After junk bond collapse, time to change course

by Chris White

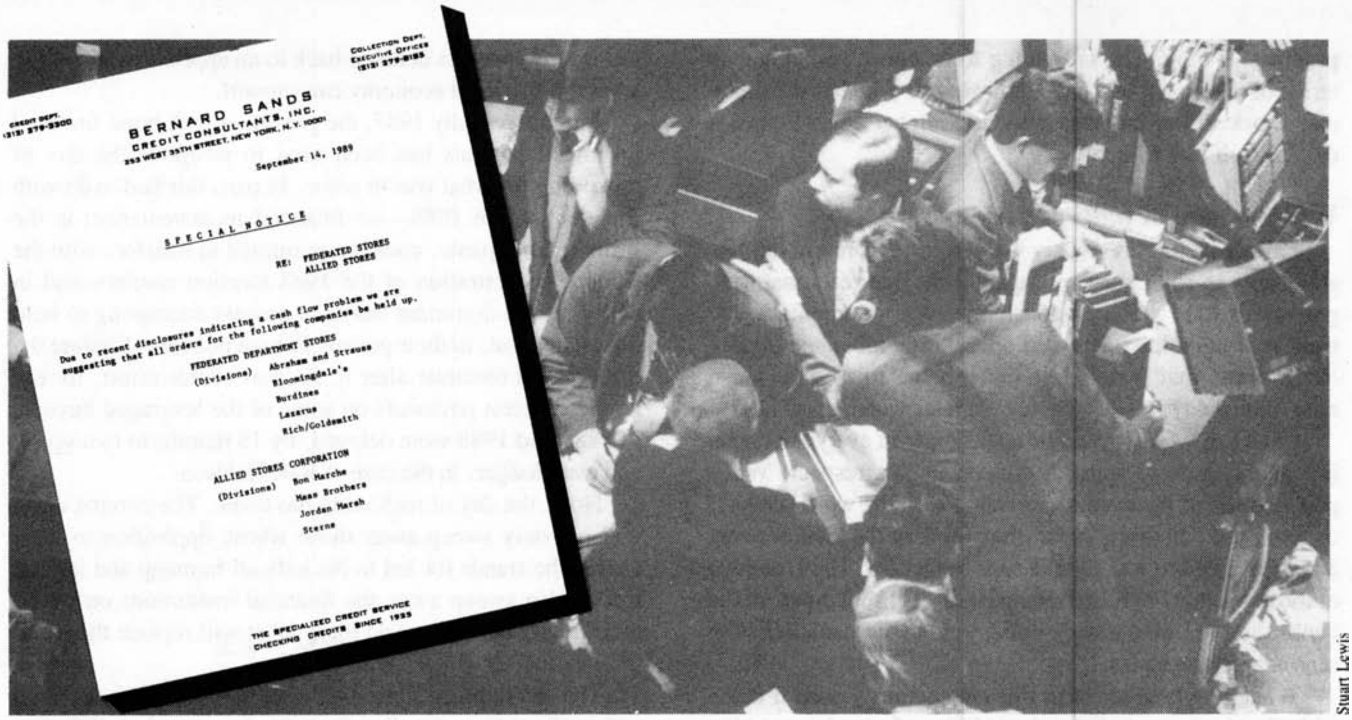
Friday, the 15th of September, 1989 will be a day that goes down in history. That was the day Canadian financial front-man Robert Campeau finally defaulted on $450 million of interest payments due the investment house First Boston, and brought down the junk bond market.

Campeau is the nominal head of the Canadian Campeau Corporation, which fronted for the leveraged buyouts of Allied Department Stores, for $3.3 billion in 1986, and Federated Department Stores, for $6.7 billion in 1988. The default sets into motion the deflationary collapse of some part of the approximately $20 trillion worth of claims of debt and instruments of financial speculation accumulated against the U.S. economy, in particular, during the course of the so-called Reagan Recovery of the period 1982-89. It also sets in motion a plunge into the depths of the worst economic depression of the century.

