Economic Paralysis Threatens: Time for '100 Days of Lyndon LaRouche'

by Paul Gallagher

March 14—The coronavirus pandemic has set off an economic slide into a worldwide recession, with a large number of industries and countries suddenly hit by simultaneous "demand shock" (loss of demand for production and services of all kinds) and, to a lesser degree, disruption of production and supply chains. Unlike the coronavirus itself, this recession can be turned around fast, if leading nations now mobilize to enact the policies—economic laws—Lyndon LaRouche put forward for decades.

The United States now needs President Trump—with whom Congress appears finally ready to negotiate—to lead the country in a new "Franklin Roosevelt 100 days" that turns the coronavirus attack into a rapid rebuilding of the U.S. economy's power, capacity and productivity. The needed actions were already indicated in LaRouche's "Four New Laws to Save the U.S.A. Now!" proposal six years ago.

This complete economic policy turn must occur quickly. The world's leading economies are threatened by the even worse danger of a complete financial meltdown. Fifty years of a monetary system that incentivized financial speculation over productive investment, capped by the past thirteen years of central banks constantly feeding masses of new-printed money into speculative financial institutions, meant the mere beginnings of the coronavirus recession were able to cause wild market panics.

EIR has reported for several years now that whereas the 2008 financial crash caused a deep recession, the next step would be that a recession would cause an even larger financial crash. The central banks created huge corporate debt bubbles "with no risk" because of continual money printing. Now the reality of physical economic shutdowns has intervened, and the financial system cannot take it. It must be reorganized, just as President Franklin Roosevelt started his "100 days" with a bank holiday and bankruptcy reorganization of financial institutions. We spell it out further below.

About midday on March 12, authorities at the Treasury and Federal Reserve, now in constant crisis communication, realized that the Treasury's auction of 30-year bonds was failing. Either the primary dealer banks were not going to buy the issue, or the interest rate was going to shoot skyward. The last time this failure to sell long-term U.S. government securities occurred, to our knowledge, was in 1861 just after the start of the Civil War; the event necessitated starting the issuance of Greenback currency by the Treasury.

Everett

President Franklin Roosevelt signing the Glass-Steagall Act on June 16, 1933.

The Federal Reserve responded today with an avalanche of "liquidity," provided and promised to interbank markets, which amounted, in effect, to the Fed directly buying and committing to buy $1.5 trillion in Treasury securities of all kinds. The quick pass through banks and hedge funds does not hide the fact that the Fed is effectively buying the securities. That is, it is issuing helicopter money to the Treasury for spending, which the Treasury otherwise would not—in this case, could not, raise.

The Federal Reserve's announcement on the morning of March 12 that it was flooding the markets trading in Treasury securities, said it was addressing credit and Treasury market stress. That was the flare which should have been seen for miles: Trading in U.S. government debt has been assumed for more than a century to be the one market in the world that is never stressed, always deeply liquid, with Treasuries always in great demand.

On March 12 the New York Federal Reserve Bank's limit on the one-day repurchase loan operation, to inject liquidity into the interbank loan market, was raised for the second time this week, now to $175 billion. In three simultaneous repo operations the demand was $270 billion, of which the Fed loaned $200 billion. This means the Fed substituted for a full 20% of the interbank lending market Thursday, which was missing, and another 5-6% of that market was demanded but remained missing. This is because investment banks and hedge funds speculating in interest-rate derivatives and corporate debt indexes are losing their bets, and reverse leverage—betting with debt and losing—is making their losses worse. So the biggest banks will not lend them 24-hour money and they must get it from the Fed.


Federal Reserve Bank

Jerome Powell, Chairman of the Federal Reserve Bank.

And this was all *before* the Fed launched its helicopter money at midday March 13.

The Federal Reserve's actions, going on full speed again this week, "promise" only a great inflation. It exposes today's almost complete dependence of the U.S. government, in selling its debt instruments, on investment banks, hedge funds and other speculative financial firms which now suddenly find themselves illiquid in a galloping credit crisis, and unable to support the Treasury market. It is a sign of the futility of this Fed helicopter money move, that it accomplished nothing but the day's 30-year bond sale. The Treasury interest rates remained higher, while the stock market remained far down again—a conjunction which, by the way, is "not supposed to happen." Only President Trump's press conference the following day, announcing a national emergency, produced a respite for stocks that afternoon.

The website *Zero Hedge* reported on March 12:

> Today's total liquidity injection, . . . the Fed has injected a total of $276.5 billion in liquidity. [But] what is ailing the market is not access to the Fed's balance sheet, but an overall recession that will collapse revenues, profits and cash flow, and which the Fed's liquidity injections are powerless to prevent. . . . Absent another emergency bailout attempt, we may very soon have a market—and bank—holiday.

Coronavirus Is a Fuse, Not the Bomb

Because of the immense bubble of corporate debt built since the 2008 crash, the coronavirus global slowdown/rolling shutdown of economic activity is triggering a credit crisis through the *threat* of bad-debt losses. Loan credit is now getting very difficult for many American, European and Japanese corporations to obtain, not to speak of developing nations' economies. This is not limited to small companies, and not only shale oil/gas basin operators like Halliburton (a very large company) and many smaller ones, but also, for example, Boeing, which is fully drawing down a large, long-term revolving credit line of $14 billion because it does not think it can borrow otherwise at this point.

