

# EIR

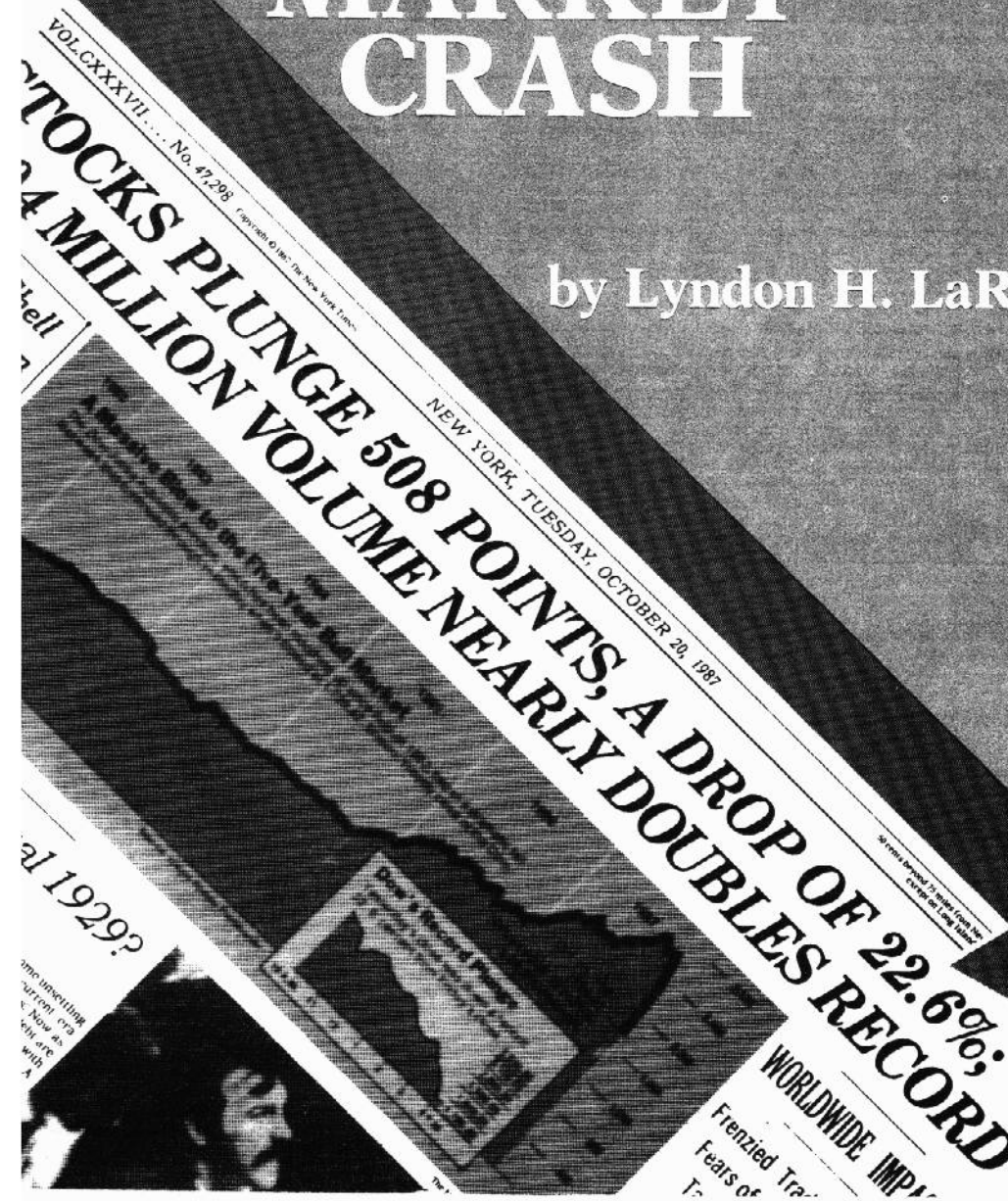
EXECUTIVE INTELLIGENCE REVIEW

# HOW TO SURVIVE THE WORLD'S BIGGEST STOCK MARKET CRASH



by Lyndon H. LaRouche, Jr.

\$1



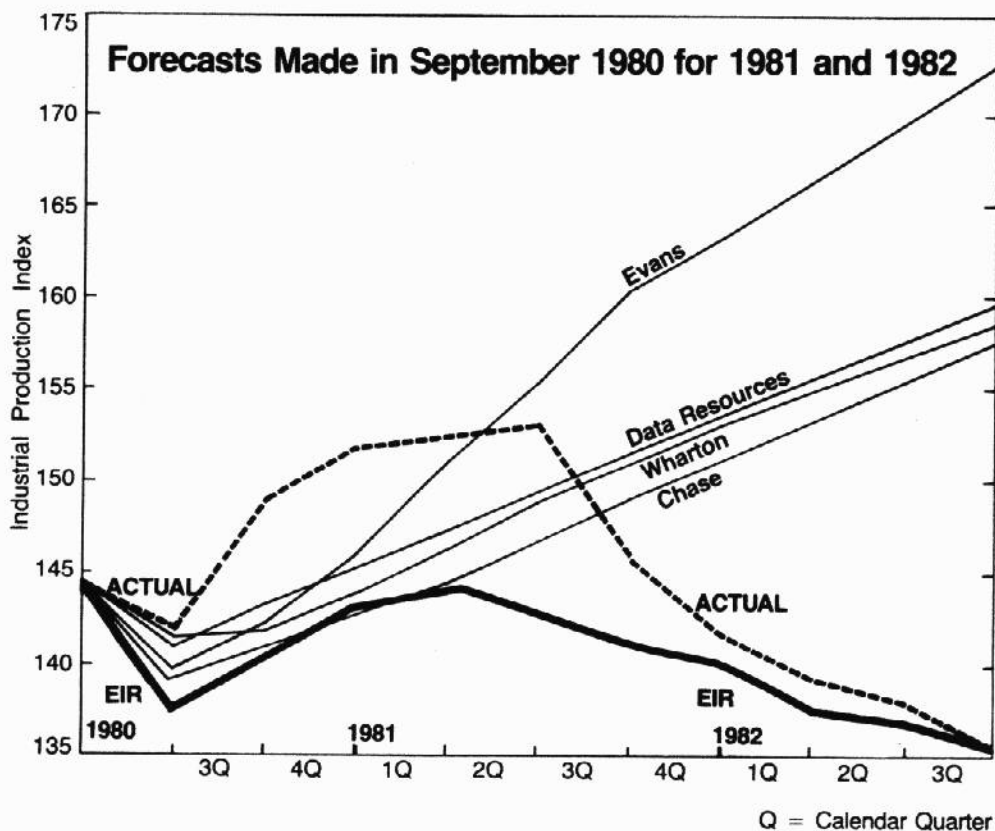
# EIR

## IS THE POLICY-SHAPERS' POLITICAL

**INTELLIGENCE NEWSWEEKLY**, a 72-page magazine unlike any other you have read. Leading economist and political figure Lyndon LaRouche is a contributing editor. EIR tells the truth, no matter whom it may offend.

When the Federal Reserve's Paul Volcker imposed loan-shark interest rates back in 1979, EIR said it would bring on a major industrial collapse. EIR was right, every other forecasting service was wrong. And when President Reagan proclaimed an "economic recovery," EIR said he was all wet—and the October 1987 stock market crash showed EIR was right again.

## How EIR Predicted The Volcker Collapse



**Subscribe to EIR!**

See inside back cover.

---

# How to Survive The World's Biggest Stock Market Crash

by Lyndon H. LaRouche, Jr.

October 28, 1987

"Black Monday," Oct. 19, 1987, will be remembered by future generations as the day on which the first big wave of the biggest financial crash in history hit markets in Tokyo, Hong Kong, London, Frankfurt, Paris, Milan, New York, and Chicago. An entire way of life, to which many of us have become accustomed over the past twenty years, is ending. The practical question is, how do we begin a new way of life, better than the old? How do we begin a real economic recovery?

