

Next financial earthquake on the way

There is no financial crisis which the U.S. government can not overcome, if it recognizes that a crisis exists, and takes the appropriate measures.

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The continued rapid decline in the value of the U.S. dollar, is a far more ominous sign of the next major financial earthquake than the continued, rapid decline of the U.S. and major foreign stock markets.

Unless President Reagan changes his policies very soon, the value of the dollar will drop rapidly to 1.50 West German deutschemarks, and probably even well below that level. This is about half the value of the dollar as recently as March-April 1985, when it hit over 3.00 deutschemarks, and a 25% drop since the beginning of the spring. This collapse of the dollar is much more worrying than the fall in stock markets.

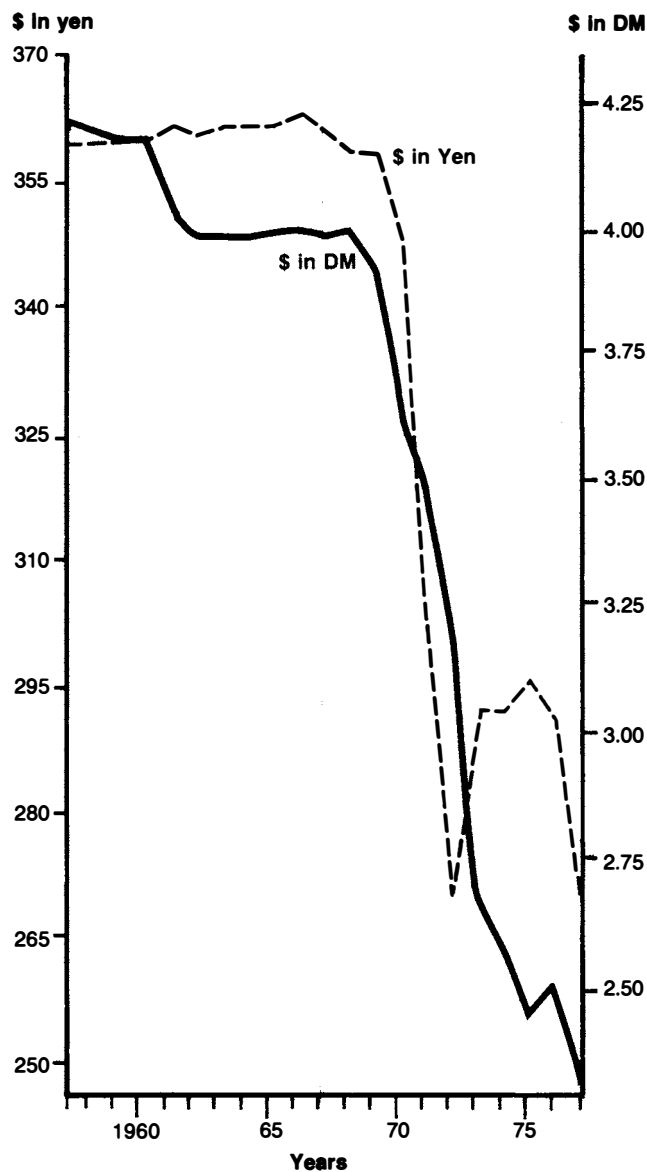
The deep collapse in the value of the dollar, which the Reagan administration has sought to bring about since the beginning of the past spring, means strong inflationary pressures inside the U.S. markets, because of higher costs of imports in a highly import-dependent economy. It means a massive devaluation of U.S. government bonds. It means, this year alone, a whopping 25% increase in the cost to both government and the private sector in paying foreign obligations.

The inevitable effect of the dollar's fall showed up more conspicuously at the beginning of this week. During the past five trading days, approximately as much paper value was wiped out as was destroyed by Black Monday, perhaps even more. The levels of stock-market decline, on most trading days, would have been called a "crash" or "near crash" in those markets on any day prior to Black Monday. The trend is down, down, down; with the collapse of the dollar pushing the decline.

The international markets are building up for something very big, much bigger than Black Monday. It could hit before Christmas, or there might be a continued downslide, at about the present pace, until the big one hits; the optimistic bankers in Europe are saying, the big one will hit no later than next spring. Meanwhile, any significant disturbance would be sufficient to set off the big crash any week. Humpty Dumpty is leaking through cracks from his last tumble, and wobbling ominously on the top of the wall; a slight push would send him over at any time.

The thing which makes the situation so dangerous, is that, so far, both the White House and the leaders of the Congress, along with the news media, are living in an Alice-in-Won-

FIGURE 1a
Movements of U.S. dollar with respect to deutschemark and yen by year 1957-77



Source: *International Financial Statistics*, International Monetary Fund.

