

Preparing for the next shoe to drop

by Chris White

The wipe-out of some one-and-a-half to two trillion dollars worth of equity in U.S. markets over the period since Aug. 25 hasn't been enough to teach the ayatollahs of U.S. economic policy, including Alan Greenspan at the Federal Reserve, or James Baker at the Treasury Department, too much of anything. The two hated hatchetmen are now exhibiting the same kind of obsessional psychosis as Iran's mullahs, following the prescripts in their sacred texts, and preparing for further, greater disasters to come just ahead.

That greater disaster may, according to U.S. Democratic candidate for President Lyndon LaRouche, be another 6.5 quake on the financial Richter scale, as was Wall Street's more than 500-point collapse on "Black Monday," Oct. 19, or, depending on how stupidly they insist on continuing to act, and other political circumstances, it could also be the projected "Big One"—the 8-10 shock on the scale, that would bring down approximately half of the remaining \$15 trillion worth of debt obligations, of one sort or another, floating around in world markets.

LaRouche, who in late May predicted the October developments, thinks the "Big One" could erupt in early November, but could also be delayed, perhaps into December or January, but certainly not beyond the end of March.

Routine official malfeasance

The typical knee-jerk reactions that have prevailed within the United States since Black Monday would lead one perhaps to select the earlier part of that timeframe rather than the later. But there again, the obsessional features of the Baker-Greenspan approach aren't the only functions at play.

The knee-jerk was the psychological warfare reaction known as a cover-up. U.S. markets, since Black Monday, haven't been quite the same. Only one year ago, "insider traders" were routinely being dragged in handcuffs from their trading offices by U.S. Attorney Rudolph Giuliani's arresting

teams, for doing the kind of things that the Federal Reserve and regulatory agencies have insisted become routine in the days since the crash. Lawsuits, whose subject will be that kind of criminal fraud, are already being filed against trading houses and regulatory agencies, for the indicated type of money-losing malfeasance.

Indexes like the fabled Dow Jones, are being routinely rigged to create the appearance of recovery. Whole markets are routinely shut down for hours at a time. Stocks of major corporations, appearing as sales, are routinely kept off the markets, until buyers are found, or as a last resort, the issuing corporation is persuaded to swallow the sale itself. The Federal Reserve, implementing Greenspan's Oct. 20 promise that the Fed would make credit available, is purchasing such corporations' bond issues to make such repurchases possible. That is beyond the dipping into operating funds, which according to brokerage houses, is also going on.

Overall, that technique, well-known to New York election officials in cases of disputed results at the polls, the "FUBAR" principle, has been brought into play to cover up the trail. By the end of the week, it was being said that no one really knew what had happened earlier. The volume of sales had outstripped the clearance system's capacity. Dealers were not able to say who had sold what to whom, or what prices had been at the time of the transaction.

In the footsteps of Herbert Hoover

This has all been seen before, in the final weeks of 1929. So has the equally insane political so-called reaction to the crash. The administration's insistence that economic fundamentals remained sound, even if Joe Biden was not involved, was still lifted almost word for word from the speeches of the Herbert Hoover. Demands from financial circles, in Europe, Japan, and the United States, for "structural adjustments," including deep budget cuts and tax increases, overlooking

the reality that about \$100 billion was knocked out of the Treasury's revenue stream for the current fiscal year, also echo the same insanity that was implemented between 1929 and 1931. Even the announcement by poor old President Reagan, of the formation of an independent commission, under George Bush's associate Nicholas Brady from Dillon, Reed, was a repeat of a commission formed by Congress after Black Friday in 1929. That competition to emulate the ill-fated Hoover will produce just what it did before: disaster.

Except this time it will be worse. In 1929, the United States still exported net some 10% of its total output on an annual basis. Now, the United States is dependent on imports for some 25% of the combined consumption of its industries and households.

Those who insist on following in the footsteps of Hoover are blind to the simple reality that the Reagan administration's touted economic recovery never happened. It was produced by the application of the same ruthless methods of fraud, deceit, and psychological manipulation that have been employed since "Black Monday" to create the appearance that all is returning to normal.