That evening, President Reagan repeated almost word-for-word what President Hoover said after the Crash of 1929. The leaders of the Congress, and most of the major news media, said almost exactly the same foolish things the leaders of the Congress, and most of the major news media had said after the Crash of 1929.

Forget what the President, the leaders of the Congress, and brokerage houses are saying. Forget the wishful dreaming of many of your friends and neighbors. Compare what such people are saying today with famous quotations from people in the same positions back in late 1929. At the beginning of every financial crash in modern history, frightened people have tried to talk themselves into believing, "This really isn't happening."

Back in 1929, that sort of wishful talk made the Great Depression of the 1930s much bigger, much worse than it would have been if people had had the courage to face the reality of the 1929 crash right at the beginning. Instead of

acting to organize a real economic recovery in farming, manufacturing, and capital improvements of infrastructure, the politicians and bankers fumbled, as the President and others are doing today, waiting and hoping for a miraculous recovery in financial markets.

The real danger is that people today—perhaps your neighbor is one of them—will react, "I'm going to sit tight and wait for the recovery which all my friends and I are sure is coming pretty soon." It is like people in a sinking ocean liner saying, "I am going to sit here, keep calm, and wait for things to get better," when they should be boarding the lifeboats.

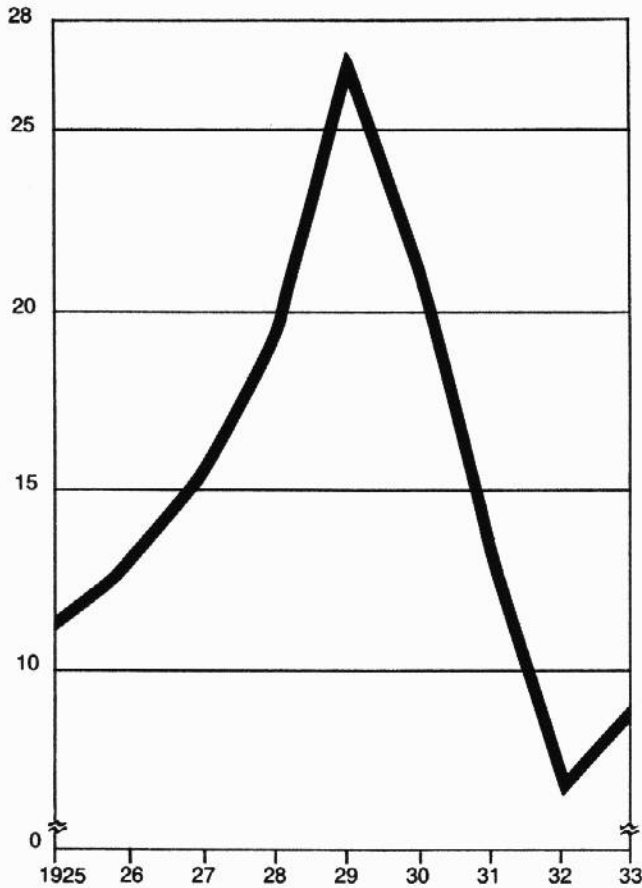
This is time to face the facts, and to act accordingly. We are sliding very rapidly into a situation far worse than Franklin Roosevelt faced at his 1933 inauguration. We must not wait as long as he did, to organize a real economic recovery. We must act together, to push Washington into dumping most of its present economic, tax, and monetary policies; we must push Washington into organizing a genuine economic recovery out of the worst financial collapse in modern history.

## 1929 and 1987

Let us run through the most important facts about this crisis, and after that, turn our attention to what went wrong, and what must be done.

First, a glance at the accompanying sets of charts, showing

**Standard & Poor's Index of common stock, 1925-33**



the pattern of trends leading into the October 1929 crash, and also showing how the crash of 1929 slid into becoming the deep depression of 1932. The point is, we are on the same kind of roller-coaster downturn now, but worse, that our fathers and grandfathers were on from 1929 into 1932.

We are in the early weeks of what leading European bankers have been warning for months would hit this au-

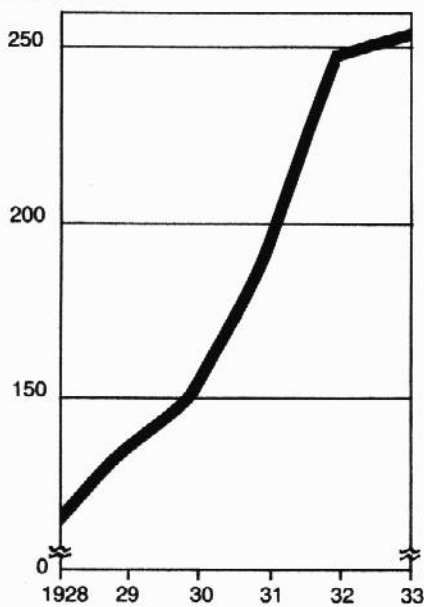
**Decline of commercial banks, 1927-33**

Year	Number of Banks	Assets and Liabilities (millions of \$)
1927	26,650	58,973
1928	25,798	61,563
1929	24,970	62,442
1930	23,679	64,125
1931	21,654	59,017
1932	18,734	46,304
1933	14,207	40,511

**Bank suspensions, 1929-33**

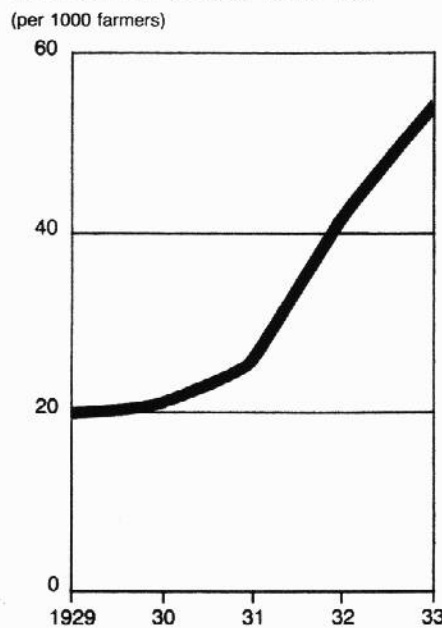
1929	659
1930	1,352
1931	2,294
1932	1,456
1933	4,004

**Non-farm real estate foreclosures, 1929-33**  
(Thousands)



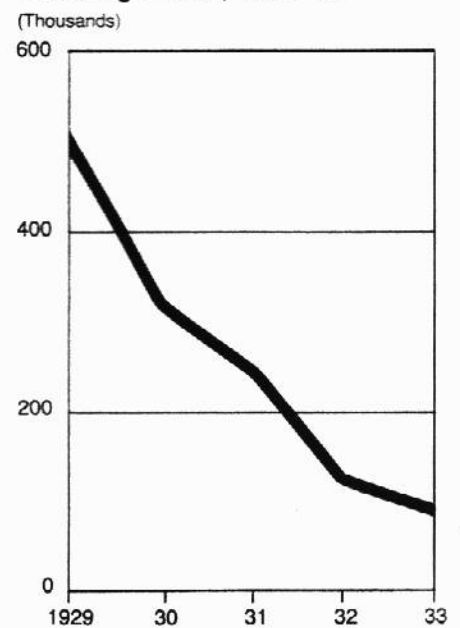
Source: U.S. Dept. of Commerce

**Index of farm foreclosures and forced sales, 1929-33**  
(per 1000 farmers)



Source: U.S. Dept. of Agriculture

**Housing starts, 1929-33**  
(Thousands)



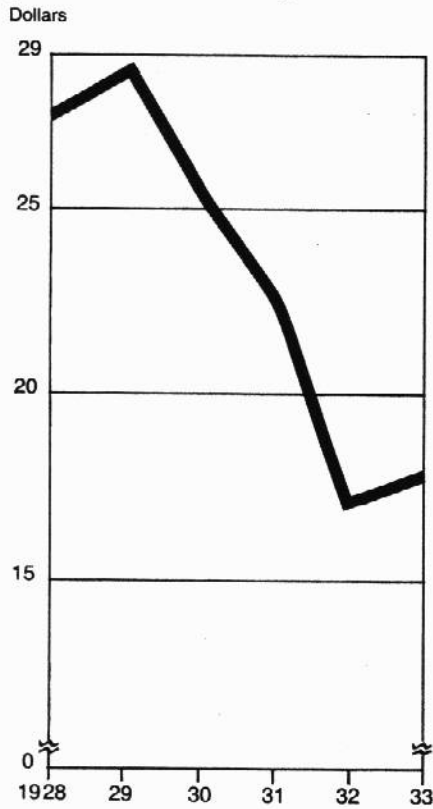
Source: U.S. Dept. of Commerce

tumn: They called it "the biggest worldwide financial crash in history." Over the rest of this year, and into 1988, stock markets and all of the glamorous real-estate investments will slide down to levels much lower than all but a tiny minority of experts would believe possible. Soon enough, many investors will be referring to the Dow Jones Index as the "Davy Jones Index." Worldwide, somewhere between \$10