Campeau's default sealed the doom of the estimated $200 billion per year market in below investment grade securities, known thanks to the press mavens, as "junk bonds." On Wednesday, Sept. 13, the market in junk paper went through a collapse, comparable—according to dealers like those at Lazard Frères—to what hit the world's stock markets in October of 1987. On Thursday, Sept. 14, things were no different. Campeau's formal default, on Friday afternoon, now means that devalued junk paper will begin to bring down the face value of all interest bearing paper to its own level.

In that sense, on Friday, Sept. 15, we entered a deflationary spiral. According to the jailed U.S. economist and congressional candidate Lyndon H. LaRouche, "Forget about the events leading up to, and including last Friday's crisis. The question now is, what is the rate of the acceleration of the spiral, has it moderated, has it slowed temporarily? Nevertheless, it is inexorably going to continue. It is not going to reverse. It is going to accelerate." The question also is, what has to be done to get out of it, and who is capable of doing it?

Alone among U.S. politicians, and also among the so-called economists,



Robert Campeau's junk bond empire hits the skids, as the retail chains owned by his Canadian Campeau Corporation defaulted on their debt payments, were put on the black list of their suppliers, and found themselves shunned by the Wall Street markets (background photo).

LaRouche stands vindicated by what happened on Friday, Sept. 15. He has warned, since early June of 1989, of the potentials for another seismic market shock this fall. Since early September, he has been warning, from his jail in Rochester, Minnesota, that the timing for such a fall collapse, could be anticipated around Oct. 10, plus or minus the few days necessary for the results of the quarterly settlements of accounts now under way, to sink in. It was LaRouche too, from June of 1987 onwards, who projected the timing of the October 1987 stock market debacle, which became known after Oct. 19 that year as "the market meltdown."

LaRouche's record on such matters is to be compared with the program of the present Bush administration, since the President's Jan. 20 Inaugural Address. The President, and his top officials, like Nicholas Brady at the Treasury Department, have insisted that everything is under control, and can be kept under control, including such matters as the insolvency of the savings and loans, and the collapse of leading Third World debtors.

The default of Campeau, and the accompanying collapse of junk paper, ought to be taken as proof positive that they and their crisis management co-thinkers have been absolutely wrong. When it comes to matters of the economy and financial policy, they do not know what they are talking about. Because that is the case, nothing they have to say about any other matter, no matter how obsessively they believe it, will be of much import either, because the world isn't organized the way they think it to be, and their attempts to do what they intend, including the crisis managers' favorite occupation of buying time, will consequently be more and more visibly counterproductive.

Publicly, Brady from the Treasury, and the faceless bureaucrats at the Federal Reserve, continue to insist that everything is under control. "No banks will fail because of Leveraged Buyouts," a widely reported, but wisely anonymous Federal Reserve official told the press Sept. 15. His remark was part of a coordinated effort to squelch rumors that as many as three major New York money center banks, and at least two investment houses, had gone, or were about to go belly-up. The same day, Treasury Secretary Brady told the National Association of Securities Dealers meeting in Washington D.C., that leveraged buyouts are okay, because "there are literally assets behind it."

Given the record, it is better to be more concerned about what LaRouche has to say now, and attribute clinical significance to the utterances of his opponents. In statement from the Rochester, Minnesota federal prison on Tuesday, Sept. 19, LaRouche advised, "The only interesting distinction to be made now is not a question of if there is a crash coming. The crash has happened. Now, the question is, when the shock effect of the crash is felt. It is now a matter of the acceleration of the deflationary spiral, which will continue to accelerate at either a slower or faster rate anyway. The question is, will the rate of acceleration reach those velocities which will cause a shock effect. . . ? The depression is now on. The biggest depression of the 20th century is now in progress. It's on. The only thing to be concerned about, in terms of that itself, as I have indicated, is whether the financial shock effect happens now in October, or whether it delays itself into March."

Which stage of bankruptcy are we in?