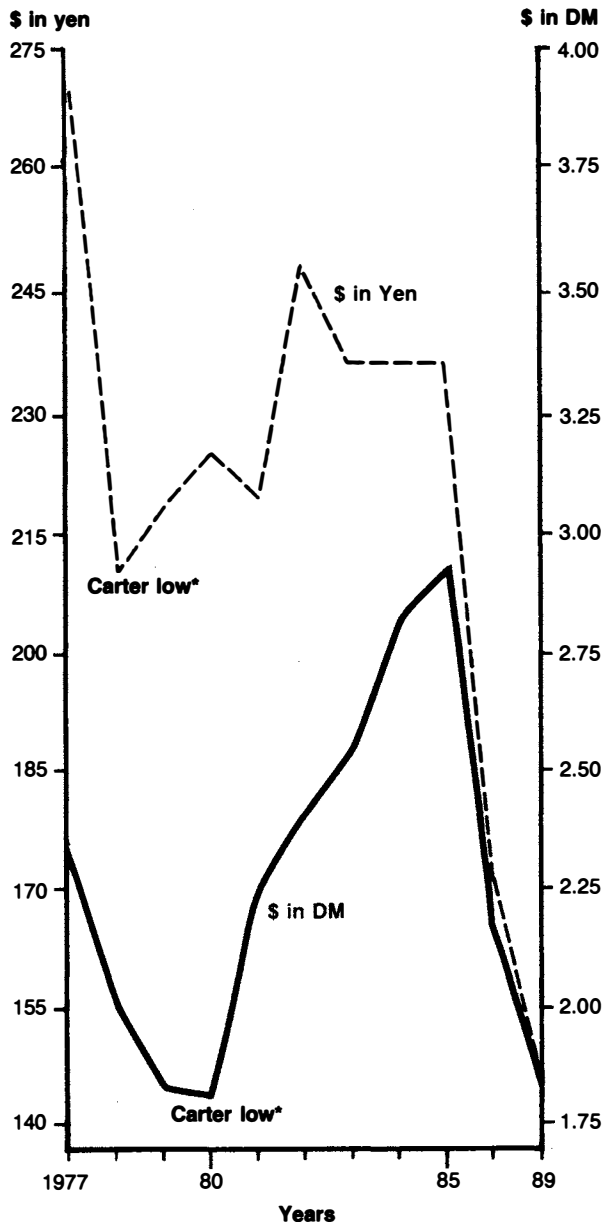
derland fantasy-world. The bus that was supposed to be traveling uphill is running out of control, backward, downhill. The Congress is clinging to the fenders, trying to lean the engine's mixture. The news media and stock brokers are demanding that someone talk the engine into greater confi-

dence. Bush is demanding that everyone keep quiet about the crisis until after the November 1988 election. The President is demanding that everyone shut up about the economy, so as not to spoil the atmosphere for his Pearl Harbor Day social get-together with Soviet boss Mikhail Gorbachov.

In the distance, Japan and Western Europe are demanding actions that are just as silly as those being proposed by the leaders of the Congress and some leading U.S. news media. In Moscow, the Soviet leadership is splitting its sides, laughing at the Western governments' and central bankers' baggy-pants burlesque performance.

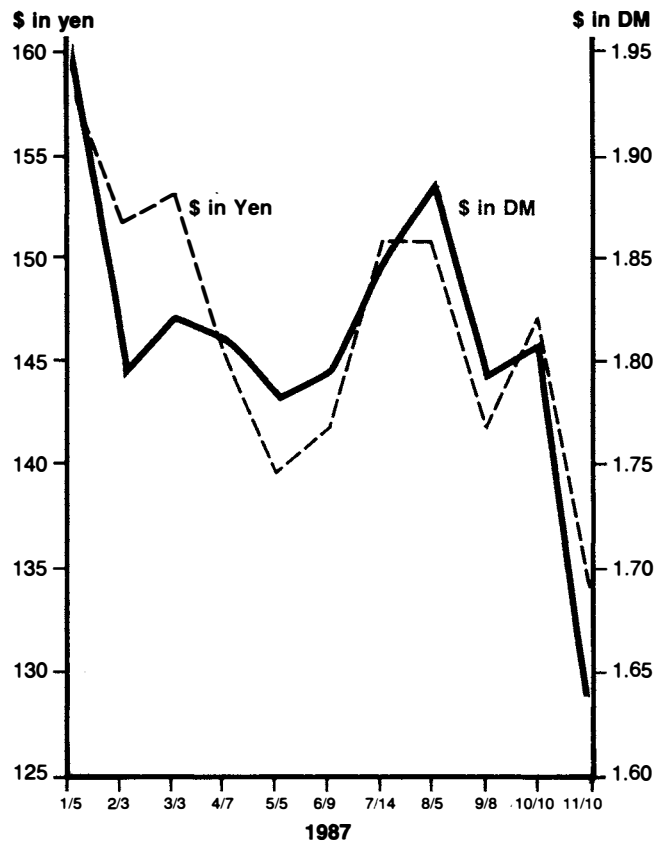
The point to be stressed, is that there is no financial crisis which the government of the United States can not overcome, if it recognizes that a crisis exists, and takes the appropriate measures. In the final analysis, paper values are only paper values; what counts, in the final analysis, is production and employment. As long as we increase employment of agricul-

