

Save ‘The Markets’? Why Even Try? Save the Economy!

by Marcia Merry Baker and John Hoefle

“The Markets Are Dead! Long Live the Markets!” is the best description we could think of, to characterize the insane mindset behind the attempt to stage a so-called Patriotic (Stock) Rally on Sept. 17, the day the New York Stock Exchange reopened after the Sept. 11 assault, and for subsequent days. The liquidity-pumping and Plunge Protection Team tricks were aimed at keeping up a pretense that financial markets can be yanked out of collapse. On Sept. 17 alone, the Federal Reserve reportedly pumped in some \$57 billion.

As for the physical economy? It was treated as contingent on the (dead) markets! It is the toleration and continuation of just this kind of thinking, that is now a strategic threat to the

economic existence of the United States, and the the global system.

That first week alone, five stocks lost value for every one that rose. The record weekly trading volume was nearly 10 billion transactions. The famous 30 stocks in the Dow Index lost nearly 1,400 points in Week One. The *paper* is gone.

During this same ten-day period after Sept. 11, waves of credit collapse, insolvencies, and layoffs ran through the U.S. and world airlines system, and also began throughout all other vital economic sectors, from auto assembly, to paper manufacturing. Ibero-American economies—tied into the United States because of the recent years’ binge of “free (rigged) trade,” are reeling. For example, specialty food exports (salmon, flowers, fruits) account for a high percentage of Ibero-American nations’ foreign-exchange revenues, which are now next to nothing. Tourist revenues and capital inflows likewise are gone.

In the U.S. airline/aviation sector itself, the number of layoff announcements as of Sept. 21, exceeded 100,000 for that one sector in one week. Coming on top of over a million jobs cut in the U.S. economy from Summer to Summer, 2000-2001, the Sept. 11-triggered layoffs mean an instant crisis impact throughout the economy.

Thus, we face the question: how to save the economy, not the “markets.” Anyone thinking otherwise is deluded or faking. On the Sept. 17 Wall Street re-opening day, at the same time that Treasury Secretary Paul O’Neill was personally at the re-opening ceremony for the New York Stock Exchange, saying, “Buy American . . . don’t sell,” Lyndon



O’Neill in space: Political “newcomer” Treasury Secretary O’Neill (left) now shares one characteristic with “insider” Alan Greenspan—both men “have lost it.”

LaRouche issued a guidance on economic emergency policy (see box), warning: Don't use terrorism for a financial bailout!

In an interview with "The LaRouche Connection" cable TV program on Sept. 19, now in international circulation, LaRouche detailed how to restore and keep economic functions going, using the principle of Chapter 11 bankruptcy measures, and providing for the public good by making a priority of vital infrastructure—immediately, airlines and rail—along with manufacturing, agriculture, and other essential sectors. LaRouche reviewed how to freeze unpayable debts, restructure, and provide low-interest operating credits. (The transcript of "A Conversation with LaRouche In A Time Of Crisis," appears on p. 16.) His proposals also involve attention to the "growth factor" of new nation-serving projects of transportation, water, and other infrastructure, both in North America, and in collaboration with other nations for such priorities as the Eurasian Land-Bridge.

Bubbles Bursting Before Sept. 11

Well before the Sept. 11 assault, the financial bubbles that characterized the U.S. economy, and national and global financial systems, were popping in sequence—e.g., the New

Economy information-technology stocks, and the telecommunications bubble. From March 2000 through September 2001, the capitalization of stocks on the market has plunged from \$18 trillion down to \$11 trillion.

Meantime, the U.S. debt bubble has ballooned to a total of \$28 trillion as of mid-year 2001, including \$6.8 trillion in business debt, and \$7.4 trillion in household debt. This debt bubble has been rising faster than Gross Domestic Product—a clearly ominous sign. Growing even faster have been derivatives holdings—the equivalent of gambling debts, which in the U.S. banking sector, hit a total of \$48 trillion worth on June 30, 2001. This is a 24% increase in 12 months.

Argentina, Turkey, and other nations have been in turmoil for months, threatened by pyramids of unpayable debt burdens of all kinds.

The actions of Federal Reserve Chairman Alan Greenspan through August obviously abetted the bubble process, not the economy, with seven interest rate cuts January through Summer, and by such policy whoppers as facilitating the Great Home Mortgage Refinancing Bubble. Some \$45 billion net were created through mortgage "re-fis," totalling some \$500 billion, and pumped back into the U.S. economy. But by

POLICY ON FINANCIAL CRISIS MANAGEMENT

Terror As Used For Bailout

by Lyndon H. LaRouche, Jr.

September 17, 2001

CNN, among other arms of "Big Brother," has been wearing a mask of false confidence on, among other notable issues, the matter of the U.S. financial system. The not-so-hidden message has been "confidence that Washington will do what is necessary to ensure that the currently accelerating financial collapse 'never really happened,' and, 'therefore, never could happen!'" The psychotic leer of delusion on the face of "Big Brother," says, "You will see, Big Brother will fix everything, and triumph in the end!"

Perhaps, somewhere behind that mask, there lurk agencies which are not so psychotically stupid as to believe that "Big Brother" line on the world economy. I suspect there are such witting hoaxsters in the woodwork. However, the problem of popular susceptibility is largely a matter of simple cowardice: denial, on the one hand, of the fact that the onrushing monetary-financial crisis was the inevitable consequence of the failure to act as I had consistently warned must be done; and, on the other hand, denial of the conclusive evidence of a rogue element in our nation's

security apparatus, by fleeing into the wishful delusion that we need only "hit" targets of foreigners whose culture and homelands are far away. See that clear evidence of dysentery-like cowardice among those spouting blood-lust against the miserable Osama bin Laden, and you are seeing a second danger to the U.S.A. from within, a danger second only to that from those inside our nation's security organization who have been the principal perpetrators of the assault.