LaRouche has previously warned, given present desperate efforts to roll over—yet again—the quarterly maturing portion of debt service and claims of approximately $20 trillion of combined debt and speculative income claiming instruments, that it would be much better to take the crash now, than delay, till say March, for a far worse crash later.

Choice of words, given the associations of everyday usage, inevitably leads to some confusion in this respect. When people think of the events associated with the word "crash," or "collapse," in this context, they think of the kind of event that happened on Oct. 19, 1987, or on Oct. 29, 1929, or even of the day when Franklin Delano Roosevelt shut down all the banks, and declared a bank holiday, to avoid panic-stricken runs against the banks.

What people think of in this connection—even if those with direct, or even indirect, knowledge of what happened in the 1920s and 1930s, are diminishing in number—is the third and final level of bankruptcy. The deflationary collapse spiral which will follow from the shattering of the junk bond market is the beginning of the overdue phase of runs-against-the-banks. Runs-against-the-banks are the third and last level of bankruptcy. Financially, at the second level, the system has been bankrupt since 1984-85. And, economically, at the first level, the economy has been functioning below its breakeven level since the period 1979-82.

If the economy is below breakeven, not enough wealth is created, through production, to cover the physical costs and expenses of maintaining the society's existence. That is what has happened with the United States, as is demonstrated by the increasing poverty, unemployment, continued under-investment in maintenance of plant, equipment, and infrastructure, and incapacity to produce more than four-fifths of what is consumed, that have been the hallmarks of the "prosperity" that was called the Reagan Recovery. And, the world as a whole is in much worse shape on this account, than is the United States, in part because U.S. refusal to produce for its own consumption, has been robbing the means from those who would otherwise do so.

Financial paper builds up

If on top of that, financial claims are permitted to increase beyond the capacity to service those claims, financial bankruptcy ensues, for the fiction that claims against wealth are being honored is maintained by either printing money, or creating new titles to wealth. Then comes the time, like Friday the 15th, when it becomes clear that paper as paper, isn't worth anything if it can't be converted into goods. And then, in the third and final phase, the accumulated, effectively unsecured paper, is deflated back to an approximation of the level the shattered economy can support.

Since especially 1987, the growth of junk bond-financed leveraged buyouts has been used to postpone the day of reckoning for what was to come. In part, this had to do with the elections in 1988—no financial inconvenience, in the form of bank panic, could be permitted to interfere with the smooth orchestration of the 1988 election results—and in part with the dominant financial powers attempting to hold on, at any cost, to their power. For the policies of before the election did continue after it. As part of this effort, for example, interest payments on some of the leveraged buyouts of 1987 and 1988 were delayed, by 18 months to two years, and even longer, in the case of RJR Nabisco.

Now, the day of reckoning has come. The coming crash will not only sweep away those whose opposition to what LaRouche stands for led to his judicial frameup and jailing; it will also sweep away the financial institutions on which their power depends. And then, what will replace them and their methods?

The above might describe the form of what has occurred and is about to occur. But the point is somewhat different. What is the difference on these questions between LaRouche, who has successfully projected developments on the financial and economic front, and not just over the last few years, but back into the 1950s, and those of his opponents, who have obsessively insisted that he is wrong? For, if he has been borne out by the course of events, it is not he that is wrong, but those of his opponents who insanely insist that their way of doing things—despite the patent disasters that have ensued, and the far greater ones that will—is the only one tolerable. This difference is a matter of method.

To change the course of events that have been unleashed since the collapse of the junk bond market on Sept. 15, methods must be changed. The only available alternative to that which leads predictably, and repeatedly to disaster, despite the insistence that everything is really under control, is that developed by LaRouche. This question of method, between LaRouche, who has been right, and those of his opponents who insist that they in any case have the power to do what they want, despite the fact that they are repeatedly wrong, is chief among the reasons why LaRouche is in jail. Those who would not give up their power, knowing that the way they used it led, and leads to disaster, are about to see the basis of that power destroyed.

