

LaRouche breaks the story: The great depression is on!

by Nancy Spannaus

In a statement issued internationally on Oct. 10, congressional candidate and world-renowned economist Lyndon LaRouche put the news bluntly:

“Well, the new Great Depression is on. The key market event which set this depression off was the near bankruptcy of the international super-retail giant, the chain trust Campeau. This happened this past September. Campeau’s near bankruptcy signaled a general collapse of both the so-called leveraged buy-outs, and a severe downturn in real estate markets.

“Now, in the short term, one of two things will happen. Things *could* continue to go along as they are going. That means the continued slide deeper and deeper into the new worldwide economic depression. In this case, things will become much worse through October gradually, then after October, the rate of collapse will speed up into March of next year. That’s the normal thing, presuming the government makes no radical change from its present policy.

“However, the second option, if the Bush administration tries to buy its way out of the depression, or buy its way into a postponement of the depression using cheaper interest rates, the tendency will be to shift from a deflationary spiral, that is, a price-collapse spiral in real estate, retail sales, and so forth, into an inflationary spiral, which is even more disastrous than a straight deflationary spiral of the type now going on.

“Either way, what’s happening is exactly what I predicted was going to happen last year during the election campaign, and earlier this spring and summer. Isn’t it time that the

American people elected leaders who knew what they were doing in the economy?”

Bucking the trend

LaRouche’s statement flies in the face of all the “popular wisdom” floating around policy circles in the United States and Western Europe, as well as the citizenry itself. Patting themselves on the back for having avoided a “run on the bank” over the dangerous third-quarter rollover period, these “experts” are deluding themselves that everything is under control.

Nothing could be further from the truth. The world economy is in a desperate, worsening depression, which is leading the world into a collapse best described as a New Dark Age. This collapse, as analyzed by LaRouche, has proceeded in three distinct aspects:

1) *Physical economic breakdown.* This is the fundamental process driving the depression collapse. Due to the shift to the post-industrial society perspective in the mid-1960s, the physical economy began contracting around 1970. Concretely, that has meant the lack of replacement of infrastructure, the contraction of physical plant and equipment, and the descent into obsolescence of what remains.

The crucial turning point in transforming this contraction into breakdown, was the interest rate shock delivered by Federal Reserve chairman Paul Volcker in 1979. The more than 20% interest rates drove manufacturers out of physical production at a rapid rate—the steel industry became real

estate speculators, for example! The net result was the inability of the American economy to supply its own needs.

2) *Financial breakdown.* The U.S. economy has been financially bankrupt since the period of 1982-85. This period has been characterized by the fact that economic growth has been replaced by the growth of debt. Another name for this process is the "Reagan recovery." This policy of piling debt upon debt, created a situation in which current earnings became insufficient to cover current costs and expenses, and ultimately that cash flow was unable to cover even interest payments on the debt incurred.

3) *"The run on the bank."* While these two underlying processes of bankruptcy proceed apace, what most of the idiots in the financial world are concentrated upon is whether they can maintain "confidence" in the system—i.e., prevent a "run on the bank," in the form of a wholesale collapse of values which have been run up through the financial speculation.

In fact, this "run on the bank" began, as LaRouche said, with the big leveraged buy-out failure of Campeau's department stores on Sept. 13. This set off a deflationary spiral which has caused a major collapse in the junk bond market, which continues to be reflected in the failure of major conglomerates to market their junk bonds.

The question which immediately arose, however, is whether such a "run" would take the form of a gradually deepening deflation, or a sharp collapse like that of October 1987. As of this writing, the "tumbling" of the stock market, detonated by the failure of certain takeover bids, reflects one possible pathway. A series of bank bankruptcies—foretold by major drops in third-quarter profits and the unpayability of Third World debt—could be another.

No middle ground

For those who believe that the stock market and its fortunes represent economic reality, there will be a strong temptation to do everything possible to keep the financial markets looking viable. If this remains the policy, there is nothing to prevent the descent of the real economy into the worst depression in this century.

Should the deflation continue, with collapses in the stock market, real estate market, and the like, it will be like a spiral accelerating. At a certain point the acceleration of the deflationary spiral will lead to the generation of a shock front, similar to a sonic boom. LaRouche thought it highly likely that could happen this fall.

If the Bush administration tries to avoid this certainty, by ordering a loosening of credit and reflation, however, the spiral will simply take off in the opposite direction. It will become a hyperinflationary spiral, which will rival that of Weimar Germany, with the wheelbarrows full of money and all. This pathway will eventually lead to a financial blowout as well.

Reports from European financiers are that Great Britain, in particular, is urging the Federal Reserve to take this hyperinflationary direction, by lowering interest rates. The British hope that such U.S. action might prevent them from having to further raise their own interest.

The reality is, that without a change in fundamental financial and economic policy in the direction of Treasury Secretary Alexander Hamilton, there is no stability in sight. If more money is thrown at the problem, it may postpone a blowout until next spring, but the collapse at that time will be much, much worse. There will be either a hyperinflationary spiral, or a deflationary spiral, with no middle ground.