FIGURE 1b
Movements of U.S. dollar with respect to deutschmark and yen by year 1977-87



*Amounts are averages for those years; the real Carter low came in April 1979, 1.72 DM

FIGURE 1c
Movements of U.S. dollar with respect to deutschmark and yen, 1987 to date, by month



Source: Executive Intelligence Review

Source: International Financial Statistics, International Monetary Fund.

tural, industrial, and infrastructural operatives, increase per capita physical output, and emphasize capital investment in technological progress, this production of wealth will enable us to solve any problem created by the fall of paper values even to the lowest levels.

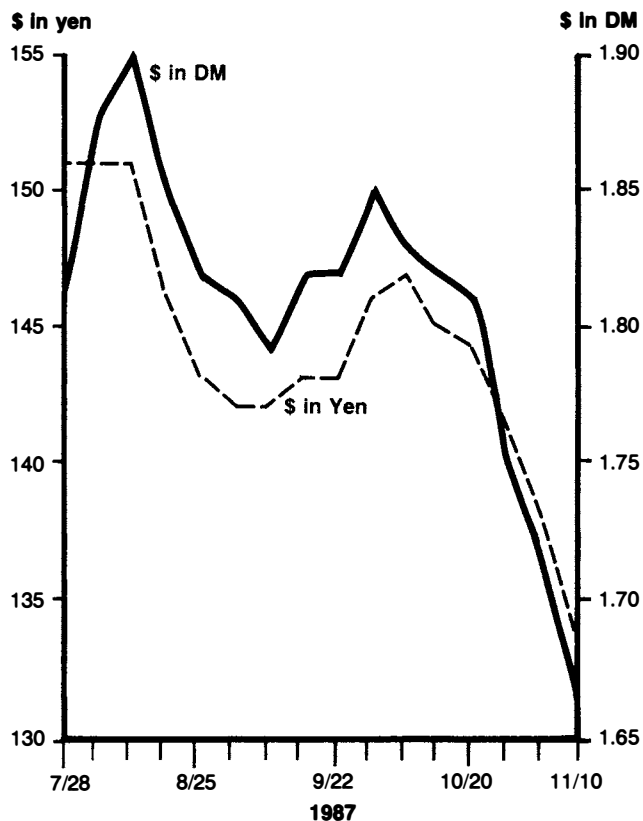
There are only three sets of paper values which must be defended at all costs: the value of the U.S. dollar, the value of U.S. government bonds, and the continued functioning of financially distressed local banks, with guarantees that insured savings deposits will be settled on the basis of 100% of the face value of their principal amounts. The reason we must defend these three categories of paper values, is that without faith in the government's credit, we can not organize a recovery, and without functioning local banks, even government credit can not efficiently mobilize economic recovery.

The more than \$10 trillion of private paper assets being wiped out by the ongoing financial crash could not be saved

by government. If the government tried to bail out these markets, the government itself would make itself hopelessly bankrupt—and would still not succeed in holding up prices in those markets for long.