The laws of physical economy

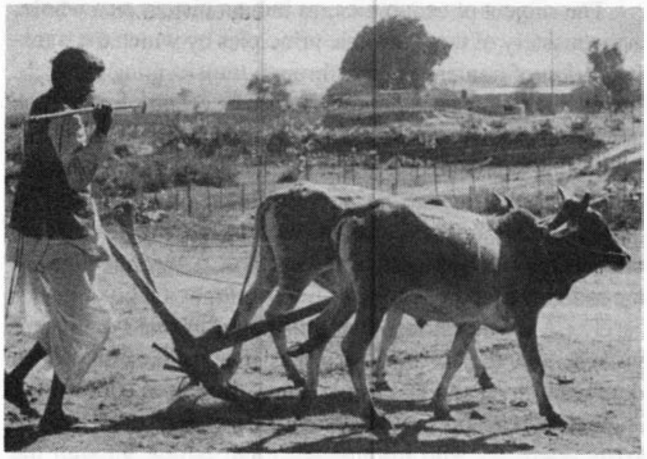
LaRouche calls the method he invented the method of the ontological transfinite. The method is based on the discovery and mastery of the knowable principles of physical lawfulness which have made mankind unique of all universal creation.

The question for all of us can be posed in the following way. Our mortal lives are but a brief moment compared to the recorded history of the species, and its pre-history, and the history of the universe as a whole. The one thing we do know with certainty is that we will die. If all we crave are the pleasures and so-called gratifications of the flesh, which last but an instant, what is that brief life worth, relative to the eternity that is the history of the human species as a whole? Such pleasures don't outlast the body which craved them. How then can we ensure a purpose that this brief life given us has some durable meaning, that will endure after we and our generation are gone, and make our lives worth living in the eyes of those who come after us, as enriching the totality of that which went before?

The answers come from human history as a whole, and it is from human history as a whole, viewed from the standpoint of the mortality of the individual, that the fundamentals in LaRouche's method, including its application in economics, are posed. In human history the efficacy of the ontological transfinite as the ordering principle of physical lawfulness in the universe is reflected as an increase of man's potential relative population-density. The anthropologists assume, wrongly, for reasons which can be found in LaRouche's book *So, You Wish to Learn All About Economics?* and *There Are No Limits to Growth* that the earliest form of human society is that which they call hunting and gathering. Given the land area required to support an individual in that mode, the population potential could never have exceeded more than a couple of million such individuals. Yet over the course of his existence, man has increased his potential by three orders of magnitude, to 5 billion today, with the potential for 50 billion, if the technologies available today were efficiently diffused.

Alone in creation, man has transformed the conditions of his own existence to so progress. The progress can be measured in the reduction of the number of improved, cultivated, and inhabited hectares required to support the human individual, or nuclear family reproductive unit. Land is defined as habitable or cultivable by the level of technology available to make the improvements which produce the increasing density of population. The increase is relative to the potential defined by the technology. The better, however, any such society within the history of human development increases its population-density, within a particular mode of technological organization of its labor, the more surely such a society is dooming itself, sooner or later, to extinction. For the resources defined by any particular technological mode of organization of labor, are finite relative to that mode of organization. The more successfully such a society exploits such resources, the more surely they will be depleted relative to the possibility of such depletion.

Each such mode of organization of labor correlates with a characteristic division of the population between urban and rural, agricultural and non-agricultural, and with the life expectancy, effective working life, and the educational level required to produce a next generation of workers.



Progress can be measured in the reduction of the number of improved, cultivated, and inhabited hectares required to support the human individual, or nuclear family reproductive unit. How many people can be fed by a hectare of land cultivated by the Indian farmer's primitive means? How many using the Iowa farmer's powerful tractor and automated feeding equipment?

The subject of economics, as human history as a whole, is the mastery of the knowable principles by which the transformation of human society, through transforming the technological organization of labor, might be accomplished such that human society endures. How to organize the work of this generation such that one might be reasonably assured, at the end of one's life, that the grandchildren might be able to undertake the same task as it presents itself to them. Primary, then, is the development of the creative powers of mind of the individual at the service of the species as a whole.

