# White House fails LaRouche's 'Economics I.Q. Test'

by Marcia Merry Baker

One year ago April, Democratic Party Presidential pre-candidate Lyndon LaRouche issued what he called his "Economics I.Q. Test," to confront people to think through, whether they worship the almighty market bubble, or instead recognize the reality that people and the entire economy are suffering while the policies favoring financial speculation prevail. Pass the test and take action accordingly; or, flunk and wail.

It appears that the White House, which sponsored a "New Economy" forum on April 5, is still failing that test.

LaRouche said a year ago, "If anyone tells you that a rising Dow Jones stock market index proves that the U.S. economy is growing, your reply ought to be: 'Oh, you mean that the cancer is growing. Tell me, Doctor: How is the patient doing?' "

We reprint LaRouche's sanity test (see box), and produce nine reference charts (pages 8-10) on the feverish state of the U.S. stock markets, as background material to put such episodes as the record one-day market gyrations on April 4 into perspective. During the hours of that trading day, the Dow Jones (so-called) Industrial Average plunged at one point by 700 points. The Nasdaq composite index fell 13% in two hours. The e-stocks of the "New Economy" led the collapse, but all stocks veered south. As of 1:21 p.m., the U.S. stock market had lost an estimated $1.9 trillion in paper values. Across the Atlantic, five hours ahead, panic hit the European "New Economy" markets. In Germany, the "New Market" dropped by 7%, while a new Internet index of the Paris CAC dropped by a full 18%.

Then, amid the worst of the mid-day free-fall in New York, a sky-hook came down out of the blue, to lift up stocks, in the form of sudden, conspicuous big-bloc buying of stock index futures by Merrill Lynch, Goldman Sachs, and other big brokerage houses. The Federal Reserve reportedly injected some $10 billion on behalf of the Bank of Japan, in a nominal dollar-support operation. The word was, all this had the backing and coordination of the "Plunge Protection Team"—the popular name for the Presidential Working Group on Financial Markets.

In only two hours and 39 minutes, the market rebounded by $1 trillion, closing the day at only a $900 billion loss (a measure based on the Wilshire index, of all American-based companies with publicly traded stocks). "Divine intervention" is what bubble critic columnist John Crudele called it in his column, "How Stocks Turned Back from the Abyss," in the April 5 *New York Post*.

## Losses don't 'average out'

Thusly, the April 4 stock market plunges were reversed, and at close of trading, the indices were down by much less. However, when it comes to losses, things don't just "average out." The big-hat stock jockeys were not the only ones unhorsed. Millions of little-guy stock market players, e-stock entrepreneurs, and others were hit. More than 46% of all U.S. households are now in the stock markets. Margin-calls smacked many now buying stocks on loan; thousands were wiped out. The secondary effects are zinging through many parts of the system.

In Northern Virginia, and the Greater Washington, D.C. area generally, for example, now the country's biggest concentration of e-tech companies, shares of 45 mostly Internet and telecommunications firms lost more than 10% of their value on April 4. Over the previous three-week slide in tech



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stocks, some "dot-coms" are down 50% in value. This region, the East Coast version of Silicon Valley, is now known as Silly.com Valley, for its outlook heretofore of financial invincibility.

Beyond the details of April 4, the point is that such an episode is not a one-time-only affair. By the time of the printing of this issue of *EIR,* the April 4 record day, may be superseded. "I expect a crash in installments," said Roland Leuschel, former member of the Board of Directors of Banque Bruxelles Lambert, in an April 6 interview with the German daily *Die Welt*. This veteran critic of the U.S. financial bubble-.com is typical of the widespread European criticism of, and also fear of, the United States, because of the prevalence of *denial* among Americans about what is happening.

### Hysterical denial

Even more noteworthy about April 4, was what followed it on April 5, at the "New Economy" forum at the White House. At this occasion, albeit planned months earlier, the Very Important Persons in e-business, finance, education, and so on, up to and including the President, hysterically denied that there is any trouble with either the U.S. economy or the financial system. Nary a mention was made about the stock market losses and tumult the day before, nor about the dramatic fact that, all the while the "New Economy" and Internet-related tech stock boom has gone on (until the day before), Americans have come to depend on foreign-produced *physical* goods for their very existence, as each month's record trade deficit shows.

## The 'Economics I.Q. Test'

*The following statements by Lyndon LaRouche are excerpted from* EIR'*s April 28, 1999* Feature.

If anyone tells you that a rising Dow-Jones stock-market index proves that the U.S. economy is growing, your reply ought to be: "Oh, you mean that the cancer is growing. Tell me, Doctor: How is the patient doing?"

Given the present circumstances of the people of most of today's world, that is not a cruel thing to say. It is something which any intelligent and honest person would consider it necessary to say under the rapidly worsening real-economic conditions in the U.S.A. today. As a report included in this *EIR Feature* summarizes the fact:

> During the coming six months, more U.S. citizens, especially the poor and the elderly, will die of the worsening economic sicknesses caused by current Federal Reserve Board Chairman Alan Greenspan and related *Wall Street Journal* policies, than of illnesses such as heart disease and cancer. Indeed, many of the preventable deaths from heart disease and cancer are the result of those financial and related budgetary policies.

That is simply an actuarial fact; it is not the kind of deliberately misleading index which so many foolish Americans quote so triumphantly from the large-circulation mass-media. The present trends in U.S.A. general welfare policies, especially those of Wall Street's carpetbagging HMO and related pilfering of health-care standards, are notable in this connection. No decent person would argue, that the present U.S. economy, which successfully increases the sickness and death rates of its people, especially among its elderly and poor, is a healthy economy.