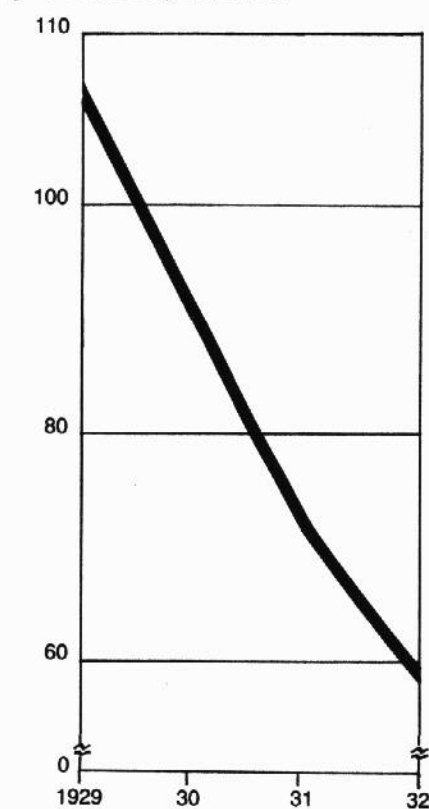
and \$20 trillion of financial hot air will be let out of the markets, before the downward slide ultimately meets something which feels like the bottom.

Here is a short list of famous quotations from 1929-32, compared with some quotations from people in the same positions issuing statements during the week following "Black Monday" of 1987.

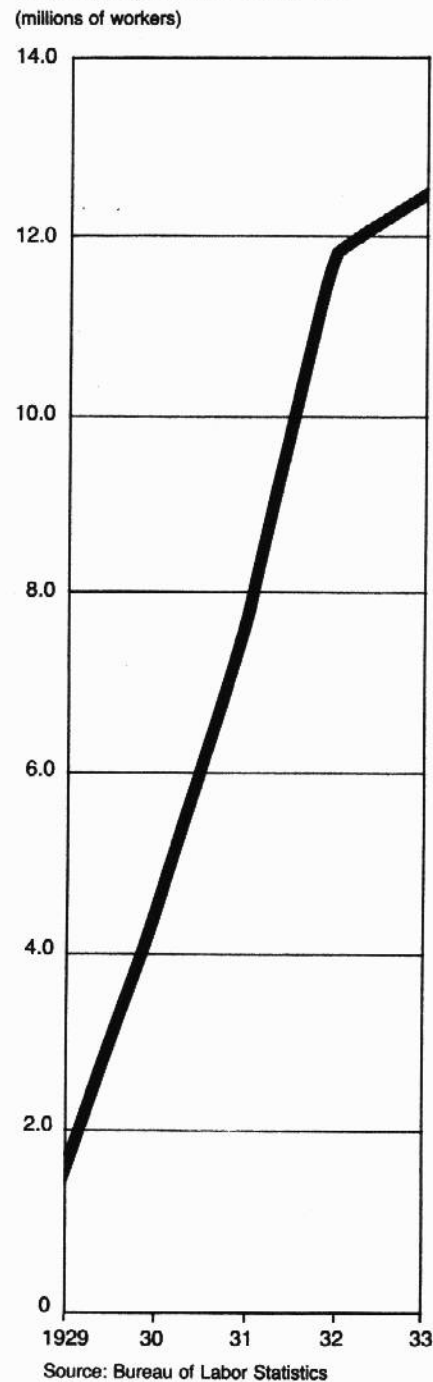
### Average weekly earnings of production workers, 1929-33



### Index of industrial production, 1929-32



### Estimated U.S. unemployment, 1929-33



### Exports and imports of merchandise, 1929-41

(thousands of dollars)

Year	Exports	Imports	Excess of Exports
1929	\$5,240,995	\$4,399,361	\$841,634
1930	3,843,181	3,060,908	782,273
1931	2,424,289	2,090,635	333,654
1932	1,611,016	1,322,774	288,242
1933	1,674,994	1,449,559	225,435
1934	2,132,800	1,655,055	477,745
1935	2,282,874	2,047,485	235,389
1936	2,455,978	2,422,592	33,386
1937	3,349,167	3,083,668	265,499
1938	3,094,440	1,960,428	1,134,012
1939	3,177,176	2,318,081	859,095
1940	4,021,146	2,625,379	1,395,767
1941	5,147,154	3,345,005	1,802,149

Source: U.S. Department of Commerce, Bureau of Census and Bureau of Foreign and Domestic Commerce.

---

# What They Said in 1929

**Oct. 22, 1929. Professor Irving Fisher of Yale:**

"Even in the present high market the prices of stocks have not caught up with their real values. Yesterday's break was a shaking out of the lunatic fringe that attempts to speculate on margin."

**Oct. 24, 1929. Charles E. Mitchell of National City Bank:**  
"This reaction has badly outrun itself."

**Oct. 24, 1929. New York Times:**

"Confidence in the soundness of the stock market structure notwithstanding the upheaval of the last few days was voiced last night by bankers and other financial leaders."

**Oct. 24, 1929. Thomas W. Lamont of J.P. Morgan and Co.:**

"Prices of many important issues had been carried down below the levels at which they might be fairly expected to sell."

**Oct. 25, 1929. President Herbert Hoover:**

"The fundamental business of the country, that is, production and distribution, is on a sound and prosperous basis."

**Oct. 29, 1929. John D. Rockefeller:**

"Believing that fundamental conditions of the country are sound . . . my son and I have for some days been purchasing sound common stocks."

---

# What They Said in 1987

**Black Monday, Oct. 19, 1987. David Rockefeller, former chairman of Chase Manhattan Bank:**

"I don't think there is reason to be alarmed but one has to be concerned. Psychology is playing an important role here. The reason to be concerned is that this will cause a further psychological reaction that will cause people to sell without any basic reason."

**Oct. 19, 1987. John Phelan, president of the New York Stock Exchange:**

"Well, I'd call it the nearest thing to a meltdown I ever want to see. . . . I'm quite relieved that it did 500 million shares. And aside from some minor glitches during the day—even machines get tired like people—the system behaved remarkably well."

**Oct. 20, 1987. Robert E. Linton, chairman, Drexel Burnham Lambert:**

"We needed time to sort things out. But now there's plenty of business to do."

**Oct. 19, 1987. Statement by White House aide Marlin Fitzwater:**

"The President has watched today with concern the continued drop in the stock market. He directed members of his administration to consult with the chairman of the Federal Reserve, the Securities and Exchange Commission, the New York Stock Exchange, the Chicago Commodities and Futures Exchanges, and leaders of the investment community. Those consultations confirm our view that the underlying economy remains sound. We are

in the longest peacetime expansion in history.

Employment is at its highest level ever. Manufacturing output is up. The trade deficit, when adjusted for changes in currencies, is improving. And, as the chairman of the Federal Reserve has recently stated there is no evidence of a resurgence of inflation in the United States."

**Oct. 21, 1987. Former Citibank chairman Walter Wriston:**

"We learned what we always knew—that is, that when markets reach an all time high, there's always a correction. This correction was sharper and deeper than had been anticipated, but it was not the end of the world. There is nothing fundamentally the matter with our economy."