There is an unbridgeable gulf between this type of approach, and the methods of crisis management that have dominated over the last years. The differences concern the respective conceptions of man and the universe, such that the crisis manager, with his insistence on getting through the next week, without the appearance of disruptive crisis, emphasizing in his practice the fixity of the human identity, must thereby side with the lower beasts against the human species. And since the creative powers of mind, which alone distinguish man from the beasts, are denied, such crisis managers, as the ones who have administered the affairs of state in economic and financial policy for the past generation, must axiomatically be incapable of dealing with a real crisis, never mind the kind of crisis that was unleashed on Sept. 15.

Desperation measures

So far, their effort has gone in the direction of attempting to hold together the financial situation. Ultimately, whether next month, or next March, this must prove to be as effective as the efforts of the little Dutch boy once were to plug the hole in the dike. The financial situation cannot be held together because it is bankrupt. Yet they insist on coming up with the same type of insanities which drove the economy below breakeven, and bankrupted the financial system. The Comptroller of the Currency, an official at the Treasury Department named Robert Clarke, has a proposal to halve the reserve requirements of the banks. This translates into permitting the banks to double the volume of liabilities they may hold against the same level of reserves. It makes their bankruptcy worse. And it will make the crash worse when it comes. Clarke claims the proposal has the support of officials at the Federal Reserve, as well as the Treasury.

The Federal Reserve has approved regulation changes so that the banks may market their loans as securities. This way assets, which are no longer performing at face value, no longer need be kept on the banks' books; they can be sold, for a commission, which counts as income, and passed around from bank to bank, like the proverbial hot potato. This doesn't help either. It simply increases the velocity at which the fundamentally bad paper is cycled through the system, thereby presumably reducing the risk to any particular part of the system at any particular time.

These are the kind of desperation measures being put forward, by those who do not know the proper function of credit and finance, to get through the weeks ahead, by any means. The crash of Campeau and the junk bond market will ultimately spell the end for that too. But the question is how fast it will do that. For by such means a bad crisis now, will become a real catastrophe by the spring.

Basis of credit policy

Credit and monetary policy ought not to be a mystery. Money surely does not grow on trees, but it does come out of a printing press. Whatever the orthodox say, money happens to be created by political fiat. There is a level of wage and salary income, combined with investment and maintenance requirements, which permits the economy to function at the rate of advance in productivity required to maintain an increasing rate of increase in potential relative population-density. At today's usury- and speculation-bloated currency levels, this would be the equivalent of about $5 trillion per year in current dollars.

Since we do not produce at those levels, nor do we have sufficient workers with the surviving skills to produce at those levels, it would be insane to print that volume of money and put it into circulation. There is nothing to buy with it. But if the lifetime of an investment in capital improvement is extended relative to the three-generation time-frame that fits our historical mission, credit can be extended to finance productive improvements and employment in the volume calculable as self-financing by means of the cheapening effects of productivity increases and advances in the power of labor. Such credit can be monetized so long as the money created doesn't exceed the cheapening effects of the productivity increases, and the volume of goods put into circulation increases. This way the economy begins to grow in a self-sustaining way, and the banks are compelled to function as they should.

Campeau's default highlights what happens when money is used for the opposite purpose, to strangle mankind's capacity to ensure his own survival, through usurious debt. Though the question of the relative velocity at which the pace of events will proceed is unsettled, the outline of the economic and financial consequences, in terms of accumulated vulnerabilities, is clear enough, to substantiate LaRouche's warning that it were better if the collapse be taken now.

The financial consequences are one part of the matter. Campeau defaulted on Friday, Sept. 15; the approximately $200 billion per annum secondary market in below investment grade junk debt collapsed beginning Sept. 13. This is the market where paper contracted to finance leveraged buyouts and other transactions involving below investment grade paper, is sold back and forth.