The added danger, at this moment, is that lunacy in Washington will insist that everything must be wasted in the futile effort to "save the market," throwing away precious assets for a "bailout" of "the market," instead of conserving our national sovereign credit for the urgent need, that of saving the real economy.

For example, an emergency financial reorganization of the national airline industry, must occur, preferably in parallel with kindred emergency measures by other nations. This means, that we must forget the Wall Street financial capital-gains market, and concentrate on long-term flexible budgeting of Federal and other credit-resources to keep the industry functioning physically, using ten- to twenty-year financial organization as the way of stabilizing the industry both financially and in physical functioning.

Generally, basic economic infrastructure, should enjoy the benefit of first priority, and rebirth of domestic agricultural and manufacturing output as the complementary priority.

August, this dynamic was already, and inevitably, deflating.

Then there is the Great American Tax Cut. Intended to oomph consumer spending, these rebates of \$300 to \$600 per taxpayer, along with the general economic slump, showed up as a whopping \$64 billion monthly Federal budget deficit for August. This was the largest one-month budget deficit in U.S. history — so far.

In the face of all this, millions of Americans still managed to remain in denial, as of the eve of the attack. For example, on Sept. 11 itself, the National Farmers Union had representatives from 24 states in Washington, D.C., on an NFU “National Fly-In” to lobby for a better shake in the next farm bill, under a global system they would not acknowledge was collapsing.

The United Steel Workers and industry representatives were likewise in town to appeal to the International Trade Commission, for special redress, under the presumption the world economy was still intact. Other constituencies have had the same delusions. Cable News Network (CNN) has done its brainwashing part, by characterizing the actual U.S. collapse, as “Recovery.”

But now the terrible events of Sept. 11 re-focus everyone on the fact that *the economy is not a given* (and never was); and government intervention must be planned accordingly.

‘A Devil’s Spiral’

Although offering no solution, in many European capitals there is explicit recognition of the degree of breakdown crisis at hand. On Sept. 19, the London *Financial Times* wrote of a “Devil’s Spiral” in the U.S. economy. The *Times* defines this as a process of self-feeding downward events, where less business activity means falling profits; means more layoffs, less household and corporate income and spending, less “consumer confidence”; which in turn, means even worse business, and falling profits, more layoffs, and so on and on. The *Financial Times* offers no solution.

The demonstration that the LaRouche “Chapter 11” approach—embodying the same principles used during the Franklin Delano Roosevelt period—is what’s required, is seen in the case of the current “Devil’s Spiral” regarding the U.S. air transportation system.

The 100,000 running total of layoffs announced by U.S. air carriers, includes 20,000 by United, 20,000 by American Airlines, 11,000 possible from U.S. Airways, and others. In turn, on Sept. 18, Boeing announced layoffs of 30,000, because of the projected drop in orders for commercial jets. In turn, by Sept. 21, the secondary and tertiary potential for layoffs involved: engine suppliers Pratt and Whitney (supplying 360 airlines worldwide), Rolls Royce, and General Electric Co.; and Fairchild Fasteners, and other parts suppliers.

What is required is citizen-enforcement of government action in the LaRouche/FDR way, to stop the spiralling collapse. Any so-called bailout or “stimulus” package based on saving hopeless financial markets, and resorting to “fix-it” tax breaks, handouts, and other diddles, will fail.

Saving The U.S. Air Grid Is A National Priority

by Richard Freeman

The already serious crisis of the U.S. airline industry has been intensified as a result of the events of Sept. 11. The industry is now on a path of financial liquidation, which could lead to its physical collapse, and destroy America’s air transportation grid.

On Sept. 18, year 2004 Democratic Presidential pre-candidate Lyndon LaRouche denounced the “lunacy in Washington [which] will insist that everything must be wasted in the futile effort to ‘save the market,’ throwing away precious assets for ‘bailout’ of ‘the market.’ ” Instead, LaRouche proposed an “emergency reorganization of the national airline industry” (see box, p. 5).

The U.S. airline grid, which began to be developed commercially in the 1920s, performs an essential function in moving people and goods. It enplanes 670 million passengers per year, and employs 637,000 employees. The biggest nine carriers use 3,956 airplanes; the industry transports tens of millions of tons of freight cargo per year.

While the events of Sept. 11 significantly financially damaged the U.S. and world airline industries, those events only intensified a longer-standing crisis in the industry, which stems from the deep collapse of the U.S. economy. Travel by businessmen accounts for almost two-thirds of U.S. airlines’ passenger revenues. During 2001, as U.S. businesses suffered drops in income, they cut back on air travel, or had their people travel coach rather than first class. As their income fell, individual citizens also cut back on air travel. At the same time, at some airlines, there was a cut in freight cargo traffic.

On Aug. 13, citing a “calamitous” decline in business traffic, Chicago-based Midway Airlines had already filed for bankruptcy reorganization.

Table 1 shows that, in the United States during the second quarter of 2001, all the major airlines either suffered losses, or drops in profits, compared to the second quarter of last year.

The events of Sept. 11 greatly exacerbated the airline industry crisis. In the first week after the attack, airline traffic was restricted by the Federal Aviation Administration (FAA) and by airline executives. However, more ominous for the industry, is that “bookings,” which represent customers’ plans to take future flights once FAA restrictions are lifted, have fallen drastically. For example, Palo Alto, California-based Hewlett-Packard Co., which makes computers, has 88,5000 employees. A Hewlett-Packard spokesman has said that the firm will limit air travel to “customer-critical trips” within a region, and ban intercontinental travel indefinitely.