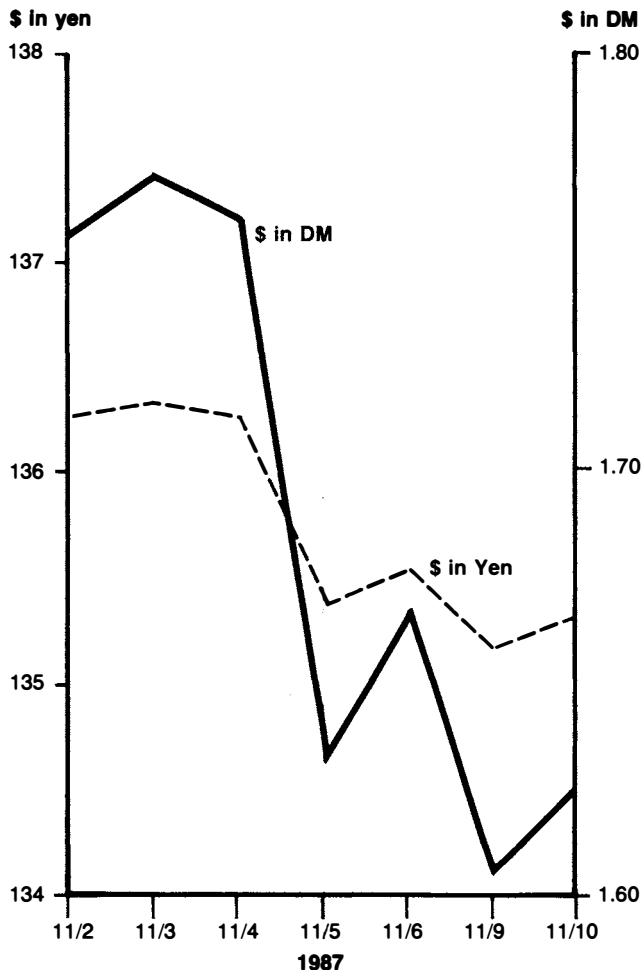
We must accept the cruel fact, that many more trillions of dollars' worth of paper values are going to be wiped out before next summer, and that there is nothing that can be done to prevent it. The time it could have been prevented, was back in 1982, or even as late as 1984. I warned the Reagan administration directly, that this would be the result of failing to bite the bullet back in 1982. It has happened; they have no one to blame but their own foolishness in refusing to heed sound advice. Things have gone too far; those

FIGURE 1d
Movements of U.S. dollar with respect to deutschemark and yen, August 1 to date, by week



Source: *Executive Intelligence Review*

FIGURE 1e
Movements of U.S. dollar with respect to deutschemark and yen, November, by business day



Source: *Financial Times*

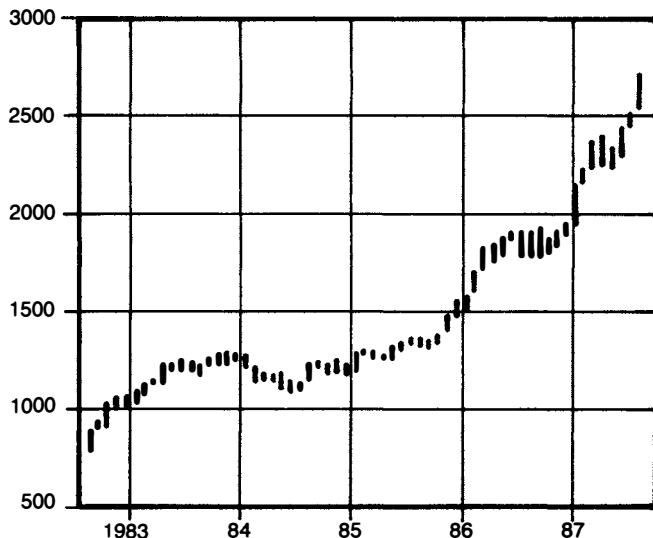
markets are doomed for the time being.

Instead of attempting to save what can not be saved, we must concentrate all our efforts on saving what can and must be saved. What must be saved and built up is production of physical goods. If we increase employment of operatives employed in producing physical goods and capital improvements of farms, industry, and infrastructure, we will avoid an economic depression and produce enough wealth that no one need fear going hungry because of the effects of the financial crash. We can not stop the financial crash, but we can prevent an economic depression.

As I said, to prevent an economic depression, we must act quickly to defend the dollar, defend the value of government bonds, and keep essential but distressed local banks doing their essential day-to-day business in the communities. The rest is chiefly up to the federal government, to the President, and the leaders of the Congress.

So, accept the fact that the big financial crash of 1987-88 is on. It is like a major earthquake; it is happening, and is, for the moment, beyond human control. The worst thing you could do, in this situation, is to spread false, wishful confidence, that "maybe, recovery of the markets is just around the corner." The danger is, that the Ronald Hoover administration and leaders of the Congress will continue to repeat the repeated, continued 1929-32 blunders of the Herbert Hoover administration and the Raskob Democrats back then.