As with the stock market collapse in October 1987, the collapse took the form of a panicked effort to pull out of that kind of paper, based on the fear that other victims of buyouts would rapidly go the way of Campeau.

The market is primarily handled by the large investment houses, among them Drexel Burnham, First Boston Corp., Merrill Lynch, Morgan Stanley, and Goldman Sachs. These houses have been left holding both the devalued paper from the panic which erupted Sept. 13-15, and at least $7 billion, and certainly in excess of $10 billion worth of new junk bonds which were slated to be introduced to the market for the refinancing of old deals, or to facilitate the financing of new deals, such as the in-progress buyout of Time-Life.

Eerily, the *Wall Street Journal* had begun to run, by Sept. 21, the same kind of articles that were published after the stock market crash of October 1987. Exactly, how does one compute the attributed value of this paper, is the question now being asked? The answer is, at whatever the price the so-called market will bear, and if no one will buy the stuff, then it is no longer worth the paper it is printed on. So at first sight, the investment houses which hold the collapsed and the unsold paper are, so to speak, in very bad shape.

But it is worse. The takeover binge since 1987, based on the continual upward motion of the Dow Jones Index, promising vast rewards if new, higher stock values could be cashed in on by selling off companies with lower book values than their stock or other assets, has contaminated all financial values. With the collapse of the market in junk debt, already all other paper outstanding has effectively been collapsed to this discount already reached in the junk markets. It is only a matter of time before this becomes perceived as the shock effect devaluation of all paper instruments.

Before the second week of September, the Securities and Exchange Commission was investigating the extent to which mutual funds, and other institutional investors, were overvaluing holdings of junk investments. Charges ranged from as much as 30% over what the paper would command if sold, to as low as 5-15% below. The collapse of Sept. 15 makes those numbers conservative.

LaRouche's proposals for economic reform

Lyndon LaRouche's major initiatives in the economic domain prior to 1985 were encapsulated in the 1985 book, *Program for America,* issued by The LaRouche Democratic Campaign. Other publications listed here have appeared as books or articles. This list is exemplary, but by no means comprehensive:

April 24, 1975 International Development Bank proposed in Bonn, West Germany.

Oct. 19, 1979 Warning that Volcker's high-interest measures will lead to disaster.

Aug. 2, 1982 Publication of *Operation Juárez,* a book-length proposal for turning the Ibero-American debt crisis into a continental Common Market and a worldwide economic boom.

June 1983 *There Are No Limits to Growth,* 225-page book published by the Club of Life.

February 1984 *So, You Wish to Learn All About Economics? A Textbook on Elementary Mathematical Economics,* 191 pages.

1984 Nationally televised presidential election campaign broadcasts: **Feb. 4** "Stopping the Worldwide Economic Collapse." **March 17** "Great Projects vs. Kissinger Genocide." **April 27** "The United States Under President Reagan's 'Hoover' Recovery." **June 1** "Stopping the Present Spiral of Worldwide Financial Collapse." **Sept. 3** "The Emerging Food Crisis in the United States."

April 1985 "The Global Financial Breakdown Crisis," introduction to the EIR Quarterly Economic Report.

August 1986 *La Integración Ibero-Americana,* 340-page manual on Ibero-American integration based on LaRouche's Operation Juárez, with introduction by Lyndon LaRouche. Serialized in *EIR* in 1986-87.

Jan. 30, 1988 LaRouche outlines "The Tasks of Establishing an Equitable New International Monetary Order," at a conference on the collapse of the Bretton Woods System, in Andover, Massachusetts. (Published in *Development Is the New Name for Peace,* Schiller Institute, 1988.

March 3, 1988 In "The Woman on Mars," a nationally televised presidential campaign broadcast, LaRouche outlined the enormous profit to the civilian economy to be expected from a 40-year program to colonize the Moon and Mars.