**Oct. 19, 1987. Senate Majority Leader Robert Byrd:**

"It is time for the administration to begin meeting with the Congress to reduce the double deficits in trade and the budget that cast such a cloud on the nation's future."

**Oct. 20, 1987. U.S. Controller of the Currency Robert L. Clarke:**

"Depositors should not be concerned about their deposits in the banks."

**Oct. 20, 1987. Morgan Guaranty Bank economist Rimmer de Vries:**

"Suppose a bank doesn't get paid by somebody and the bank can't balance its books. It can go to the Fed for money."

---

**October, 1929. George L. Harrison, Governor of the Federal Reserve Bank of New York:**

"The Stock Exchange should stay open at all costs. Gentlemen, I am ready to provide all the reserve funds that may be needed. . . ."

**Oct. 30, 1929. John J. Raskob, Democratic Party National Chairman, in a statement in the New York Times:**

"Prudent investors are now buying stocks in huge quantities and will profit handsomely when this hysteria is over and our people have opportunity in calmer moments to appreciate the great stability of business by reason of the sound fundamental economic conditions in this great country of ours."

**Oct. 22, 1932. Detroit, Michigan. Speech of President Herbert Hoover:**

". . . the tide has turned and the gigantic forces of depression are in retreat. Our measures and policies have demonstrated their effectiveness. . . . Recovery would have been faster but for four months of paralysis during the spring months while we were defeating proposals of the Democratic House of Representatives to increase governmental expenses by \$3.5 billion. . . ."

"Manufacturing production has increased by ten per cent. . . . The Department of Commerce shows that over 180,000 workers returned to the manufacturing industry in August, 360,000 more in September. . . ."

**1932 campaign slogan, President Herbert Hoover:**

"Prosperity is just around the corner."

**Oct. 20, 1987. Senate Minority Leader Robert Dole:**  
"Someone has to take charge."

**Oct. 20, 1987. President Ronald Reagan:**

"I'm pleased that the steps taken by "The main problem is the Federal Reserve. They the Federal Reserve have had a salutary effect on the markets. . . ."

"I think it is preferable, if possible, that the executive and legislative branches reach agreement on a budget deficit reduction package. Accordingly, I am directing that discussions be undertaken with the bipartisan leadership of the Congress for that purpose."

"The economic fundamentals in this country remain sound, and our citizens should not panic. And I have great confidence in the future."

**Oct. 21, 1987. Donald T. Regan, former Treasury Secretary, White House chief of staff, and CEO of Merrill Lynch:**

"The main problem is the Federal Reserve. They must make money easier. They have been very tight for the last six months. The market does not like high interest rates. Now this situation got a little out of hand."

**Oct. 21, 1987. Paul A. Volcker, former chairman of the Federal Reserve Board:**

"The lesson of this week we should be doing those things we should have been doing all along to take care of imbalances in the economy."

**Oct. 21, 1987. Alice Rivlin, Brookings Institution, former chief economist for the Congressional Budget Office:**

"Don't make a major fiscal mistake like running a big budget deficit . . . but I would have said that two weeks

ago or two years ago. . . . that is the biggest policy mistake we have made."

**Oct. 19, 1987. Rep. Butler Derrick (D-S.C.) of the House Budget Committee:**

"I would hope that what the markets get out of this is 'Here, the Congress and the President have sat down and talked on the deficit.' . . . This whole business is perception."

**Oct. 22, 1987. President Ronald Reagan:**

"This is purely a stock market thing, and there are no indications of a recession or hard times at all. . . . I'm putting everything on the table" to negotiate a budget cutting package with Congress.

**Milton Friedman, Nobel prizewinner in Economics, in the Nov. 20 issue of *National Review*:**

"There has been much loose talk comparing the stock market's Black Monday of October 19, 1987 with the market's Black Monday and Tuesday of October 28 and 29, 1929. . . . The comparison is false and misleading with respect to the real economy—especially in terms of the fears being expressed that because the 1929 market crash was followed by the Great Depression, the 1987 crash also presages a Great Depression. . . ."

"In 1954, I delivered a lecture in Sweden under the title, 'Why the American Economy is Depression-Proof.' I have seen no reason since then, and see none now, to change that conclusion."

# LaRouche's Economic Forecasting Record

## EVENT

## LAROCHE SAYS

**MARCH 1957:** First round of 1957-59 recession hits, builds up force during summer of 1957, hits hard during September-October.

**1966-1967:** U.S. Johnson Administration adopts "neo-malthusian" policies, begins tearing down aerospace program, and turns toward "post-industrial society."

**NOVEMBER 1967:** British pound devalued.

**FEBRUARY 1968:** Dollar threatens to collapse.

**MARCH 1968:** Johnson devalues U.S. dollar.

**SUMMER 1970:** Chrysler/Penn Central crisis

**SUMMER 1971:** Nixon devalues dollar, takes world off gold-reserve basis, and institutes neo-Schachtian austerity.

**1972:** Nixon pushes through "floating exchange-rate" monetary system at Azores monetary conference.

**1973-74:** OPEC oil-price crisis. Nixon reacts to cut U.S. energy-consumption, beginning long downward slide of U.S. productivity.

**OCTOBER 1975:** Rambouillet monetary summit in Paris rejects monetary reform, imposes harsher austerity upon developing nations.

**1975-76:** Special Series of policies studies by New York Council of Foreign Relations rejects LaRouche "neo-mercantilist reforms, and proposes the "controlled disintegration of the economy" later instituted by Fed Chairman Paul Volcker.

**AUGUST 1976:** Non-Aligned Nations Conference at Sri Lanka incorporates LaRouche monetary reform proposals in final resolution.

**1977-80:** Carter administration implements neo-malthusian policies proposed in CFR "Project 1980s" studies.

**OCTOBER 1979:** Carter's nominee, Volcker, installed at Fed since August, institutes CFR "controlled disintegration of the economy" with high-interest rate policy.

**FEBRUARY 1980:** Recession hits as LaRouche forecast.

**1980-84:** Every quarterly U.S. government forecast, plus those of Chase, Data Resources, and Wharton, are consistently wrong.

**AUGUST 1982:** Mexico debt crisis explodes; world teeters for several hours on brink of financial collapse. Mexico's President Lopez Portillo institutes measures proposed by LaRouche.

**OCTOBER 1982:** Reagan administration flatly rejects LaRouche proposals, and demands that Mexico immediately scrap such actions taken.

**FEBRUARY-MAY 1987:** Growing number of leading European financial leaders warn world at brink of biggest financial collapse in history.

**AUGUST 1987:** New York stock market begins sliding as experts quietly warn preferred customers to get out before coming crash.

**OCTOBER 5-6, 1987:** Pressure of third-quarter settlements hits markets on Monday, with 92-point slide down of Dow-Jones on Tuesday.

**OCTOBER 16:** 100-plus fall of Dow Jones.

**OCTOBER 19:** "Black Monday": 500-plus fall of Dow Jones.

1957

1960

1970

1980

**JANUARY 1957:** Forecasts deep recession to hit by March 1957.

**FALL 1959:** Forecasts: Unless present economic and monetary policies change, the first of a series of monetary crisis will hit during the second half of the 1960s, leading into a breakdown of the Bretton Woods monetary system, and introduction of neo-Schachtian austerity policies, leading in the direction of the deepest economic depression in modern history.

**FEBRUARY 1968:** Says crisis in Bretton Woods is imminent. Forecasts build-up of Third World economic crisis as key to coming crises ahead.

**SUMMER 1971:** Warns of recurring monetary crises during 1970s, combined with accelerating erosion of physical production, leading toward the biggest financial crash in history.

**APRIL 1975:** LaRouche, returning from meetings with Arab leaders, proposes new approach to Arab-Israel peace, based on economic cooperation in context of return to a gold-reserve monetary system. Warns monetary system headed toward crisis.

**NOVEMBER 1, 1976:** LaRouche makes half-hour nationwide NBC-TV broadcast, warning of global crisis arising from malthusian policies of a Carter administration.

