

U.S. Economic House Burning, All But LaRouche Deny It

by Paul Gallagher

In the high-level, bipartisan “WorldCom flap” of the week of June 24, American elected leaders from President Bush on expressed their concern to do something about *newspaper headlines*, while showing an equal bipartisan lack of concern to do anything to save the U.S. economy and U.S. dollar from their collapse.

One might almost suspect that WorldCom—which was already a penny-stock telecom conglomerate on its way to bankruptcy along with many others—was put up to announcing its multibillion-dollar fraud, in order to give President Bush and Senators Tom Daschle and Joe Lieberman something to make noise about while denying any problem with the economy. Debate over the spectacular accounting fraud, relegated to the back pages the news that between WorldCom and Alcatel Corp., 25,000 immediate new layoffs were being added to the toll in the telecom sector.

The United States economy is falling into the “second dip” of its 2000-01 slide into depression with its political leadership—except for Presidential candidate Lyndon LaRouche—in complete “recovery” denial. The accelerating collapse of the dollar and of dollar-centered debt, which LaRouche warns will gather explosive force by Fall at the latest, is more and more evident to all thinking and feeling Americans. This wildfire, burning up debt and stock markets, must haunt the minds of those watching the enormous actual fires burning in the nation’s West. But it is publicly ignored by all American leaders other than LaRouche, even as it drives the White House to flee from the economic danger into more terror/anti-terror war hysteria.

The vacuum of economic leadership is noted clearly from abroad. The June 25 London *Times*, for example, in its “Foreign Editor’s Briefing” section, commented on President Bush’s unfortunate Mideast speech the day before: “Which

is the bigger threat to Bush’s own political future, the dollar, or another terrorist attack on the United States? The fall in the dollar must win that competition—along with the plunge in the stock markets—compounded by Bush’s lack of a credible economic team.”

Dollar Slide Is Accelerating

The magnitude of the linked U.S. and Ibero-American debt crisis shows in the fact that the major Ibero-American currencies—the Brazilian real and Mexican peso—are devaluing rapidly against a dollar which is itself falling faster and faster against the euro and yen. By the end of June, the dollar had fallen 15% against the euro in two months, and 17% against the yen, despite the renewed sinking of Japan’s economy.

This in turn represents the drying up of the huge net capital flows into the United States economy from the rest of the world, which have been sustaining its enormous current accounts deficit for years. The latest, May, reports on the U.S. trade and current-accounts balances, indicate that these deficits are again at the pace of \$400 billion annually for physical trade, and nearly \$500 billion for the current-accounts balance. But the net inflow of capital investment to the United States—particularly stock market investments—which fell abruptly in 2001, has fallen further in the first months of 2002, to a prospective yearly level which is much less than half of the current-account deficit (see *EIR*, June 14, 2002). The “net loot” which the U.S. economy has been collecting at half a trillion dollars or more per year since the 1990s, is simply drying up.

This is the deadly development which is driving down the dollar. Worse, the dollar’s fall will intensify it, making the decline self-feeding. Nothing else but this “net loot” of the

dollar, combined with Fed Chairman Alan Greenspan's pumping of the money supply and bank credit, has been building up the vast bubbles of stock valuation and debt which are now collapsing.

The only measures available to stop the debt-collapse process, are not changes in accounting procedures—they are sweeping measures of national bankruptcy reorganization of unpayable debt, which LaRouche would carry out, and national investments in great projects of infrastructure renewal.

Denying and Denying Thrice

Yet only the week before the WorldCom brouhaha, leading Democrats in Washington had told *EIR* that the party leadership was being advised, by its top election consultants, not to talk about the economy at all during the 2002 Congressional elections. Treasury Secretary and national loudmouth Paul O'Neill had made ridiculous statements denying the existence of the current devastating debt crisis in the Ibero-American nations—a U.S.-centered crisis which is bringing down corporate titans like AES Corp. and threatening the biggest U.S. banks. These same banks—J.P. Morgan Chase and Bank of America—are massively exposed to the collapsing debt of WorldCom and of the telecom sector as a whole (see *EIR*, April 12, 2002).

Congress had to raise the Federal debt ceiling by nearly \$450 billion on June 28 to avoid default on U.S. debt, because of the deepening collapse of government revenues at both the Federal and state levels throughout the country. A combined Federal-states budget deficit of well over \$200 billion rose “as from nowhere” in fiscal year 2002 just ending, and neither party's leading representatives wish to talk about that, or about what may happen next. The same Congressional leaders stood by and would make no move to invest in Amtrak, the national passenger railroad system which was about to shut down. The resulting deal between Amtrak and the Department of Transportation keeps it running only a few months more, while demanding that it sell off its stations and lines to private companies. Combined with the growing bankruptcy of the commercial airline sector, this is tearing down vital U.S. economic infrastructure; yet all of last year's post-Sept. 11 talk in Washington about “ensuring economic security” by Federal investments in infrastructure, has died away without any result.

There is no question that the one still-expanding credit bubble in the U.S. economy is that in real estate and housing. Median home “values” (i.e., prices) have been growing at a fantastic 20-25% annually across the country. *EIR* has consistently tracked the development of the skyrocketing real estate values as the substitute for Americans' savings and pensions—lost in the stock market and in corporate bankruptcies—and the sole major prop of continued “consumer spending.” *EIR*'s most recent report—“U.S. Real Estate Bubble



The President inspects one kind of wildfire, tries to ignore the other, more dangerous kind.

Nears Its End,” *EIR*, June 21 by Richard Freeman—showed a sudden lurch upwards in the past two years, of the indebtedness *and the debt and derivatives exposure* of the huge national mortgage finance companies known as Fannie Mae and Freddie Mac. In addition, increased unemployment has caused mortgage default rates to rise sharply. The giant Federal mortgage companies which have been pumping up the household debt and “worth” of households and real estate interests alike at an astonishing rate, were now themselves becoming the dangerous likely detonators for a crash of that debt, Freeman showed.

Notably, that the leading establishment daily, the *Washington Post*, on June 24 published on its front page a major Harvard University study attempting to deny and refute the documented warnings of *EIR*'s reports. “No Housing Bubble,” said the *Post*'s headline. “There is no housing bubble. I'm as sure of that as I can be of anything,” the National Association of Realtors' chief economist was quoted. Fannie Mae “is very bullish on the housing market unless there is a terrorist attack,” said the agency's economist in a statement timed with the release of the Harvard study.

The Harvard study had, in fact, been funded by the very same national mortgage companies, Fannie Mae and Freddie Mac. Aside from a hymn of praise of the increase of American homeownership, its purpose was to claim that “rock-solid home prices” and low-interest mortgage credit expansion had stifled the 2001 “recession,” and would now ensure economic “recovery.”

A study which calls “rock-solid,” home prices which are rising at 25% per year nationally, epitomizes the denial of the coming break. The whole Harvard enterprise was obviously backed and promoted by a Washington establishment desperate to hide reality from Americans, “unless there is a terrorist attack,” as the mantra goes.