July 19, 1988 LaRouche at Democratic Convention in Atlanta, Georgia warns delegations that U.S. food deliveries to U.S.S.R. could become trigger for war. Organizing begins for Food for Peace movement, which is founded in September in Chicago.

Oct. 12, 1988 At a press conference in Berlin, LaRouche outlines a policy to bring about German reunification by "economic diplomacy," establishing "food for peace" agreements in which the U.S. and Western Europe cooperate to rebuild the economy of Poland.

The junk bond disease is hitting at all levels of the economy: from the big banks with more than $1 billion in loans, such as the five-times-over bankrupt Manufacturers Hanover, to the chains that run food, department, and convenience stores, such as 7-Eleven.

The largest holders of the junk paper issued by the investment houses are supposedly the mutual funds and the insurance companies. This is according to a recent study by the General Accounting Office. Those agencies are supposed to hold in excess of 30% of all the junk bonds issued. Pension funds, individuals, and savings and loan institutions each hold between 7-10% of the rest. Among the pension funds with significant LBO exposure are those of New York State, which has backed the junk issued by Kohlberg Kravis and Roberts in support of takeovers since 1984, and the pension funds of Massachusetts municipalities. The trust funds of Harvard and Yale universities have also been put into junk.

So these are among the institutions which will be affected by the spreading losses.

How major banks are affected

The financing for the takeovers and deals represented by the LBOs has been extended by the major banks. Generally, for each such takeover, the ratio is in the range of one part junk bond to four parts other debt; bank direct lending now accounts for two of the four parts, and indirect lending, through intermediaries such as specially formed limited partnerships accounts for the rest.

For each dollar of junk debt which collapses then at least four dollars' worth of associated financing comes down too. This is minimally $1 trillion, given the $200 billion secondary market in junk. This is about the same magnitude as the amount of stock that was liquidated during the Oct. 19, 1987 panic.

The loans issued by the banks to finance the deals turn sour as well. Paine-Webber estimates the exposure of banks which have committed more than $1 billion to junk bond financing at about $40 billion; other estimates, for example that of *Financial Times* columnist Anatole Kaletsky, put the exposure at approximately $150 billion. On the low estimate, all banks with more than $1 billion of loans, with the exception of Citicorp, North Carolina National Bank, PNC Financial, and J.P. Morgan, face losses in excess of their paid-in equity from the collapse of the junk bond market, and the collapse of the non-junk paper associated with that paper. On the higher figure, all, with the possible exception of J.P. Morgan, face such losses. Among them are Manufacturers Hanover (bankrupt five times over), Mellon Bank, Bankers' Trust, Wells Fargo, Bank of Boston, Chase Manhattan, and Bank of America (bankrupt twice over), First Chicago, Chemical Bank, and Security Pacific (bankrupt once).

The financial pundits say, don't worry. After all, LBO exposure is only about 15% of the total new bank lending of $1 trillion since 1979, and only about 7% relative to all bank lending. Bankers' Trust reports that if it had to give up buyout lending it would lose the source of 30% of its earnings over the last years. Bankers' Trust does not report what would happen if it had to write off its LBO debt, or face the cost of the devaluation of the paper.

On Sept. 8, 1989, *EIR* published a study warning that the effort to service, or maintain, the income claims of the accumulated $20 trillion of combined debt and speculative paper would lead to a run-against-the-banks type of crisis this fall. The paper associated with leveraged buyouts was identified as one of the three most likely triggers for the overdue eruption of such a crisis. The other two were the market in mortgage-backed securities, and the offshore speculative bubble epitomized by the banks' so-called off-balance sheet liabilities.

The collapse of the junk bond market brings closer the ultimate collapse of each of the other two triggers. Much of the junk paper, and associated lending, is ultimately secured against the inflated asset values of the corporations bought out. The inflated such asset values include prominently real estate, to realize funds to pay down debt that cannot otherwise be serviced, assets will have to be put on the block. The assets, including the real estate, will not command the price levels imputed them when the takeover transactions were negotiated. The buyout management of RJR Nabisco has already discovered this. It had planned to sell off RJR's Del Monte unit, but was only offered half the estimated worth. If that holds for the rest of RJR then the world's largest merger, $25 billion, is now worth no more than $12 billion, and half the paper associated with the takeover has gone. The devaluation of such assets, including real estate, will help bring down the mortgage-backed securities market, and, by encouraging a pullout from the dollar, will wipe out the banks' off-balance sheet liabilities too.