**OCTOBER 1979:** Dem presidential candidate LaRouche, in New Hampshire, warns of early 1980 U.S. recession caused by Carter-Volcker policies just announced.

**DECEMBER 1979:** He announces results of computer projection based on LaRouche-Riemann economic forecast: 1980 recession to hit in February.

**1980-1984:** Every forecast issued by LaRouche-associated EIR is consistently accurate. (See inside front cover).

**APRIL 1982:** Announces Latin America debt-bomb ready to explode. Indicates probable September deadline for crisis.

**AUGUST 2, 1982:** Issues book-length analysis and proposals, *Operation Juarez*, on the debt-crisis and joint U.S.-Latin American action to solve it. Report promptly delivered to U.S. National Security Council and every Latin American government.

**1984:** LaRouche, now Dem presidential candidate, attacks monetary and economic policies of the Reagan Administration and east coast bankers. Warns of developing banking crisis. Proposes revival of *Operation Juarez* proposals.

**MAY 1987:** Publishes warnings of August-October slide of markets, leading to brink of first round of general financial collapse during October.

**OCTOBER 6, 1987:** Warns Tuesday 92-point slide of Dow-Jones signals first round of big crash of 1987-1988 has hit, with more bad days on markets due immediately.

**OCTOBER 19:** Says "Black Monday" is just 6.3 on financial "Richter Scale." Big one—8-10 on financial "Richter Scale"—due to come over months ahead.

How much confidence should you place in the advice of people who are repeating today almost the same silly promises we heard from similar sources back in 1929-32?

There is nothing accidental about this financial crash. It has been coming for a long time. Compare some of the most important break-points with what I have said about these things over the past thirty years.

That is the chronology of the events leading into "Black Monday," and into the deeper financial collapse now on the way.

Summing up that chronology, there are four major factors which made "Black Monday" inevitable:

1. The Johnson administration's adoption of the "post-industrial" drift, during the years 1966-67.

2. Johnson's failure to save the gold-reserve system, during February-March 1968, by what should have been the obvious action: raising the price of monetary-reserve gold to the fair market-price of monetary gold purchases. Nixon's similar blunders of 1971-72, replacing the gold-reserve system with the "floating exchange rate," funny-money system.

3. The "Volcker measures" introduced in October 1979, combining increasing deregulation of the financial system with a ruinous interest-rate policy.

4. Reagan's decisions of October 1982-April 1983, trying to cover over the immediate threat of a worldwide financial crisis by creating a "John Law" financial bubble in international markets, while forcing agriculture, manufacturing, other physical-goods industries, and basic economic infrastructure into accelerating decline.

Most people, who are unfamiliar with the ABCs of economics, expect that the effects of bad policies will be seen by everyone very soon, a year or so after bad policies are introduced. Usually, it doesn't happen that way. There are bad effects rather soon, but not so bad that people generally will not put up with these results, and become accustomed to them. As the chronology illustrates this important point, sometimes an entire generation passes before the inevitable effects of bad policies come fully to the surface. Usually, the really disastrous effects of a bad economic or financial policy are not recognized generally until five to ten years after a bad policy is put into operation.

### **The role of "consumerism"**

The included problem, is that people tend to become accustomed to things after a time. They may grumble for a while, but then, seeing little likelihood that policies will be changed, they "learn to live with" the kinds of gradual decline of the real economy which bad policies cause.

For example, if people had been hit with the collapse of agriculture and manufacturing caused by the "post-industrial" drift a few years after Johnson introduced this drift during 1966-67, there would have been lynchings of politicians in the streets. There was resistance during 1970-71, again during 1974-75, the farm revolts which boiled out and simmered down under Carter, and so on. Gradually, after

a short period of furor of protest, people generally dug in and "learned to live with" these trends. It is now, 20 years after Johnson introduced the "post-industrial" drift, that we are being hit very hard with the process of erosion over the 20 years in between.

There was some revolt against Volcker's policies, from late 1979 into the spring of 1981. When President Reagan committed himself to support Volcker, congressional opposition to Volcker's measures dried out quickly. People "learned to live with it."

Take the case of financial deregulation, the most direct cause of the present financial crash.

Today, most of the middle and top management of major financial and industrial firms is made up of "baby-boomers" born during the late 1940s or 1950s, whose adult experience began during the time of the anti-Vietnam War upsurges of the 1965-70 period. Most of these strata of management never had any experience with an economy in which the emphasis was on production; they have risen through the ranks of their employment in a kind of economic fantasy-world, in which it was assumed that "blue-collar" employment was as doomed as the Dodo, and that the future lay in financial capital-gains from increasingly wild forms of speculation in financial paper and in real-estate.

What has happened is illustrated by the recent years' popularity of the idea of becoming vastly rich in real estate, with schemes which required little or no real money down. The idea of earning wealth through better quality of products and the benefits of technological progress in production, seems to have become very unfashionable.

Another major factor has contributed to this shift in values over the past twenty years. At the beginning of the postwar period, over 60% of the labor-force was employed as "blue-collar" operatives, either producing physical goods for the market, or employed as operatives in improving and maintaining the basic economic infrastructure in such fields as water-management, production and distribution of power, general transportation, and basic urban industrial, commercial and residential infrastructure. Today, the percentage of the labor-force employed in such categories is down to approximately 20%.

Turn it around. Whereas, 40 years ago, about 40% of employed Americans were employed in administration, sales, and services, today approximately 80% are so employed. Forty years ago, and into the early 1960s, most Americans were employed either as operatives, or in functions of administration, sales, and services related to the production and physical distribution of physical goods. Today, the majority have no significant connection to the physical realities of production, except as consumers.

Beginning with the Johnson administration's tragic shift into "post-industrial" drift, during 1966-67, the United States has been transformed from a producing nation, to a consuming nation. As a result, the United States has closed down much of agriculture—and lowered the standard of the

American diet, to import cheap food from developing nations in which large-scale hunger, sometimes even famine, abounds. We have shut down more and more of our basic industries, to make our nation more and more dependent for existence upon imported cheap consumer goods.

The emphasis has shifted from producing wealth, to acquiring the money to buy cheap goods from abroad. "Get money" in any way that seems to be the easiest; don't be one of those dumb "blue-collar" people, who produces physical goods for a living. Make money with shrewd investments, not from the wages and profits of producing useful things.

This financial crash means that that "consumerist" idea of the way of living is about to become as extinct as the Dodo. All of the easy-money games have come to an end, at least as far as 95-99% of the population is concerned. Most of the wealth from financial income you thought you owned, will be wiped out, and new sources of such income dried out. As Captain John Smith warned the idlers of the Jamestown colony, our income now will come from producing physical wealth.

Therefore, naturally, most Americans who have not been on the poverty lists up to now will refuse to accept the reality of this financial crash for as long, and as hysterically as they can. A way of life, the cult of consumerism and "shrewd investments," to which they have become accustomed, is over.

These Americans are not much different, in this respect, than yesterday's multi-millionaire jumping from today's skyscraper. How foolish of the poor fellow to commit suicide! He is probably a bright, literate person, who is capable of doing many useful things, who could play a valuable part in our society now. He has a good future before him, if Washington comes to its senses. Therefore, why does he kill himself—merely because he has become bankrupt? He kills himself because he sees his entire way of life, the way of life to which he has become accustomed, swept away.

That is what most Americans face today. As many would put the point: "Does this mean that I have to start my life all over again?"

For most of them, the answer to that question is, "Yes." That answer is what they do not wish to hear, which many of them are not yet ready to hear. So, they cling hysterically to the wishful delusion that "the markets will come back." Anyone who assures them that "the markets will come back," is a fellow whose words of comfort are very much appreciated.

I appeal to those Americans who have the courage to face reality. I say to them, "Our problem is not the financial crash. Our problem is, when does the economic recovery begin?" The paper crashing down is the past. That past is gone; it butters no biscuits today. What butters the biscuits is the new, real income from the present and future.

Really sensible people will accept the fact that the biggest financial crash in history has come. They will put their

mental energies and efforts into important things, starting the economic recovery we need so urgently.

