LaRouche warns of new depression turmoil ahead

by Chris White

The newest round of turmoil on the New York stock exchange, which erupted Nov. 15, marks the beginning of a new plunge into depression collapse. The new round of financial chaos is spreading internationally, into currency markets as well as international stock exchanges.

Inside the United States, where the media have made the "Dow Jones 30" the magic marker for the performance of the economy as a whole, it is very easy to overlook the realities that underlie developments in the psychotic arenas that are market trading floors.

In point of fact, during the month of October, Citicorp made official the insolvency of the U.S. banking system as a whole, with its announcement of record third quarter losses. Faked as they were, the losses confirmed that the collapse of the speculatively fueled real estate markets of the 1980s doomed Citibank—the nation's largest bank, with more than $200 billion in assets—along with all the other mega-banks, for they are all contaminated by the same psychosis.

Then, during the first week in November, the utter disaster of the government's quarterly debt re-funding operation signaled that the international money-lenders whom the U.S. has relied on for the last years also consider the U.S. credit system as a whole insolvent. During the middle of the effort to finance the debt, the Federal Reserve had to intervene, for the first time ever in the way it did, lowering interest rates to increase yields to drum up support for the debt sale.

Third, even according to the official reporting of U.S. government agencies, and the reports of manufacturing and trade associations, what is officially called "the recovery from recession," supposed to have begun during the second quarter, did not occur. On the contrary, the collapse of the economy, in terms of production, employment, sales and purchases, has been accelerating since September.

Fundamental policy shift is needed

These matters were addressed by Democratic presidential candidate Lyndon LaRouche, in a statement issued from the Rochester, Minnesota prison facility where he is being held a political prisoner. LaRouche, alone, had correctly forecast the stock market upheaval of October 1987, and the corresponding market developments of September-October 1989. Beginning in the spring of this year, he warned of upheavals looming ahead in the fall.

LaRouche explained, in outline, how his successful method of forecasting is based on economics, not market tea-leaf reading or behavior analysis.

In LaRouche's view, there are two considerations to keep in mind. First, the United States is now entering a new phase of an ongoing economic depression. Second, as long as the present policies, including the Gramm-Rudman zero-sum game budget-balancing policies, are continued in Washington under the influence of the "free trade" and deregulation policies of the past dozen years, this economy will continue to go deeper and deeper and deeper into depression.

The policies LaRouche's opponents for the presidency on the Democratic side typify the blunders that have been made. The reforms which they propose, are all worse medicine than the sickness. All of them are proponents of the same fascist fiscal austerity which has been the hallmark of the Reagan-Bush years. That was what Democratic Party proponents of such policies found out to their chagrin, in the recent state elections in Virginia and New Jersey, for example.

What is needed, LaRouche stresses, is a fundamental change in policy. "It was bad policy which caused this depression, bad policy trends over 28 years. Unfortunately, most of the politicians have the habits of 28 years of bad policy so imbedded in their mind, that they will react to new crises by trying to *repair* the policy which caused the problem in the first place. They are trying to help the disease, not the patient."

LaRouche's method of forecasting

So, from Bush, and the Congress, such is the knee-jerk reaction: "Now is the time to buy a car, now is the time to buy a house." The lunatics insist that there is no depression, only a collapse in "consumer confidence." So, they propose measures to revive "consumer confidence," like the Bentsen-Gramm $300-per-person tax cut, or the Domenici-Spector IRA reform, designed to permit withdrawals of funds from retirement accounts, if the funds are spent on automobiles and houses, or Bush's infamous proposal to lower interest rates on credit cards, so that card-holders will be more eager to flash the plastic. As Bush demonstrated, in his own way, each of these proposals, like the fiscal austerity packages associated with the Democratic gaggle of contenders, is going to make things worse. Each assumes that money is primary. Each is totally insane.

Compare this insanity to the way in which LaRouche makes his economic forecasts. He put it this way: "I rarely forecast stock market plunges and I really did not forecast this as a stock market plunge. Let me explain—not to explain myself, but to indicate—while the experience is fresh in mind, how this development has to be judged.

"I forecast the October 1987 stock market collapse in the spring of 1987. In 1989, in the spring and early summer, I forecast the probability of another financial crack affecting the stock markets, to occur at the beginning of the fourth quarter that year, that is the October-early November period. This year, in 1991, in the spring and summer, I forecast that we were looking for, first, another October-November period financial crisis coming out of the banking and real estate problems, and later, over the course of the summer, I predicted that we would look for the financial crisis probably in the second half of November, because the Bush administration had the means and would undoubtedly use them to try to delay the financial crisis by an additional month. That is essentially what happened.

"The stock market is much over-valued in popular opinion, or, shall we say, popular mythology, but it does reflect financial crises. By financial crises, I mean banking, insurance companies, real estate, and so forth."

LaRouche stressed that he makes economic forecasts, not predictions about the behavior of markets. "Now, how do I forecast? I've made a lot of economic forecasts, as opposed to financial forecasts. For example: I forecast in 1982, in the spring of 1982, the explosion of a debt bomb in the South and Central American debt, to occur not later than September. When I met with President [José] López Portillo of Mexico at the end of May 1982, I told him that we must expect the Mexican debt to blow out by the beginning of September, and he must be prepared for it. I wrote *Operation Juárez* that year, completing that for delivery, and it was delivered the first of August, in anticipation of that kind of crisis, outlining the measures to be taken."

LaRouche's record, over more than 20 years, bears it out. Back in the 1960s, when he used to teach a one-semester course on economics, his critique of the now-discredited Karl Marx, he used to tell people that we should look for a collapse of the Bretton Woods system, the world financial system. This occurred in August 1971, and the collapse continued over the period into the Azores meeting between then-President Richard Nixon, and selected European leaders, in 1972.

He forecast similarly, in November 1979, during the New Hampshire Democratic primary campaign for that year's presidential elections, that Federal Reserve chairman Paul Volcker's measures, the policy of radically increasing interest rates then going into effect, would send the U.S. economy into a recession by the beginning of February 1980. That was exactly what did happen.

He also forecast that the Volcker recession would persist as a financial and economic crisis at least into the summer of 1982. This it did. And after the beginning of 1983, he forecast that although the financial figures reported by the government would show growth, as far as the actual physical economy was concerned, that would be fake growth. Agriculture, industry, infrastructure, per capita real incomes, and so forth, would collapse by about 2% a year during 1983, 1984, and so on. And that's exactly what did happen.

On the basis of that record, LaRouche described his own approach to forecasting this way: "Generally, when I forecast our economic developments, which are calculable, based on continuation of certain policies, or changes in policy, then on that basis one can forecast certain things about financial circumstances—not precisely, but with fair approximation. And, sometimes, rarely, the stock market follows the financial trends. Often it goes the other way, for various kinds of reasons."

The stock market is for suckers

What LaRouche does is to indicate points of discontinuity in the economic and financial processes, particularly financial processes, which intersect directly the developments in marketing, credit, investment, and so forth. On this basis, he's been very successful, by calling the shots *only* when he sees them. When people ask him, "Do you make forecasts at other times?" he says, "I don't know what to forecast except the general trend, which I've already indicated."

LaRouche stresses that the current break in the stock market is not in itself so important. What is important is the financial crisis which underlies it. The stock market is a game for suckers! Look at the underlying issues of credit, consumer credit, business investment, and capital flows. Without the kind of change in approach which LaRouche freed from jail would bring, this economy is heading down into a bottomless pit.