

The LaRouche Democratic Campaign

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Global Financial Crisis Predicted for October 1987

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Leading European financial officials have warned my associates, that we should expect to see the beginning of the world's biggest financial crash by October of this year. My comment on that forecast: It might not occur in just that way, but, if the Reagan administration continues its present policies, it is certain that the world's economic situation will become much worse than it is today over the summer months.

I don't welcome this worsening of the situation. It will cause enormous suffering, for one thing. Also, in the defendant's motion which the Soviet government submitted to a Paris court last Friday, Moscow makes implicitly clear that it will react with efforts to assassinate me as soon as possible, for fear that such a crash might bring me at least close to gaining the 1988 Democratic presidential nomination.

Nonetheless, in history, usually, only the eruption of terrible events brings governments and peoples to their senses. It is when the bombs drop on London or Pearl Harbor—or, something like that—that the English-speaking peoples seem to come out of foolish dreaming, and awaken to reality. It is probable that only a growing sense of the reality of the AIDS menace, combined with a financial disaster, combined with awakening to the reality of the Soviet threat, will get the majority of U.S. citizens out of their present wishful stupor before their TV sets.

Whether the great financial crash of 1987 erupts by October, or later, will depend upon what leading governments do at the international monetary "summit" held in Venice on June 12. Those bankers who are expecting a crash by October, make that forecast on the basis of assuming that the U.S. government's role at Venice will be a continuation of the foolish international monetary policy which the Reagan administration has followed over the past five years. In that case, a crash in October would not be absolutely certain, but it would be, at least, a very good guess.

This forecast is based on the observation, that even now, President Reagan is clinging stubbornly to belief in a "Reagan economic recovery" which never actually occurred. The Pres-

ident believes in that non-existent "recovery" for ideological reasons; he wishes, desperately, to believe that his economic policies have been successful ones. As long as the official line of the administration is to stick to the "successful economic policies" of the past five years, the Reagan administration is likely to stick to those policies. This would turn the Venice "summit" into a disaster, destroying the last bit of confidence in the U.S. dollar in international financial markets. Under those conditions, an October crash would be very probable.

Take, for example, one of the most recent developments on the international financial markets. The way in which a small loan was granted to Egypt by the international bankers' club called the "Club of Paris."

Egypt was blackmailed into signing what is called an "IMF letter of intent." Egypt was told, all credit would be cut off, unless it signed that letter. The letter required the consent of the Egyptian government to devaluing its currency, and shutting off the highly successful land-reclamation projects which are the only hope for a basic solution to the problems of Egypt's economy. Reluctantly, Egypt signed, and was then promptly given new lines of credit. Egypt received, however, much less than it lost by devaluing its currency, the pound.

This has been the pattern of U.S. support for IMF "conditionalities" policy. The key margin of increase of the U.S. trade-deficit, has been the collapse of U.S. exports to, and increasing imports from, developing nations which have submitted to the terms of such "conditionalities." The "conditionalities" have, in each case, turned a poor debt-repayment possibility by these countries, into an impossible one, in each case.

This affects the internal economy of the U.S. directly. Take for example, the Reagan administration's reaction to the drop in OPEC petroleum prices.

Continued production of U.S. petroleum requires a price of about \$24 a barrel. Without that U.S. petroleum production, we are dependent upon increasingly uncertain flows of cheaper oil from the Persian Gulf's war-zone. Instead of putting a price-triggered import charge on imported petroleum, to defend do-

mestic petroleum production, the U.S. government decided to go with dependency on cheaper Persian Gulf oil. This, combined with the U.S. Agriculture Department's policy of collapsing U.S. agriculture, was the cause of the financial crisis among the regional banks of Texas, Oklahoma, Louisiana, Wyoming, Montana, and so forth.

Our government's follies in international monetary policy usually come home to cause suffering inside the United States.

A "zero-economic-growth mafia" inside the IMF and World Bank bureaucracies, acting with U.S. government support, has been collapsing the internal economies and world trade of both developing and Western industrialized nations, while piling up the financial obligations of both developing and industrialized nations. We have been increasing nations' obligations to pay debt, while destroying their means for paying that debt.

Inside the U.S. itself, one of the mechanisms which has been used to prop up apparent consumer purchases, has been a process of increasing average consumer debt, while average consumer income fell. This has been the leading basis for President Reagan's wishful belief in an economic recovery—consumers going deeper into debt to maintain ordinary levels of consumer spending, while average, after-inflation levels of household income have been falling. Now, the growth of consumer debt has reached approximately a saturation-level.

Meanwhile, the prices on the world's stock exchanges have zoomed into the financial stratosphere. Present stock prices are way, way above anything justified by the price-earnings ratio. The bond markets have been sliding down for weeks. About 1,500 U.S. banks are in bad trouble, and more than 200 in immediately serious trouble. Any significant rise in interest-

rates could sink as much as half of the savings institutions, and could blow out the banking system generally. If this inflated financial structure collapses significantly in any one sector, all sectors could blow. Any collapse would reveal quickly, that most of the values of financial paper depend upon mere "hot air," such as so-called "junk bonds" or similarly dubious book-keeping accounts.

When the system blows, more than half of the more than \$13 trillion of hard-core debt-obligations could blow, more than half of this inside the United States.

The problem is approximately twenty years of bad monetary and economic policies by all Western industrialized nations excepting Japan. (We sometimes complain that Japan is being "unfair," because it refuses to be as stupid as the governments of other industrialized nations.)

Now, during recent weeks, many of the world's leading bankers have awakened to the seriousness of the situation. Except for the governments of Japan and of France's Prime Minister Jacques Chirac, the governments, and political party leaderships of the other Western industrialized nations are still as much in dreamland on the economic situation as they are on the subject of the AIDS pandemic.

Technically, on any day that the U.S. government came to its senses, this crisis could be brought under control. The crash of 1987 is not inevitable. However, unless the governments come to their senses, it is inevitable. During the Venice monetary "summit," and during the weeks following that, we shall see whether the crash occurs as leading European bankers now suspect it will.

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