## The new recovery

In a certain manner of speaking, we must go back about 21 years; we must scrap every innovation in economic and monetary policies instituted since 1965. That is only the first step. Starting with the economic policies which were in effect 21 years ago, we must add some important reforms.

We must put into effect now, the kinds of economic reforms we should have made 21 years ago. We made the wrong turn at the fork in the road back then. We must retrace our steps, go back to the fork in the road, to take the right path this time.

Civil rights proves the pudding.

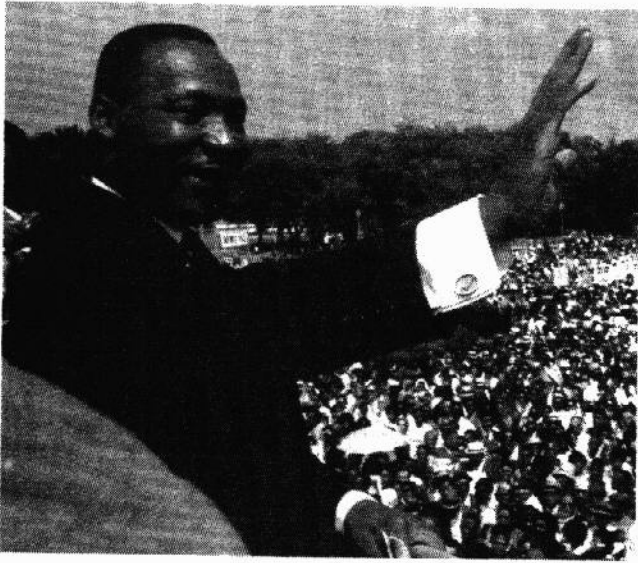
If we pick up the addresses of Rev. Martin Luther King, what we read is no wild radicalism. We read the spirit of our Declaration of Independence. We read Dr. King insisting that all Americans, without regard to supposed differences in color of skin or national origin, have equal rights to dignity as persons, and equal rights to the opportunity of participating in the American dream of building a better life for themselves and their posterity.

By approximately the middle 1960s, we completed the enactment of a series of legislative and judicial decisions which afforded all Americans the political rights Dr. King proposed. At least, as much of those dignities as can be legislated into existence, or established by judicial whim.

The liberals put on the uniforms of railway conductors. They placed themselves beside the train destined for prosperity, and cried out to the waiting civil rights movement, "All aboard." The minorities boarded the train. Then, they sat, and waited, and waited, and waited. They were on the train, but the railway had been shut down by the Johnson administration with the "post-industrial" and monetary decisions of 1966-68. The minorities were now politically entitled to share; what they shared, was, for the most part, their increasing poverty and the demoralization of their youth.

Over 1968-72, the philosophically fascist ravings of communist ideologue Dr. Herbert Marcuse's *One-Dimensional Man* were circulated, and more widely parodied, to drill into more and more of the younger Americans the doctrine that they had "no future." "Your parents have used up the raw materials, technological progress is bad for the environment, small is beautiful, learn to live with less and less. Get your kicks the best way you can, whether your 'thing' is sex, drugs, or whatever." Over the past 20 years, most Americans have "learned to live with" the spread of countercultural cultural pessimism among the young, while the youth of 1968 became the child-rearing generation of our time.

Excepting the cause of civil rights, as Dr. King embraced the Declaration of Independence in his addresses, all of those economic and cultural shifts of the past 20 years are either ended, or the United States itself goes into the state of



Rev. Martin Luther King, Jr.—in the spirit of our Declaration of Independence.

internal chaos and decline which Moscow currently hopes, devoutly, will be the outcome of this crash.

Essentially, we must return to becoming once again a nation committed to meeting our responsibilities through aid of emphasis on capital-intensive investments in technological progress in production of physical goods, and in emphasis upon capital improvements in the basic economic infrastructure on which production and popular well-being depend.

In the works, is a shift away from emphasis upon a rentier form of “consumerist” economy, to an entrepreneurial form of capitalist economy, a society which returns to what President George Washington’s Treasury Secretary, Alexander Hamilton, was first to name “The American System of political-economy.”

Ironically, the financial crash helps to clear the way for such an economic recovery. Put aside, for just a moment, the obvious fact that many “little people” will be hurt badly by the collapse of stocks and real estate prices. Focus attention for a moment on another major result of this crash. The effect of the crash is to wipe out trillions of dollars of credit controlled by the powerful rentier-financier interest. This effect of the crash is beneficial in two ways.

First, it reduces greatly the relative political power of those international financiers who have gained almost absolute political control over the economies of Western Europe, North America, and the non-communist developing nations over the past 20 years. It weakens greatly the political power of those who have insisted upon pushing the “post-industrial” and floating-market policies to the limit, at all costs.

Second, just because these financier interests no longer have the power to generate very large volumes of credit, the nations are forced to turn to the only agency which can

generate the credit needed for an economic recovery: the national government.

I shall return to what we must do about the problems of the “little investor,” after we have clarified the point on which we are concentrating right now.

What sort of a situation faces the banks over the months ahead? Let us look at real estate markets.

Over the past 20 years, the real estate market has been divided into two rather distinct, although somewhat overlapping sectors. In the one category are those who hold real estate for use: home owners, farmers, and industrial firms, for example. In the other category, are those who play in real estate solely for the purpose of inflationary capital gains. Naturally, more and more, as the years have passed, real estate owners in the first category have been affected by financial speculation in the second category. This has had a combined effect on the banks and other financial institutions supplying credit for this market.

The financial collapse will have accelerating impact on the real estate market, especially the speculative sector. Speculative ventures in urban real estate, shopping malls, and recently launched condominium and tract-housing projects, are among the categories doomed to be hit very hard. (Those owner-occupants of residential and business real estate whose mortgages date from five years or more ago, will be less affected, obviously.) More and more of the speculative real estate holdings will be dumped onto the market, building up to an avalanche.

The combination of the general and deep collapse of financial markets generally, combined with a near-avalanche of real estate paper, represents a potential tidal wave of bank closings. Were I President, I would not permit these banks to be closed. The local banks represent vital structure of the economy, whose doors must be kept open daily by the federal and state governments, through the emergency powers of the President to regulate banking. Yet, although, as President, I would keep the doors of those banks open—while they are undergoing medium-term financial reorganization, those banks would have no significant new lending power on their own.

In that circumstance, there is only one major source of new lending power for purpose of launching an economic recovery: the constitutional authority of the federal government. As President, I, for example, would send an emergency bill to Congress, immediately authorizing the Secretary of the Treasury to issue \$1 trillion in U.S. Treasury currency notes. I would use the constitutional and statutory powers of the President, to “federalize” the Federal Reserve banks, stopping continued issue of Federal Reserve Notes, and issuing Treasury currency notes, instead.

This new currency would not be spent by the U.S. Treasury; it will be loaned through the Federal Reserve banks at 1% to 2% interest. It would be loaned through fiduciary accounts in local private banks for purposes of either production of physical output, or borrowing by public utilities,

or federal, state, and local agencies, for capital improvements in basic economic infrastructure. That is the principal means by which we shall launch a real economic recovery, and rebuild the tax-revenue base in business and household incomes.

We will require about \$2 trillion a year of lending of Treasury notes in this way, to get the U.S. economy through the first two years of recovery.

For example, with the federal operating budget now at about \$1 trillion, the financial crash will drive the budget deficit for the current fiscal year up to as high as between \$500 and \$700 billion. We can not reduce that deficit significantly by budget-cutting; budget-cutting would probably lead to almost as much loss in tax-revenue base as the amount cut, in addition to causing intolerable suffering and other damage to vital structure of the economy. We must expect the budget deficit for the next fiscal year to be improved significantly; but it will not be until fiscal year 1989-90 that the tax-revenue base will have grown sufficiently to begin bringing the budget back into balance.

So, for the next two fiscal years, the federal government will borrow back, through the Federal Reserve system, about \$1 trillion of the probably \$4 trillion Treasury currency notes issued during that period of time, leaving about \$3 trillion net available for other lending.

