LaRouche Called It: 'Hellish' September for Global Economy

by John Hoefle

The month of September was a wake-up call for all those citizens and policy-makers who have been merely watching, rather than joining, the LaRouche movement. September was, indeed, the "hellish" month for the global economy that Lyndon LaRouche said it would be, and the prospects for October are even more ominous, as the global economic system continues to disintegrate. LaRouche was right, and all those who talked of rebounds and recoveries were wrong. Again.

"The market is disintegrating. This has been going on at an accelerating rate over the past two months," 2004 Presidential pre-candidate LaRouche said on the weekly LaRouche Show webcast Aug. 24. "September is going to be a horror-show, on the international financial markets. It's going to be a horror-show for bankruptcies throughout the United States. We're looking at mass layoffs, with no return from them in sight, no recovery in sight."

"September is going to be a hellish month," LaRouche reiterated on Aug. 31, in his keynote speech to a conference of supporters in Northern Virginia. "We're not in a simple depression, we're in something much more serious. We're in what is called a general breakdown crisis."

'This Is a Crash'

September delivered LaRouche's forecast, with plunging markets which made the third quarter (July through September) the worst quarter for U.S. stock markets since the fourth quarter of 1987—a quarter which included the October 1987 market crash. *EIR* estimates, based on an extrapolation of Federal Reserve figures, that the value of U.S. corporate equities fell some $2.3 trillion during the third quarter alone, of a total loss of around $9 trillion since the market began falling in 2000. That is equivalent to 90% of the $10.4 trillion U.S. GDP; the markets have wiped out nearly a year's value of U.S. goods produced, services rendered, and statistics puffed.

"This is a crash," was the public evaluation of Deutsche Bank chief economist Norbert Walter on the last day of September. Thomas McManus, chief strategist of Bank of America Securities, said "This is the worst we've seen in years. But you can always go lower. The only thing that will stop you is zero." As the U.S. Federal Fiscal Year 2002 ended as well, Sept. 30, with a budget deficit of at least $160 billion, one analyst was quoted in the *Washington Post* with the wry "This is a tombstone, not a milestone."

The Down Jones Industrial Average closed the quarter at 7,592, its first trip below 7,600 since the August 1998, near-meltdown of the global financial system. The Dow is now down 35% from its high of 11,722 in January 2000, and that slide is accelerating; the Dow fell 18% in the third quarter, and 12% in September alone, and that's for what is perhaps the most heavily manipulated stock market index on the planet. The other major U.S. indices are in even worse shape, with the Wilshire 5000 and the S&P 500 both off 47% from their peaks and the Nasdaq Composite off 77%. The Nasdaq led the group with a 20% decline in the third quarter and an 11% decline in September, while the S&P 500 fell 18% and 11%, respectively, and the Wilshire 17% and 10%. This, in a quarter in which the so-called experts had predicted we would be well into the mythical recovery.

Other major world stock markets plunged similarly. In Germany, the Deutsche Bourse said it would phase out the "New Economy" Nemax-50 Neue Markt, which hit an all-time low on almost every trading day in September and has lost 97% of its value since its March 2000 peak. The Frankfurt Xetra DAX is not doing all that much better, down 65% from its peak after declines of 36% in the third quarter and 25% in "horrible" September. The Paris CAC 40 is down 59% from peak, having dropped 28% in the third quarter and 17% in September; while the London FTSE 100 is off 46% from its peak, with plunges of 20% in the third quarter and 12% in September. Even the Japanese Nikkei 225, which has fallen 55% from its 2000 high, fell 11% in the third quarter and seems poised to drop below 9,000; the Nikkei's all-time high was 38,917 on the last day of 1989.

This relentless drop in global stock markets will continue, as corporate profits drop and institutions and individuals are forced to liquidate their portfolios in order to try to preserve their capital. The Plunge Protection Team might be able to manipulate the occasional bump in the market—like the Dow's 346-point gain on Oct. 1—in order to try to head off a full-fledged panic, but they do so at the danger of blowing out the gold market and the derivatives banks. Lately, the Plunge Team seems to be reduced to producing minor upticks in otherwise plunging markets, similar to what occurred Sept. 27. On that Friday, with the Dow down 301 points just moments before closing, one or more buyers stepped in to cut the loss to 296 points, allowing the Dow to close at the psychologically less scary level of 7,701. Presumably, closes such as 7,001, 6,001, and 5,001 are in the planning stages.