It isn't. The United States has been leading the world into a new great depression since 1980: 1) Industrial production, in market basket terms, is below the levels that prevailed in the late 1960s-early 1970s; 2) household consumption levels have fallen correspondingly; 3) infrastructure suffers an estimated \$3 trillion deficit accumulated since the early 1970s.

The cultivated hedonistic lifestyle of the "yuppie" generation has appeared to disguise the second of these. The proliferation of service industry employment, subsidized by loot and tribute extorted from U.S. trading partners in the developing and advanced sectors, has offset the decline of the first.

Since 1980, the United States has economically functioned at below the break-even levels necessary to ensure continued economic activity. There has been no net profit accruing to productive U.S. economic activity. Onto that collapse has been added, at an accelerating rate since the summer of 1982, some \$14-15 trillion of debt, the by-product of Donald Regan's "innovative" financial practices. This is reflected in the approximately \$7 trillion of "securitized" banks' and investment houses' off-balance-sheet liabilities, the proliferation of all forms of consumer-related debt, and of course, the growth of the so-called "twin deficits," the federal government's deficit, and the trade deficit.

As far as the powers that be are concerned, this has nothing to do with anything. Until "Black Monday," it couldn't even be discussed, without dire threats of horrible consequences directed at whoever happened to bring it up. Hoover's mind didn't stretch so far either.

The debt bubble began to burst in early August, when, under the direction of the Bank for International Settlements, central banks began to selectively increase rates of interest on certain classes of paper. The combination of rising interest

rates, and an actually falling dollar, set off a chain-reaction liquidity squeeze, in which collapsing bond markets efficiently began to vacuum available funds out of equity markets. The results were seen in the second and third week of October.

The economic ayatollahs learn from their sacred texts, among them Milton Friedman's contribution to the National Bureau of Economic Research's study of the 1929 crash, that the Federal Reserve did not respond to that crash quickly enough, or with a sufficient volume of credit. They therefore make hyperinflationary volumes of credit available to the banks and corporate customers whose demise would indeed signal to the world what economic fundamentals in the United States are really like; thereby doing what the textbooks say has to be done to avoid a repeat of 1929.

And they thereby ensure that it does happen. The lowering of interest rates will not set off a rally in bond markets, it will increase the volume of paper in circulation chasing diminishing returns. It merely functions as a prelude to the next level of unraveling of the financial system, a prime target for which would be the Eurobond market, centered in London. That's where the banks and investment houses go to buy and sell the paper known as off-balance-sheet liabilities, and play on the interest rate differences between London and other markets to do so.

Effectively, bond market interest rates in London set a floor below which U.S. interest rates cannot fall, without triggering a massive capital outflow from the United States and a dollar crisis to boot. Actually, U.S. interest rates do not have to fall to that level to accomplish the same.

It may well be that the fallout of the disaster around the world, centered in the collapsed option-indexed futures markets of Hong Kong, Amsterdam, London, and Chicago, has already destabilized a sufficient volume of funds to ensure that as settlements come due, the collapse begins to spread rapidly to the money markets, and then to the real estate markets, which effectively, if indirectly, underlie the money markets. In the United States, the futures markets fell about 20% more than the equity markets, to a level of about 1200 on the old Dow. And the United States is probably not atypical of the cited collapsed markets.

In that case, the Big One, so-called, would most likely come earlier. Or it may be that that hole can be filled by the methods adopted so far by the Baker-Greenspan team. The "Big One" might be delayed.

Either way, if people, inside or outside the United States, continue to act out the intent of the psychological warfare coming from the Baker-Greenspan team, and thereby choose to follow in the footsteps of Hoover, they will also be choosing the course which makes the advent of the "Big One" more or less a certainty, whenever, in the period between now and March, it does actually hit. The old prescriptions and texts are capable of producing nothing else, no matter who demands they be implemented.