The best way to understand what is happening to the stock markets, and to the personal financial accounts of many among you, right now, is to compare the present trends in financial markets since Spring 1997 with the rise in prices, measured in Reichsmarks, during the first eight months of 1923—up to the time of Hitler's "beer-hall *Putsch*" which launched Adolf Hitler's growing influence in Germany's politics. Look at the way the personal financial savings of the German "middle class" were wiped out by the Weimar hyperinflation of 1923, and the way in which Federal Reserve Chairman Alan Greenspan's even more lunatic hyperinflationary bubble is now threatening to wipe out much or all of what you presently believe are your personal assets.

Ask yourself: Even after the world's experience with the results of that 1923 Weimar hyperinflation, why are so many politically influential and other Americans victims of the widespread superstition, that the health of an economy can be measured in prices of stocks and bonds? Why do most adult Americans today become suddenly either stupid or even plunge into episodes of wild-eyed babbling, when the subject turns to economics and economic policy? There are many contributing factors behind such behavior.

In this *Feature,* we shall consider a few typical factors, and then turn our attention to today's principal subject: How does a sane citizen determine whether an economy is actually growing, or not? Why is my standard for measuring economic health, my so-called "Triple Curve" [see this issue, p. 15], the only effective yardstick for measuring how well, or how badly Wall Street is performing today?

Federal Reserve Chairman Alan Greenspan praised the "remarkable expansion" in the U.S. economy. Abby Joseph Cohen, from Goldman Sachs Investment Strategies division, said, "Our nation is blessed," and "our economy is blessed" by the new economy. (Only one week earlier, Cohen, the guru of the "ever-rising" markets myth, was credited with causing a big drop in the stock market on March 28, when she announced before trading opened, that she was reducing the stocks percentage in her "model portfolio" from 70% down to 65%.) But on April 5, all sang the theme of the glory days for info-tech and dot-coms, including Microsoft chairman Bill Gates, Treasury Secretary Lawrence Summers, and many others. Summers put in a special plug for Al Gore, praising his concern for good management of "what the Vice President likes to call this information technology supply shop."

President Clinton personally moderated the New Economy confab, and repeatedly expressed concern, not for any shakiness of the dot-com boom, but only for that fact that so little "economic parity" exists for the have-nots to benefit from the "New Economy." He spoke of ways to close the "digital divide."

Commenting on April 5, on the spectacle of hysterical denial at the White House, Lyndon LaRouche said, "In any crisis expressing the collapse of a long and deeply held delusion, there are always people in the relatively highest positions, who will cling desperately to a sinking ship, out of their fear of drowning. Such is the only fair characterization of the White House's reaction to the Tuesday market panic, both yesterday afternoon, and, again, today.

"Imagine a contemporary President Herbert Hoover promising lots of pot in every chicken! That is a perfectly fair characterization of the White House posturing over the supposed wonders of what is now obviously the doomed relics of the so-called 'New Economy.' "

LaRouche pointed out that among the leading considerations behind the flight-forward reactions of the White House to the financial market developments of the first week in April, is that "these developments doom Gore's prospects, prospects on which the White House has credulously come to depend psychologically; secondly, there is indeed a longer-term softness toward the New Age ideology in those White House and related circles, which translates into a potentially fatal softness toward Gore."

As an antidote to insanity, wishfulness, desperation, and anything else involved in blind faith in the "New Economy," *EIR,* on April 3 in Berlin, held a seminar to release its new German-language Special Report on "The Myth of the Information Society." In preparation for release in English, this report dissects the trendy ideology, that the world economy is being transformed into a "globalized information economy"—and that this "New Economy" is just wonderful for everyone willing to go along. (Details on the Berlin seminar and the report are on p. 10.)

## International Commentaries

# Wake up! 'New Economy' is hitting the skids

**"Does the New Economy Have New Rules of the Game?" *Neue Zürcher Zeitung,* Switzerland, April 1-2:**

The paper warns of a crash along the lines of October 1987. Since the surge in the prices of "telecommunications, media, and technology," or "TMT," stocks at the end of 1998, "TMT stocks account now for 39% of all global stock market capitalization; in the same month a year ago it was 25%. . . . The reason for the speculative bubble is above all the excess liquidity in the market and a changed, risk-taking stockholding public."

Compare the lead-in to the crash of October 1987 to the present situation:

- The U.S. Federal Reserve raises interest rates to cool the economy down. In 1987, leveraged buy-out (LBO) stocks continued to rise; in 2000, Internet stocks continue to rise.
- Stocks are bought on credit. In 1987, via companies; in 2000, via private day-traders and buyers.
- Company profits are irrelevant to stock price. In 1987, the new metric was the private market value; in 2000, it is the ratio of a stock price to gross revenue.
- Interest rates play no role in the stock market. In 1987, strong profits from LBOs compensated for higher interest rates; in 2000, the cost of the "New Economy" is independent of interest rates.
- Risk diversification into bonds does not pay. In 1987, there was a phenomenal stock rise driven by LBOs; in 2000, a phenomenal rise in Internet stocks.
- A new form of stock trading is supposed to protect the shareholder from losses. In 1987, derivatives or "portfolio insurance" were widely used; in 2000, day trading on the Internet.

The paper continues: "The signs of overvalued stocks are clearly visible. The peak of the Internet stock price rise displays definite signs which in the past always signalled a coming stock crash. If we consider all these factors, then the warning light must be on 'red,' especially as it is not possible to say when euphoria suddenly will shift into a sharp crash."

**"Eurobond Market" column, *Neue Zürcher Zeitung,* Switzerland, April 3:**

According to Stephen Roach of Morgan Stanley Witter, "the medicine prescribed for the crises in Asia and Russia—namely, massive increase of liquidity in the G-7 countries—will now create the basis for the next crisis, which will manifest itself in . . . a shake-up of the financial markets." Roach