his lying rhetoric that he intends to meet the crisis by investing in improved infrastructure: His so-called "infrastructure" plans are all based upon Public-Private Partnerships (PPP), a scam by which Britain's Macquarie Bank and its buddies are handed untold billions from the Infrastructure Fund (i.e. the public); then, on top of that, the taxpayer is also socked with sky-high tolls and other fees to feed these private looters. This scam, by which Rudd plans to pee-pee-pee all over you, was first developed by Benito Mussolini during his fascist reign in Italy. And even daily newspaper accounts show that much of the $20 billion Infrastructure Fund will be spent for the benefit of BHP Billiton and Rio Tinto, to build railroads not for public use, but just from their mines to the ports. And Rudd is handing them these billions even as their revenues (measured in Australian dollars) *skyrocket*, because they are paid in U.S. dollars while the Australian dollar has collapsed!

What you can do

Support for LaRouche's solutions is zooming worldwide. Russia's state TV featured him on 5th October in a show watched by 70 million viewers, and Russia and China's print and electronic media have repeatedly featured his proposals in recent weeks, while legislation mandating Italy to support his New Bretton Woods proposal is currently before the Italian Senate.

The daily, panicked bailouts by central bankers and their puppet governments and the daily failures of those bailouts, point to the one irrefutable reality: there is no alternative to a complete re-organisation of the system, beginning with LaRouche's *New Bretton Woods* international reorganisation, and his *Homeowners and Bank Protection Bill*—freeze the system, protect the people, write off the trillions in unpayable, worthless paper, keep what's real, and emerge with a heavily regulated banking system.

Read the petition overleaf, sign it and fax/post it to your Federal MP this week. A LaRouche Youth Movement/Citizens Electoral Council delegation is in Canberra now, to meet MPs and push for the bill to be tabled in Parliament. For your MP's contact details, call the Parliament House switchboard on (02) 6277 7111 or go to www.aph.gov.au.

TO THE HONOURABLE THE SPEAKER AND MEMBERS OF THE HOUSE OF REPRESENTATIVES ASSEMBLED IN PARLIAMENT:

The petition of certain citizens of Australia points out to the House—

Government Must Enact *Homeowners and Bank Protection Bill 2008,* Now!

The world is presently in a far worse global financial crisis than that of the 1930s Great Depression. In this dire emergency, therefore, Governments must act to defend the Common Good, as did U.S. President Franklin D. Roosevelt, and our Federal and state governments to a lesser extent, in the 1930s.

For example, President Roosevelt in April 1933 introduced legislation to stop home and farm foreclosures, declaring that it was "national policy ... that the broad interests of the Nation require that special safeguards should be thrown around home ownership as a guarantee of social and economic stability..." One month earlier, his Bank Holiday reorganised the nation's failing banks under Federal protection.

In the emergency caused by World War I, the Australian Federal Government passed the *War Precautions Act 1916* and its *Commonwealth Moratorium Regulations* to stop foreclosures until 1920. In part modeled upon that precedent, every state in Australia enacted legislation during the Depression to stop home and farm foreclosures, including Queensland's *Home Purchasers Protection Act*; Victoria's *Unemployed Occupiers and Farmers Act*, and *Financial Emergency Act 1932;* and, the most effective of them all, Jack Lang's New South Wales *Moratorium Act* of 19th December 1930, which, as amended, ultimately stopped all foreclosures until 1937. Additionally, the Federal Government passed the *Farmers' Relief Act*, which provided £12,000,000 to the states for the relief of farmers.

The intent of all of this legislation was to protect the Common Good, as summed up in the paper, "Moratorium Legislation", read into Hansard on November 15, 1935:

"It was not expedient in the national interest that the welfare and comfort of the community should be unnecessarily imperilled by allowing debtors to be crushed out of existence…"

All parties agreed, conservative as well as Labor.

The principles of the *Homeowners and Bank Protection Bill of 2008*, proposed by economist Lyndon H. LaRouche, Jr., are urgently required to meet this present crisis, both for the U.S., and for Australia. It requires emergency action that only the United States Congress, or our Federal Parliament, has the capability to enact. This bill includes the following provisions:

1. Parliament must establish a Federal agency to place Australian licensed retail Banks, Credit Unions and Building Societies under protection, freezing all existing home and family farm mortgages for a period of however 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 Australian families to retain their homes and farms. 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 recapitalising 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 or family farmer shall be evicted from his or her property, and the Australian licensed retail Banks, Credit Unions and Building Societies 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 premiers 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.

We, the undersigned, demand that our Federal Parliament enact such legislation immediately.

Name	Position	Address	Signature

Please note that this petition may be used to publically call for the *Homeowners and Bank Protection Act 2008* through advertising within newspapers and websites.

Please send completed petition to: Craig Isherwood, National Secretary, Citizens Electoral Council, PO Box 376, Coburg, Vic. 3058.