Under these conditions, profit margins of farms and industrial enterprises should move back to levels of the mid-1960s, and then somewhat higher. By the middle of the second year of building up the recovery process, much of the recovery will become self-sustaining, and savings accumulations in banks should begin to become significant again. During the third year, our economy should be in a full-scale boom.

As the economy moves into the boom period, the future balance of economic and political power should become clearer. The wealth of investment and employment in production will become again the broad-based political power-base. These employers and their employees will represent an increasingly independent political and social force. The rentier interest which has dominated for the past 20 years or so, will assume a relatively more modest role, and will be obliged, by circumstance, to adapt to the kinds of opportunities which an entrepreneurial form of economy affords.

This means that the policy outlook reflected in the political parties and in government, will shift back to emphasize the benefits of technological progress, rather than the rentier emphasis which has dominated the parties and government at the top over the past two decades.

Two other profound changes are to be foreseen clearly under such circumstances. The AIDS pandemic must be faced, as government has refused to face this up to now. This means a rapid growth in biological sciences, in the medical profession, and health delivery institutions. Since this is the most frightening of the domestic problems to be

faced, it will have a very high priority. Next in rank will be rebuilding the educational system. Bringing order into the schoolyards and classrooms will be the first concern on the state and local levels; improving the average qualifications of teachers, and improvement of the curricula, will be the second priority at all levels of government.

We can be somewhat optimistic about conquering the growth of functional illiteracy, even among adults, under circumstances of economic growth. Some of us recall the way in which World War II military service acted as an upward-leveler of the literacy of the population during that period. When people are optimistic, and seeking to qualify themselves for advancement under conditions of technological progress, the desire and capacity for self-improvement are great.

Get the productive recovery under way, and in the course of facing, one by one, the obstacles which confront us, we shall begin to get our nation back into shape within a few years of such recovery.

Then, as we look back on the nearly tragic result of the 1967-87 period, most of us will be determined never again to put ourselves in the position where we repeated such mistakes.

### **The fate of "the little man"**

The thoughtful "little man" cares very little about the price of his house, as long as the price for which he might be able to sell it allows him to buy equal tangible value in the form of new housing. In other words, as long as the scale of prices slides up or down uniformly across the board, it is only the price of his house, relative to other houses, which is of much practical importance to him.

It should be the desire of government, that as many households as possible own their own homes, and as many industries and farmers as possible own the real estate in their use. That intention is the guide to the proper way of approaching the case of the smaller investor in housing, or other things, who is hard-hit by the effects of the financial crash.

In this matter, the economic policy of government should be influenced by the government's social policy. We desire as many households and persons to be independently self-sufficient as possible, and government should use its regulatory powers for shaping financial reorganizations to bring that desired result about as much as possible.

In short, households and individuals should not lose the occupancy of their homes or farms, and should not lose either none, or as little as possible, of the principal value of the personal savings on which their personal independence depends.

One of the measures for accomplishing this, is freezing the value of savings deposits in troubled banking institutions. While depositors, in some cases, might be unable to withdraw all of their deposits at will, we can and must protect the value of the principal they have deposited. In general,

those amounts which would have been covered by insurance prior to the crash, should be covered through regulatory action of government.

By this action, we protect the non-accruing principal amount of the deposit as the depositor's financial asset, and assist that depositor in enjoying certain benefits of that asset pending the time that the reorganized banking institution is independently solvent again.

How do we prevent John Doe from losing his home to foreclosure proceedings? How do we stabilize the real estate market during the period it is collapsing? How do we prevent the chaos which would result, if farms and homes were suddenly dumped upon the market in great numbers?

The first action we must take is to provide moratoria on foreclosure proceedings. As soon as a fair-market value can be determined for the property, once price levels settle down, the debt should be written down to correspond to the fair market values. The purchaser keeps the home; the creditor obtains the amount he would have obtained by foreclosure proceedings.

The house is just as valuable, intrinsically, as it was on the day the crash occurred. The crash has brought down the price of that intrinsic value, the price at which the seller could sell that amount of intrinsic value, and the price at which a purchaser could purchase it. Government acts to allow both sellers and purchasers both to adjust to the new price-scale of values; neither loses more, nor gains more, than he or she would in an orderly market under the new scale of values.

We apply the same rule to farms and industrial properties. Whoever can show credible intent and ability to maintain useful occupancy, in such cases, should enjoy the benefits of regulation of financial reorganization, to the equitable benefit of both debtor and creditor.

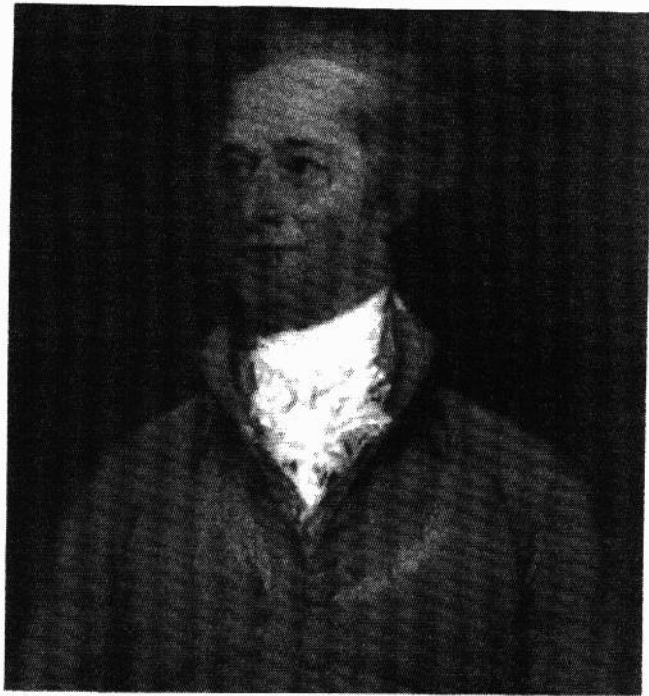
No one is being subsidized. All are being assisted to enjoy the benefits of an orderly market at the time that open markets are temporarily chaotic.

To make these arrangements workable, we must ensure that John Doe has gainful employment or the equivalent use of an earned pension.

In any financial reorganization of a bankrupt firm, the possibility of settling the debts depends upon the debtor's ability to pay. If the firm is not to be sold off—liquidated—we must assume that the future income of the firm will be sufficient to cover the costs of continuing operations, and also provide an added margin to retire old debts.

When a nation goes into bankruptcy, we do not usually call it a "bankruptcy"; we call it a "depression." The essential difference is, that whereas the possibility exists of shutting down a bankrupt firm, and selling off its assets, one can not shut down a nation, and sell its citizens into slavery. The creditors must find some combination of writing off part of the debts, and also helping the nation to get on its feet, to become economically self-sustaining once again.

For reasons argued perfectly well by Alexander Hamilton,



*Alexander Hamilton, the first U.S. Treasury Secretary.*

the United States must not repudiate its government's debt, and must defend the value of the U.S. dollar. We must also keep the system of local private banking functioning, even if the banks are technically bankrupt under existing regulations. Above all, we must keep the nation's farms, industries, and basic infrastructure functioning at a level sufficient to meet the needs of all of its citizens.

The task is to reshape the flow of credit and taxation, to put idled production capacity back into production, and to employ people in those work-places opened up, up to the limits of full employment.

If we do these things, and also promote technological progress through capital-intensive forms of investment in production capacity and infrastructure, the United States could produce today much more, per person, than it has produced during the past five years, and embark on a long-term process of increasing output through investments in more advanced technologies. We could have done that at any time we chose to do so during the recent years; we did not make that choice. Now, we have no way of avoiding committing ourselves to that choice—unless we chose to slide into the deepest and longest depression ever.

So, presuming we carry out those policies, we shall make a rapid transition from financial crash into a period of significant rates of real economic growth. Therefore, on the average, John Doe will have the income to pay his bills during the period ahead. Since he will be able to pay those bills, if they are kept within reasonable limits, it would be insane to kick his family out of its house in foreclosure proceedings. It is better, for him, for his creditors, and for society as a whole, to come to reasonable terms—which

are really fair all around—to permit John Doe and his family to continue their day-to-day life in peace and security, and to do this almost as if the financial crash had never occurred.