Many corporations have lost a significant part of their markets due to suddenly decreased demand for consumer products and services of many kinds. And in the "bankruptcy basins" of oil shale, the decline in *demand* for oil, due to less economic activity overall, is keeping the price of oil drastically low where it was sent by the Saudi assault on oil prices.

The Organization for Economic Cooperation and Development (OECD) guessed in a report March 13 that $2 trillion could be knocked off global production in 2020; shale oil producers, aircraft manufacturers, and large machine producers like Caterpillar are experiencing dramatic drops in sales; port volumes at the biggest European ports are far below normal reflecting shrunken trade with China—where domestic demand is also very far from recovering.

Layoffs are growing in the United States in service industries and among port and longshore employees, but are not large scale as yet. It is worth noting that there was an increase in new job creation, and average real weekly wages rose unusually by 0.5% in February.

The latter was due to the CPI-U's dramatic undercount of inflation, which was compiled for the U.S. Bureau of Labor Statistics. However these figures do show actual income strength for some in the labor force.

The lack of credit quickly makes BBB-rated (just above junk) companies into "fallen angels" whose debt becomes junk, and makes the large number of "zombie companies" (those without enough operating net income even to pay interest on their debts) into bankrupts. *American Banker* magazine warned March 11 of bad-debt problems for the oil-field servicing lenders. The article didn't name any Wall Street giants, but rather mid-size regional banks like Comerica, Cadence Bancorp and other Texas banks.

Even financial economists now recognize that the U.S. non-financial corporate debt bubble is likely to blow up; see the "analysis" articles in the *Washington Post* on both March 10 and 11. It is variously estimated at from $11 trillion to $16 trillion in size, depending on what categories of debt are included; the "junk debt" part of it, about $4 trillion, is easily bigger than the subprime mortgage bubble which melted down in 2007-08. Stock market gyrations of thousands of points—and more often downward—are but a sidelight of this exacerbated credit crisis, which is actually capable of devastating the U.S. economy again as it did in 2008-10.

What Can, and What Should Not Be Done

In this situation, first, the big Wall Street and London-centered banks should not be bailed out; they must be broken up. If allowed, bailouts to these bank holding companies will, again, be passed along to their thousands of speculative units, client hedge funds, investment banking units, etc., along with loans from the big banks' deposit base. Restoring the Glass-Steagall Act will put these speculative units out in the cold while protecting the large lending bank units from themselves—they will have to sell off their speculative units quickly, stop lending to them, and let them fail. Retirement funds will have that short time to get out of these speculative investments.

Interest rates should not be lowered further; they should be raised, effectively split into two tiers with lower rates for commercial, industrial and household lending by banks. Glass-Steagall will almost immediately cause interest rates for short-term speculative lending to rise sharply; they are already rising slowly. The Fed's overnight lending rate to banks should stay low, but not as low as presently. The desperate hedge funds trying to borrow hundreds of billions every morning from the New York Fed have to be allowed to go dry.

At least equally important, the President and Congress have to cooperate to create a *capital budget* for new infrastructure construction. This should be particularly focused initially on building new hospitals and other public health facilities; bringing more high-tech companies into producing stockpiles of medical devices and protective equipment; and building the additional electricity capacity and clean water supplies this expanded hospital/public health system needs. There is plenty of other new infrastructure needed as well. NASA's Moon-Mars mission should be accelerated and expanded to draw in more participating companies and universities, and space medicine research and development tapped for the fight against the coronavirus pandemic.

These needs extend internationally, especially in developing countries, and so a summit of the leading industrial and technological nations is needed to launch this public health-building worldwide. That will add to U.S. capabilities in the area of providing small modular nuclear reactors, and should involve an international crash program for fusion power, as Russian President Vladimir Putin proposed last July.

New Federal bonds, construction bonds, have to be issued for this capital budget, whether by an emergency nationalization of the Federal Reserve, or—more quickly—simply by creating a Reconstruction Finance Corporation (RFC) backed by the Treasury. These bonds should bear interest rates higher than current Treasury long-term rates, and include small denominations. This will attract investment by the public, prevent further collapse of Treasury interest rates, and encourage productive bank loans by having the RFC participate in them.

Neither companies' nor American workers' primary need is more money; they need *new demand* for their production, their construction, their invention. Without that, lots of small business loans won't be used.

Some Federal taxes should be *raised*, not lowered, capital gains taxes, for example. Dedicated revenue will be needed to allow the Treasury to guarantee short-term interest on the construction bonds if those issues are initially in the range of $500 billion to $1 trillion. It should be remembered that the 1935-75 period of the most solid growth in U.S. labor productivity, real wages and income equality, along with the most rapid technological advances and new industries, was accomplished with Federal tax rates of nearly every type far higher than today, and with bank lending rates in the range of 3 to 6%.

As University of Minneapolis epidemiologist Michael Osterholm said March 11 in a podcast, "Start now, but we're not going to fix it *now*."