The Hamiltonian solution

During his entire 1988 presidential campaign, which began in 1985, now congressional candidate LaRouche had warned of the disastrous consequences of the post-industrial monetarist policies of the U.S. government. Beginning in July 1988, he began to forecast a period of financial and strategic crisis for 1989-92, unless a dramatic reversal of economic policy, in particular, were implemented.

But LaRouche did more than point to the crisis. He outlined the causes of the global crisis humanity faces, and the policies required for preventing disaster.

Given that the Eastern Establishment of the United States and the Soviet Union were anxious to throw LaRouche into jail precisely because he had the solutions to this conjuncture of global crisis, especially in the economic sphere, it is of considerable interest to look at these policies.

We quote here from LaRouche's Atlanta Platform for the Democratic Party Convention in July 1988, where he first forecast the strategic significance of the international food crisis. The ideas are further elaborated in his current campaign platform forward, also entitled, "The Great Crisis of 1989-1992."

"What we are proposing is a 'radical' turn away from the failed experiment launched during the 1960s, back to the traditions established chiefly by the original Massachusetts Bay Colony and the creation of our independent nation and constitutional form of representative self-government. . . .

"Out of the contributions of . . . two successive modern renaissances came an economic philosophy of government which U.S. Treasury Secretary Alexander Hamilton was first to name 'the American System of Political-Economy.' It was a system which divided the responsibilities for national economy in essentially this manner:

"1) The general objective of economic policy, by both government and private entrepreneurs, is the fostering of increases in the productive powers of labor through capital investment in the benefits of scientific and technological progress.

"2) The responsibilities of the federal government are chiefly three: (a) the development of basic economic infra-

structure, either as an economic activity of government, or of private utilities regulated by the governments of either the nation or the states; (b) the establishment of national banking to ensure that adequate supplies of low-cost credit are available through the banking system to foster useful investments in agriculture and industry; (c) a system of regulation of foreign and interstate commerce, to protect the useful enterprises of private entrepreneurs and to foster orderly commerce among the states.

"3) For all other enterprise, private entrepreneurs in agriculture, industry, and trade are encouraged to promote economic growth and technological progress as freely as possible."

This Hamiltonian system has been elaborated by LaRouche in both financial and other programmatic form for the U.S. government. It is a dirigist system that alone will reverse the real physical deficit in the U.S. economy, a deficit that is about to get worse than simply bridge collapses, and airplanes falling out of the and will lead to absolute shortages of the most basic foodstuffs.

Unfortunately for the world, LaRouche is the only individual who has prepared himself to not only develop these plans, but to be able to implement them in a time of unprecedented turmoil and crisis. No matter what the U.S. government says, the only real indication of a policy shift away from monetarist insanity, will be the release of LaRouche from prison.

Flying saucers near Moscow?

Lyndon LaRouche issued the following statement on Oct. 10:

On Tuesday, Oct. 10, the big news from Moscow is a TASS report citing the landing of a flying saucer near Voronezh, a rather famous place near Moscow. TASS admitted that the sighting was by children. However, I find the report of TASS rather credible. On the basis of my experience with what the Federal Reserve Board has done under Director Alan Greenspan, and with the knowledge that Greenspan has just arrived in Moscow, I wouldn't be surprised, with the advice he has given to the Soviet economy, that the Soviet population imagines that flying saucers have landed.



Mexican President is all show, no action

by Carlos Cota Meza

With the euphoria ended and the veil of official propaganda worn thin, the Oct. 2-6 visit of Mexican President Carlos Salinas de Gortari to the United States has turned out to be a poorly disguised attempt by the Mexican head of state to garner from north of the border the support that he has been unable to command at home. President Salinas returned to Mexico with little to show in the way of concrete economic agreements, but with the promise of future "integration" (read: annexation) of the Mexican economy into a North American Common Market. He arrived in Mexico City with the applause of a foreign congress ringing in his ears, but must face the real music when he delivers his first State of the Union address to his own national congress on Nov. 1.

In opening his address to the U.S. Congress, Salinas declared, "I come before you . . . to inaugurate an era of new friendship." This reference to a new era of bilateral relations, repeatedly inserted into all of Salinas's U.S. speeches, in no way represents a change in the strategy or appetites of would-be annexationists on both sides of the border. Rather, it expressed Salinas's fervent hope that nationalist opposition to such a strategy has finally been eliminated from the ruling Institutional Revolutionary Party (PRI).

It was during the six-year term of José López Portillo (1976-82) that the United States under Jimmy Carter's presidency openly insisted that "the United States will not permit the creation of a Japan on its southern border." This was explicitly directed against government efforts at the time to invest burgeoning oil revenues in a total renewal of Mexico's industrial plant and infrastructure. The presidency of Miguel de la Madrid, and now of Salinas, has been dedicated to eradicating those nationalist currents, and stopping Mexican development cold.

Now, ironically, voices are being heard inside the United States insisting that "Mexico's economic advance" be permitted. Susan Kaufman Purcell, vice-president for Latin American affairs of the Americas Society, evaluated Salinas's trip with the observation that "a poor and weak Mexico on its southern border is not in the interest of the United States." She went on, however, to clarify what a "prosper-