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Cracks appear in the covenant of lies

by Chris White

Thus far, the powers-that-be, at least so far as U.S. financial policy is concerned, have, since the market meltdown of Oct. 19, 1987, attempted to manage perceptions of the deepening crisis through a lying psychological warfare campaign derived from the idiotic inanities of the ill-fated administration of Herbert Hoover.

The most concentrated expression of such absurdity has been the insistence, by those associated with the ups and downs of George Bush's presidential aspirations, that any significant worsening in the crisis now ongoing be delayed, by any means possible, into the first half-year of the new presidency in 1989. The Democratic crowd, which, working ultimately for the same employers in the financial self-styled elite as George Bush, and therefore constrained also by the covenant of lies that U.S. economic policy is overall a success, has played out the same game. With the exception of attacks on Reagan's lack of feelings and hard-heartedness, they have not attacked the substantial failures in U.S. financial and economic policy.

Meanwhile, representatives of both camps collaborate in such bipartisan bodies as the National Committee on Economic Policy of Robert Strauss, Felix Rohatyn, et al., to lay down the guidelines for what the next President will do.

Now, though, it is beginning to appear that this arrangement is in the early phases of falling apart. The symptoms of the collapse, in what could be called the unified psychological warfare front, are recent speeches by Sen. William Proxmire (D-Wis.) and John Phelan of the New York Stock Exchange. For his part, Proxmire warns, like Lee Iacocca before him, that the magnitude of the financial crisis that will hit during the next presidency will be such as to ensure that the party occupying the office will be kept out of office for 40 years in the aftermath, so unpopular will it be. Phelan, in his turn, told the congressional think tank, the Congressional Committee on the Future, that it's only a matter of time before the next market "correction" hits, and the remaining questions concern, not whether such a "correction" will happen, but how severe it will be, and how long it will last.

Differently focused though their respective choice of subject matter was, both, in their own ways, have raised matters which have thus far been off-limits for the messengers and functionaries of the lunatic denizens of the modern Mount Olympus, insisting obsessively, like some super spoon-bending Yuri Geller, that the laws of the universe will submit to the imposition of their collective arbitrary will. The laws of the universe will not.

Whether those issuing the warnings know it or not, there are, behind the symptoms, three sets of considerations related to developments in the financial crisis, impelling the collapse of the covenant of liars. These are: the developments in the markets, which have prompted Phelan's remarks; the now foreseeable parameters of the budget deficit crisis, which will erupt between August and October, and which the next President will have to deal with; and lastly, the simple reality that the outlook of representatives of U.S. creditors, like Crédit Suisse's Hans-Jörg Rudloff, has come to dominate what is approaching majority level among those creditors. Rudloff has asserted since early in the year, that U.S. attempts to postpone the crisis into next year will result in a far worse crisis once it does hit, and that U.S. creditors are not prepared to finance the U.S. deficit one more time.

A liquidationist mode

On the first of the three considerations: The driving collapse of the physical economy which underlies the collapse of the so-called money and credit market mediation of physical economic processes, is not under the control of those who insist that further deepening of the crisis be postponed.

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Contrary to the rhetoric of political representatives like Baker, financial market makers, to defend themselves from the threat of the anticipated next phase of financial collapse, have been in a liquidationist mode since before the end of last year.

The word has been, "Get out of stocks, bonds, and U.S. paper, and into Swiss bonds, gold, and platinum." Contrary to those who assert that the current steady increase in interest rates is related to the continuing strength of the economy, and the fear of inflation, the recent, and continuing rate increases, and the accompanying collapse in volume of transactions on both stock and bond markets, are the result of market makers' liquidations of holdings of paper for what they consider to be better protected classes of investment. The sellers' demand for cash is what is pushing up rates. The converse is seen in the recent behavior of the precious metals and metals markets.