Financial Blowout

Worldwide, well over $10 trillion in stock market values have been wiped out over the past two years, and those losses are still percolating through global balance sheets; as values continue to vaporize, the effects will grow, laying waste to corporate and individual balance sheets.

The effects can be seen in the quarter-by-quarter drops in the reported profits of the big banks, where layoffs and other forms of downsizing have become the order of the day. Morgan Stanley, for example, reported Sept. 19 that its year-over-year profit for the third quarter was down 13%, its eighth consecutive quarter of lower profits; similarly, J.P. Morgan Chase warned that its third-quarter results would be much worse than its second quarter. Still, these banks continue to report profits, as the derivatives giants continue to count hundreds of billions of dollars of worthless assets as if they still had value.

In addition to mountains of overvalued assets and uncollectable debts, these new "financial services" giants are also seeing their business evaporate, particularly on the investment banking side, where the once-lucrative initial public offering (IPO) and mergers and acquisitions (M&A) businesses have nearly ground to a halt. IPOs were all the rage during the Internet boom, generating billions in fees for the investment banks and trillions in losses for the suckers who bought the stocks. Only nine IPOs were launched in the third quarter of 2002, the lowest number since the first quarter of 1980, according to Thomson Financial. Even worse, 90% of the value of those IPOs came in one deal, Tyco International's spinoff of CIT, a result of Tyco's own financial and legal problems, which include the indictment of former CEO Dennis Kozlowski.

The merger boom has also dried up; most of the deals in recent years were paid for by the stock of the buyer, a deal only the most desperate will accept these days. The value of mergers worldwide fell 37% in the third quarter compared to the third quarter of 2001, with $284 billion in deals reported; U.S. deals fell 42% to $144 billion. As with the Tyco deal, many of the transactions that do happen, occur because the seller is desperate for cash or to unload debt it can't pay.

Overall, the manic boom of recent years has given way to funereal gloom, as the focus shifts from making money to protecting it, and cannibalization, prosecution, and scapegoating become the order of the day. The bubble is collapsing, and the insiders know it, although that hasn't stopped them from trying to lure the suckers back into the market with their phony rebound talk. Nobody ever got rich throwing money down a rathole.

Physical Economy

While an enormous effort is being made behind the scenes to hold the Humpty Dumpty financial sector together, the real economy continues to collapse. Exemplary is the state of the U.S. transportation grid, where the West Coast ports are closed to freight due to a lockout against dockworkers, the already woefully inadequate national Amtrak passenger rail service is facing severe cuts, and the U.S. airline industry is largely bankrupt.

At a time when rebuilding the transportation grid is a crucial aspect of economic recovery, the House Appropriations Committee is attempting to gut Amtrak's budget. If passed, the bill would force Amtrak to shut down major interstate train routes, all but ending passenger rail service to Arkansas, Kansas, Texas, New Mexico, and Arizona.

The workforce is also taking a beating, as indicated by the high level of corporate layoff announcements. There were 269,090 layoffs announced in the third quarter, pushing the nine-month total to just over 1 million, according to Challenger, Gray & Christmas. That's an annualized pace of 1.35 million—below the 9/11-spiked record 1.96 million registered in 2001, but double the 613,000 layoffs in 2000 and the 675,000 in 1999. The running average of new claims for unemployment during September was well over 400,000 per week, a level which is a marker for contraction of the U.S. economy.

LaRouche or Bust

The country is quickly going to Hell in a handbasket, while Congress tries to cut the infrastructure budget, Sir Alan Greenspan defends the derivatives disease, and the Bush Administration pushes for war. Washington has no solution, but Lyndon LaRouche does. Either we flea-dip the speculators and begin implementing LaRouche's recovery plan, or the horrors of September will soon seem like the good old days.