When LaRouche speaks, world markets listen

by Chris White

Less than two days after the airing of Democratic presidential candidate Lyndon LaRouche's latest nationwide television broadcast, a warning that George Bush's rotten economic policies are leading to depression disaster, and exactly as he predicted last October, after the "Black Monday" market debacle, the New York Stock Exchange took another more than 100-point nose-dive. This time the fifth largest daily drop in the market's history.

The market slide of Thursday, April 14 wasn't the awaited dropping of the second shoe in the developing financial crisis of 1987-88. It was a signal that the process that has been under way since the second and third quarters of 1987 is entering a new phase, and that the potentials for the second shoe to drop, are all there.

That process, encapsulated in the image of a bouncing ball, was the central element of LaRouche's CBS boradcast, in which he demonstrated that what is now under way, is, in its main features, the same kind of process which characterized developments between 1929 and 1932.

The new lurch on the markets, coinciding with the early April lurch downwards, and coinciding, in both cases, with approximately six months of apparent stability and recovery, is simply a symptom of that kind of reality.

The market drop was also another dollop of egg in the face of James Baker and his cronies who claim to be overseeing U.S. financial and monetary policy, the better to protect George Bush's presidential aspirations come November. Baker's desperate efforts to buy time, to delay the looming crisis into next year, don't mean a thing. The market showed what had been made clear on television by LaRouche's bouncing balls. Baker and his bosses in the financial community are not in control of anything. Rather, to the extent they insist on acting out the insane obsession to preserve what they call their system, it's actually the other way around. The process of collapse is fully in charge of the brainwashed Baker, and the people and institutions he considers himself responsible to.

Trade deficit trigger

The market drop was triggered by the April 14 Commerce Department release of the figures on the trade deficit for the month of February, coming in at a deficit of $13.6 billion for the month.

Exports were at about $22 billion for the month, imports a whopping $37.4 billion. The monthly release of the trade figures, related as it is to the size of the tab America's foreign creditors are expected to pick up, now takes first rank in the government's monthly cycle of data releases.

This time the results were the more shocking, because the pundits had projected that the deficit would continue to decline for the third straight month. Some thought the deficit would be in the range of $11 to $11.5 billion. Allen Sinai of the Boston Company went even lower to $10.5 billion. That the actual deficit was about 20% greater than expected hit markets like a global shock wave.

The dollar took a tumble in Frankfurt and Tokyo, heading back toward the historic lows registered at the end of last year, before the Group of Seven's so-called "stabilization" agreement. The bond markets were battered, with the yield on U.S. 30-year bonds reaching a peak of 8.95%. And the stock markets were taken to the bath, in their worst day since October.

Baker wasn't the only one with egg on his face. The day before, the finance ministers of the Group of Seven had met in Washington to reaffirm their end-of-year support for the dollar. At the same time, leading central bankers and other financial officials had flown into town for the semi-annual gatherings of the International Monetary Fund's various committees. Where the Group of Seven reiterated its intention to support the dollar, the IMF big-wigs pronounced that they expected "moderate growth" to continue in 1988. Their last gathering in 1987 was followed three weeks later by the "Black Monday" market debacle. Anyone, though, who thinks that this bunch is about to go away, think through what they've been doing wrong, and come back with a different policy, would be badly mistaken. They don't know how to.

The trade figures, the market jolt, the collapsing dollar, are all symptoms of the process that's actually under way, namely the collapse of the bankrupt dollar credit and banking system. There's only one way to reverse that collapse. First of all, it is required to recognize that that is what is going on. Then, the monetary and economic system have to be reorganized for recovery. The accuracy of LaRouche's projection of the developments of the collapse, follows from the method he has employed, uniquely, to put together the programmatic package which would remedy the otherwise unstoppable crash.

Baker and company refuse to recognize that there is a functional difference between the physical economy, and the monetary side of that economy. They therefore refuse to understand that the sole source of all wealth is technological progress-driven improvements in the productivity of human labor, as reflected in increases of per-operative output, and per household consumption, measured in market-basket terms. They insist that wealth is the financial residue of the thievery known as "buying cheap and selling dear." Therefore, they insist, on every occasion that they have so far been given the opportunity, on mortgaging physical economic capacities and potentials to the expansion of a financial bubble.

The bubble burst in October. Yet, still they insist that the paper values, book-value capital gains of usury and speculation, be maintained at all costs, while the productive capacity employed to create wealth is looted to the bone.

This is shown, in its own crazy way, by the evolution of the stock market since the October crash. Large trades, involving 10,000 shares or more per transaction, have increased from just under 50% of a given day's trading to 58% of the trading. Mickey-money, from the little guy, is down below 25% of total turnover. The market has been kept up by a series of takeover swindles, perhaps 12 to 15 of them—the largest the Canadian Campeau's bid for Federated Department Stores, coming in at about $6 billion, the others involving perhaps as much again.

In these operations, credit is extended, as it was in Campeau's case, by some financing agency, like First Boston Corporation. The credit is secured against the assets, such as real estate, of the corporation targeted for takeover. The takeover increases the paper value of the shares of the targeted company, the acquirer, as well as the shares of companies holding shares in those companies. A relatively small amount of "start-up" money, leverages thus a whole lot of market activity. The aim has been to increase the book value of the targeted companies' assets, such as real estate, for which purpose Solomon Brothers and Merrill Lynch have beefed up their takeover and acquisitions teams with real estate experts, to then skim off the assets, through liquidation sales afterwards. This is assumed to both help keep the market up, and keep the book values of speculative real estate holdings up.

The only problem is, what happens when the imputed assets are in fact liquidated to service the debt accumulated to finance the takeovers? Since the assets can't be sold at anything like book value, poof! There goes the banking system.

This is what is now unfolding in the so-called banking crisis of Texas and the Southwest. In a different way, it's what is going on with the airlines: Frank Lorenzo of Texas Air has been stripping the assets of the airlines he runs to service a $5.5 billion credit line at Chase Manhattan Bank. And it will pretty soon begin to show up in the nation's financial capital, New York City. There, 13% of all office space, the equivalent of Atlanta, Detroit, Memphis, Phoenix, and San Jose combined, stands empty.

Higher interest rates?

So now, the idiots start to campaign, one more time, for increases in U.S. interest rates. They do this, to supposedly assert a commitment to defend the dollar, and to continue to attract foreign funds to finance U.S. deficits. The trade deficit figures for February are used to back up the call. After all, demand for imported goods does have to be choked off, they say. The U.S. monetary authorities are now going to have to make decisions on two matters, it's being said in Europe: on the question of interest rates, and on the question of bank bail outs. Inside the United States, it's being said that whatever the Federal Reserve does, won't matter; the markets are going to force interest rates up, anyway.

Here we go again. It used to be said that the mistake Herbert Hoover made was tightening credit after the stock market crash of October 1929. Well, he didn't tighten credit until the spring of 1930. And now, his contemporary followers seem to be determined to follow him in this respect, too.

Increasing interest rates will turn the regional banking crisis in Texas and the Southwest into a national banking crisis, pushing about one-third of the country's 3,000 savings and loan institutions over the edge into bankruptcy, and doing untold damage to the commercial banking sector. It will also force the liquidation write-down of a significant chunk of the over-valued paper in the system, as the outfits holding that paper go belly-up.

Since the crazies who run things, like James Baker, refuse to understand that there are other ways of handling these kinds of problems, maybe it's actually better that such a write-off come about. That way, even they will no longer be able to hide behind the insane illusion that everything will come out okay.