The increasing liquidators' cash demand is reflected in the collapsing average daily volume of the stock market, and in a parallel shrinkage in the bond market. Daily trading levels on the New York Stock Exchange in the range of about 120 million stocks a day, compare with the 180-200 million level prior to the crash last year, and for the last month, if the phenomenon of "dividend stripping" is excluded, is well below the breakeven level for the brokerage houses and related dealers. By now, it is estimated, half the volume of shares traded on Oct. 19 would be sufficient to set off another 20% drop in market indices.

Phelan's assertion that another "correction" will happen, was conditioned in part, on that background. He laid out three options: that the correction might be short and sharp, over with quickly; that it might be protracted, governed by a steady increase in interest rates; or, that after two to three years of straightening out deficit imbalances, it might last another five years. The head of the New York Stock Exchange, then, is warning of depression dangers ahead.

Proxmire added the question of government finances to the mix, in warning of what the next President will have to deal with. He anticipates the collapse of the debt structure built up during the course of Reagan's recovery. Proxmire argued that the next President will have to deal with the collapse of what is now $9 of debt for every dollar of so-called earnings in the economy, and therefore, with the concomitant wave of financial and corporate bankruptcies, and the unemployment of tens of millions of people.

If the neo-Hooverites responsible for the "stall, stall, and stall again" policy of the financial crowd have their way, Proxmire is not too far from the truth. Phelan offered no idea on when his "correction" will hit, though it could actually be any time. Proxmire's warnings will definitely assume new shape during the period August through October; by then, it will be crystal clear that the budget deficit for fiscal 1989, beginning Oct. 1, will not be the administration's projected $146 billion, within the Gramm-Rudman guidelines, but perhaps twice that amount. Revenues from individuals are running $25 billion below last year's level. The deficit for the first six months of the year is already $30 billion larger than anticipated. Some $30-$60 billion will have to be found from somewhere for the failing thrift system. The commercial banks will need, perhaps, a comparable amount. Each 1% increase in the rate of interest will add $15 billion to the deficit directly, and more indirectly. By the time the administration and Congress get to their mid-August review of compliance with the Gramm-Rudman guidelines, it will be impossible to cover up the magnitude of the disaster.

This line of thinking impacts on the behavior of foreign creditors. The U.S. is not simply demanding that such creditors continue to finance the U.S. deficit at the present $160-$180 billion level, but that the funding be increased by $40 billion and up. Baker and his statistical fakers at the Commerce Department are unable to reduce the trade deficit fast enough to make any difference. The increased demands were behind the OECD's decidely unenthusiastic reaction to the recent release of the March trade figures. Instead of backing Baker, Nigel Lawson of the British Treasury and Jacques Delors of the European Economic Commission both reiterated their demands for sharp cuts in U.S. internal consumption. As they did so, the Japanese, who had bought U.S. bonds in the quarterly auction of the second week in May, unloaded what they had bought. The message was clear: The foreign creditors are running out of patience with the standing U.S. policy of having them cough up the loot to cover U.S. deficits.

In an April TV address to Americans, Democratic presidential candidate Lyndon LaRouche showed that the process of collapse now under way in the economic and financial system is eerily parallel to the process unleashed between 1929 and 1932. Back in 1930, during the month of June, the stock exchange went into its second nose-dive, tumbling from about 275 on the contemporary index, down to the 220s. Behind Phelan's warnings is perhaps the dawning recognition that such could actually happen again, with the market tumbling back to, say, the 1250-1500 level, on its way down to 600-800.

If that doesn't occur in June, Proxmire expressed the concern that from the period August through October, new elements are going to be thrown into the picture, which will make that line of development unstoppable.

Neither of them have anything to say about what should be done to stop, or reverse the collapse, which, as they reflect, some are now beginning to admit cannot be held back, and perhaps cannot be held back into next year. They and the others in the shadows have yet to face the fact that it's only Lyndon LaRouche who has come up with a reorganization package that will work. Maybe there are others like Proxmire who recognize that the othodox ways will make things worse. What is needed, though, is the kind of change in methods and procedures that LaRouche alone is competent to ram through.