After all, John Doe did not cause the financial crash, so why hold him responsible for it? The crash was caused by those who pushed through government the policies such as “post-industrial society,” the “floating exchange-rate system,” the “Volcker measures,” deregulation, and the October 1982 policies of the Reagan administration. It would be an insult to allege that since John Doe is allowed to vote in elections, that he is personally responsible for the policies which caused the depression. If anyone is responsible it is negligent officials in the federal Executive, Congress, and federal courts, and, above all, those Eastern Establishment fellows around New York and Boston, who pushed through these policies with all their might.

We must simply be certain that John Doe has the opportunity to earn the income he will need to cover his family's needs. John Doe, if he has decent employment, will pay his bills, pay his taxes as he does regularly, and contribute to producing the wealth which is the source of our nation's strength and well-being.

If John Doe loses some of his investments in the crash, nearly everyone will be losing something, directly or indirectly. The point is to salvage as much of the past as it is really important to rescue, and to put our minds and efforts on making tomorrow a success.

### **If you care, study**

I have written and published a massive amount of material over the years on the subject of the financial crash which has now hit us all. That contains not only my analysis of the way in which the crash would take shape, but also detailed proposals for action, to bring the chaos under control, and to start a genuine economic recovery immediately.

I know, that in this age of television and comic books, many of you have given up the habit of serious reading and

discussion. I suggest to you that you have two choices. You might either simply place your trust in me, and support me in applying my expertise to solving this problem. I prefer that you study for yourselves both my analysis, and the measures I propose to take.

I suggest to you the thought, that being rational means not pretending to know anything which you have not thought through and know to be true for yourself. I suggest that being rational means being independent in that way. It means never adopting opinions simply because you believe that they are popular; it means basing your opinions on what clear thinking has shown you to be true. It means believing what you are prepared to prove is true.

If even a large percentage of our citizens had thought through carefully the policies which led us into this depression, either at the time they were adopted, or soon afterward, those citizens would have said, “This is insane; this is the road to disaster.” Most citizens did not think these things through. They accepted the advice of the news media, or some other authority. When the policies led to bad results, they “learned to live with” those painful results.

So, we drifted into disaster, while most of the citizens drifted along, hoping that, somehow, things would work out. They kept their heads low, tried to avoid making powerful enemies, minded what they considered their own personal business, and hoped that nothing too bad could happen to them if they kept out of the way of trouble.

That is the way we drifted into disaster. Is it not time to learn our lesson from all this? Is it not time to realize, that to say that one is “thinking for myself,” does not necessarily mean that one has applied himself to studying and thinking about the matter?

For the sake of the nation, support the actions I propose. For the sake of your self-respect, and for the sake of our nation in the future, study these matters seriously; when you support my policies, understand for yourself what it is you are supporting.

# EIR Alert Alert Alert Alert

In December 1986, EIR Alert told its readers about Brazilian discussion of a debt moratorium. On Feb. 20, 1987—**it happened.**

On Aug. 18, 1987 EIR Alert published an AIDS Alert item on Soviet measures on AIDS. On Aug. 26, 1987, the story hit the front page of the *Washington Post*.

With the EIR Alert, you will be *ahead* of the news. With the presidential season coming up, and a financial crash being predicted by leading European banking circles—can you afford to be behind the times?

EIR Alert brings you 10-20 concise news items, assembled from its bureaus all around the world, twice a week, with leading economic and strategic news. It comes to you first class mail—or by fax (at no extra charge).

In the U.S.: Confidential Alert annual subscription \$3,500.

In Europe: Confidential Telex Alert annual subscription

DM 12,000, includes Quarterly Economic Report

Strategic Alert Newsletter (by mail) annual subscription DM 6,000

Make checks payable to:

**EIR News Service** P.O. Box 17390,  
Washington, D.C. 20041-0390

In Europe: EIR Nachrichtenagentur GmbH, Postfach 2308,  
Dotzheimerstr. 166, D-6200 Wiesbaden, F.R.G.

## Executive Intelligence Review

### U.S., Canada and Mexico only

1 year ..... \$396  
6 months ..... \$225  
3 months ..... \$125

### Foreign Rates

Central America, West Indies, Venezuela  
and Colombia: 1 yr. \$450, 6 mo. \$245,  
3 mo. \$135

South America: 1 yr. \$470, 6 mo. \$255,  
3 mo. \$140.

Europe, Middle East, Africa: 1 yr. DM 1400,  
6 mo. DM 750, 3 mo. DM 420. Payable in  
deutschmarks or other European currencies.

Asia and Oceania: 1 yr. \$550, 6 mo. \$300,  
3 mo. \$150.

I would like to subscribe to  
*Executive Intelligence Review* for

1 year  6 months  3 months

I enclose \$\_\_\_\_\_ check or money order

Please charge my  MasterCard  Visa

Card No. \_\_\_\_\_ Exp. date \_\_\_\_\_

Signature \_\_\_\_\_

Name \_\_\_\_\_

Company \_\_\_\_\_

Phone ( ) \_\_\_\_\_

Address \_\_\_\_\_

City \_\_\_\_\_

State \_\_\_\_\_ Zip \_\_\_\_\_

Make checks payable to EIR News Service Inc.,  
P.O. Box 17390, Washington, D.C. 20041-  
0390. In Europe: EIR Nachrichtenagentur  
GmbH, Postfach 2308, Dotzheimerstrasse 166,  
62 Wiesbaden, Federal Republic of Germany,  
telephone (06121) 8840.

OCTOBER 26, 1929

# WORST STOCK CRASH STEMMED BY BANKS; 12,894,650-SHARE DAY SWAMPS MARKET; LEADERS CONFER, FIND CONDITIONS SOUND

## FINANCIERS EASE TENSION

Five Wall Street Bankers Hold Two Meetings at Morgan Office.

CONFIDENCE IN THE SOUNDNESS OF THE BANKING SYSTEM WAS REINFORCED BY BANKERS AND OTHER LEADERS AT TWO MEETINGS HELD AT THE MORGAN OFFICE.

Wall Street Optimistic After Stormy Day: Clerical Work May Force Holiday Tomorrow

TWO CENTS

NEW YORK, Oct. 26 (AP)—The stock market today was a sea of red, with a record 12,894,650 shares traded. The Dow Jones industrial average fell 10.34 points to 286.42.

## LOSSES RECOVERED IN P.M.

Upward Trend With 200-r Order

TICKETS

the stock market structure, not for days, was wiped last night. Sentiment as expressed by institutions and by individuals was improved by the steady buying of Wall Street and the feeling was that the selling had not gone too far. The steady buying of three brokers less selling at the Bank, de.

## U.S. Ship In Gulf Repr. Offshore Target Topped a Base for Gunboats

By STEVEN ROBERTS

WASHINGTON, Oct. 19 — United States naval forces struck back at Iranian shipping by shelling two Iranian oil tankers and destroying two American offshore platforms that American officials said were a base for Iranian gunboats.

## Does 1987 L

By ERIC GELMAN

As stock prices soared the year of the 1929 crash, many investors looked more like the 1929 market crash than the 1929 market boom. The quick answer, many economists would be its devastating to the economy. The 1929 crash was not a depression, it was a market crash. The 1929 crash was not a depression, it was a market crash. The 1929 crash was not a depression, it was a market crash.

## More About the Market

Germany and United States agreed that the dollar should be stabilized at its current level. Disagreement on currency levels and market rates had contributed to a sharp rise in the market. Mr. Baker at short has top after the market collapsed (page 11).

# Subscribe to EIR

The magazine that

- Predicted the October 1987 financial crash
- Forecast the 1980 Volcker industrial collapse
- Exposed the hoax of the Reagan Recovery

EIR doesn't just tell you what's happening to the economy, but tells you why and what you can do about it.

See inside for details and subscription blank.