FIGURE 2a
New York Stock Exchange, Dow-Jones Index, by month, August 1982 to August 1987



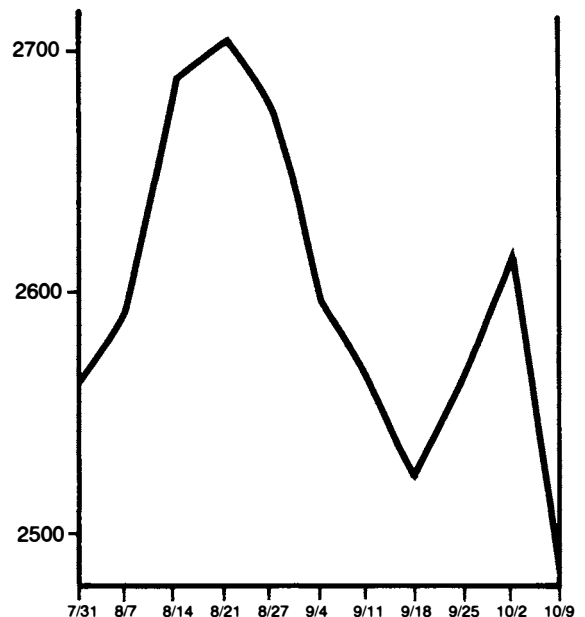
Source: *Wall Street Journal*

The only practical issue, is whether we are going to have a deep economic depression as a result of this financial crash, or not. Would you rather dream about a recovery in the prices of paper values which man could not defend, and God will not, and slide into a deep economic depression, because of your wishful delusions; or do you have the plain old guts to face the fact that most of the book value of that paper is as good as long gone, and act to save this nation, and yourself, from a deep economic depression? Those are the only choices you have; you must decide very soon.

If we can not awaken official Washington to reality very soon, we shall be in a deep economic depression by next summer or fall. If Washington does not also take the kinds of emergency actions I have repeatedly detailed and explained to the Reagan administration and others, there will be the worst depression you could imagine by sometime during 1989.

You see, a good economic forecast is not some idiot statistician's crystal-ball prophecy. A good economic forecast is telling you what you must do, to avoid disaster and find the way to economic recovery. Economics is not a classroom exercise, or a spectator sport; economics puts you on the playing-field, to win or lose by your efforts and skill. Friend, the ball is in your court.

FIGURE 2b
Declines in Dow-Jones Index by week, Aug. 1-Oct. 6, 1987



Source: *Financial Times*

FIGURE 2c

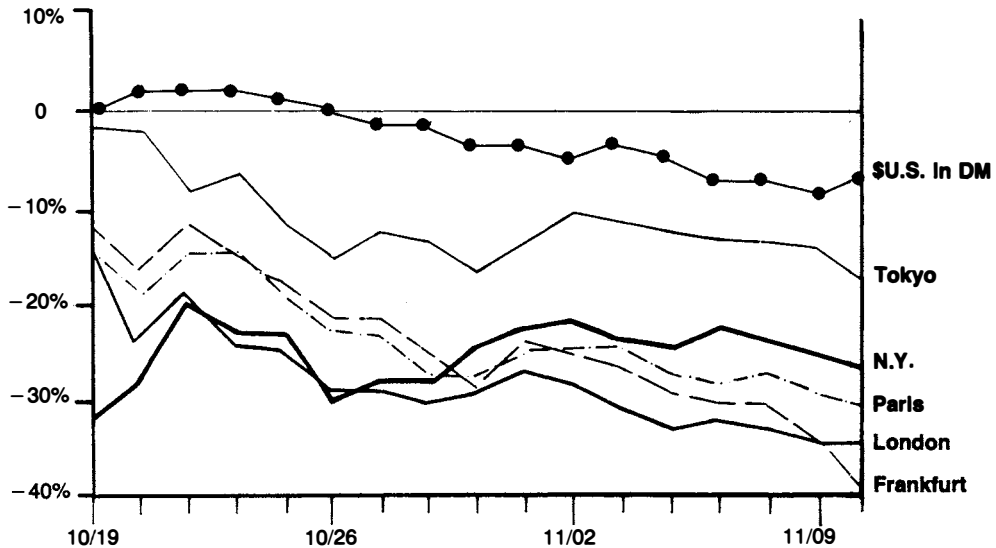
Cumulative percent scale of decline in world markets, by trading day since Oct. 6



Source: *Financial Times*

FIGURE 3

Comparison of cumulative percent scale of decline in value, U.S. dollar against the deutschemark and world markets, since 'Black Monday,' by day



Source: *Financial Times*