Retail stores, supermarkets hit

The economic consequences are as drastic as the financial. Since the end of the summer vaction period an international pattern has surfaced reflecting a cutback in consumer discretionary spending caused by the overall drop in living standards that follows from the imposition of austerity against wage and salary incomes. The pattern has surfaced in Germany with the bankruptcy of the Co-op retail chain, in Britain with the financial problems associated with consumer goods producers Magnet PLC, Ward White, and Gateway Stores, and it is what has contributed to bringing the collapse of the LBOs to the fore.

Campeau, of course, is the nominal owner of Allied and Federated Department Stores, bought out respectively in 1986 and 1988. The two run such retail stores as Bloomingdale's, Abraham and Strauss, Jordan Marsh, Sterns, Rich's, Burdines and Ralph's Grocery of Southern California, among others.

Other retail outfits have gone over the edge already, and still others are poised to go. Stores on the problem list account for about 20% of the revenues from sales in the relevant Commerce Department data. L.J. Hooker, the Australian owner of the Bonwit Teller and B. Altman department stores, has already filed for Chapter 11 bankruptcy protection from its creditors, as have the Dart Drug chain, Seaman's Furniture of New York, the nation's second largest furniture retailer, and Cuisinart, makers of kitchen equipment. Others not so far behind include Safeway food stores, the Southland chain which runs 7-Eleven convenience store franchises nationally, Circle K Corp., Kroger food stores, and Interco, a St. Louis-based retail chain. And there are many more.

Behind the department stores and the supermarkets are the food-processing companies like RJR Nabisco, Beatrice Foods, General Foods, and Pillsbury, each of which was bought out in the last years.

Along with retailing and food processing, the collapse of the buyouts also threatens construction and real estate, financial services, transportation—especially the airlines, like Eastern and Texas Air—and also the defense sector, through such companies as Colt Industries and Singer.

Again, the case of Campeau points to what can happen. Federated and Allied were unable, by Wednesday Sept. 13, to buy from their wholesale suppliers. Orders went out from the factoring companies, like Heller Financial in Chicago, warning suppliers of Campeau to stop. After the 13th, the brokers said, you do so at your own risk. The suppliers include knitwear manufacturers, knitting mills, and home furnishings manufacturers. And this is only the beginning.

The economic side will mean a new wave of unemployment, plant closings, the disruption of whole communities and worse. It prefigures the plunge into a new depression, on a scale infinitely deeper than that of the 1930s.

The combined economic and financial effects of the collapse of the junk bond market mean that the policies which have been dominant since recently—1982, and the beginning of the Reagan speculative bubble; and further back, since the period 1963-67, when the Establishment opted for the insanity that became known as the post-industrial society, with its violent hostility to the optimistic outlooks associated with technological innovation and increasing capital and energy intensivity—have also collapsed.

Those who have masterminded the increasingly catastrophic policies of that period of a generation are the ones who insist, with the most vehemence, that they do not care what LaRouche has to say, because they have their power to do as they wish. Yet, LaRouche has been proven right, as often as they, in their arrogance, have been proven wrong.

The collapse of the junk bond market brings the world to a turning point. It can either go down an accelerating spiral into the full horrors of depression collapse and financial chaos, involving the wiping out of pensions, savings, health plans, the loss of homes and jobs, starvation, or we can choose a different course. The different course is not a matter of selecting among a different set of administrative procedures or recipes, it is a matter of method. Against all the others, who have repeatedly failed, LaRouche is the one who knows not only what to do, but how to do it. It is time the lessons were learned from that before it is too late.