

## Bush supporters in wonderland

by Lyndon H. LaRouche, Jr.

*Democratic presidential candidate Lyndon H. LaRouche, Jr. released this statement under the title, "Bush Supporters in Wonderland: Financial Markets in 'Positive Feedback,' " on Oct. 7 through his campaign news bureau.*

"Brown Tuesday," we might call it. On Tuesday, Oct. 6, the New York stock market's Dow-Jones index dropped by more than 91 points. Nervous optimists reacted by insisting that this drop was only one-quarter the scale of the collapse on that famous "black" day in 1929; but wags spoke of renaming the Dow "the Davey-Jones Index."

For the past six months, more and more leading bankers in Europe have warned that the world is on the edge of the biggest financial crash in history. About \$18 trillions of financial paper exposed to international markets is about to come crashing down. With net price-earnings floating in the vicinity of 1,000-to-1 in many sectors, the best guess is that more than \$10 trillions could be wiped out by the time the spiral of collapse begins to level off, with U.S. financial markets the hardest hit.

Back during the spring, the realistic estimate around Washington and London was that the crash could erupt as soon as some time between August and October. My opinion then, was that massive political pressures would be mobilized to attempt to postpone the crash until after the 1988 elections, but that we must expect major shocks to financial markets—if not an outright crash—by the middle of October. Obviously, my estimate was right.

During the spring, there was talk among Anglo-American establishment circles that if the crash were coming, one might have to tolerate my becoming the next U.S. President. About June, this thought was dropped, and the word was given to

the Justice Department to go ahead with indicting me, to take me out of the 1988 presidential campaign.

The Republican Party convinced itself that a Republican could be elected President in 1988, on two conditions: that the financial crash was delayed until after the 1988 elections, and that the Democratic candidates were systematically disgraced.

For the moment, the favored choice among the majority of the establishment has been Vice President George Bush, with Bush-man Treasury Secretary James Baker III a possible running mate. The establishment choice of Bush is not yet "set in concrete," but if U.S. financial markets get safely through the end of the year, the commitment to Bush might become almost irreversible. Forces allied with Senator Moynihan would then ensure that the Democratic convention would be rigged to choose a presidential ticket which Bush might be able to beat easily.

The majority of the establishment is betting that the lid can be kept on the financial crash until after November 1988. The administration is relying on Bush's friends to ensure that everything necessary is done to let Ronald Reagan leave office without experiencing the big crash. Although Bush is pledged to support the SDI, the Bush candidacy is also the linchpin of the administration's commitment to conclude a "Munich-style" summit agreement with Moscow this year.

The eruption of a financial crash during the weeks ahead, would put Bush's candidacy on the skids.

### 'Positive feedback looping'

Aim a microphone at the amplifier's speaker. The amplified output from the speaker feeds into the microphone, and is heard amplified from the speaker. The sound rises at a rate

determined chiefly by the factor of the distance between the speaker and the microphone. It builds into a roar, and sky-rockets into a screeching whine.

That is "positive feedback." That is the way a major financial crash would erupt. A single day's drop in the "Davy-Jones Index" of about 100 points, would be about the minimum level of disturbance needed to set off the beginning of a crash-threatening "positive feedback" looping. We came near to that during the second half of 1986, and again this past Tuesday, Oct. 6th.

Yet, even with a single day's drop of that size, or even slightly greater, the crash would not necessarily follow. Major financial interests and governments would usually intervene, to pour billions of dollars into the markets overnight, and, for a brief period thereafter, the index for some sections of the financial market would rise, seeming to cause a financial recovery.

This sort of intervention to stop a financial "positive feedback looping," can be called "damping the feedback," like putting one's hand on the microphone, and turning it slightly, to interrupt the speaker-microphone coupling when the speakers begin to howl. Sometimes that tactic fails. Then, one must shut off the microphone or one or more of the speakers, or some combination of both actions.

One special, technical problem, which makes it increasingly difficult for government and financiers to control such positive feedback looping in the financial markets today, is that the amplifier is turned up each time the technicians intervene to stop a threatened market collapse. A glance at the price-earnings ratios in these markets shows why this is so.

Under what used to be thought of as normal conditions, the value of a common stock, for example, was based on the ratio of stock price to the after-tax corporate earnings per average share of that stock. Holders and purchasers of stock looked to expected paid-out dividends in the short term, and to a combination of dividends and capital appreciation of the corporation's net worth in the longer term. Investors in stocks balanced risk against expected earnings, in about the same way an insurance company calculates prices of policies. It was said that financial markets fluctuated slightly around a level of combined risk and (after-tax) price-earnings equilibrium.

Then, especially about 20 years ago, things began to grow wild. Earnings became less and less a factor in determining prices of stocks, bonds, and financial paper generally. "Capital gains" on the market price of these financial investments took over as a marginally decisive factor in determining price.

As a result, the world's financial markets, including real-estate prices, have been turned into a John Law-style "financial bubble." A "highly leveraged" billionaire is the fellow most likely to be expected either to jump from a skyscraper's window, or be found soon enough selling apples on New York's Broad Street. Thus, we see today markets in which price-earnings ratios have climbed from a "normal" 10-to-1 or 20-to-1, up into the stratosphere of as much as 1,000-to-1

or more, in terms of paid-out corporate or equivalent earnings.

Purely speculative kinds of financial "capital gains" in prices of financial instruments have become a substitute basis for determining price-earnings ratios for these investments. So, to keep financial markets stable, governments and financier interests must keep on inflating markets with more and more such speculative forms of "capital gains," to prevent markets from collapsing down to something near "normal" kinds of price-earnings ratios.

So, the tricks used by George Bush's friends, to dampen "positive feedback looping" in financial markets, all boil down to pouring more and more inflation into prices in those markets. Since the threat of the worldwide financial crash erupted last spring, Japan, Western Europe, and the Arab oil-exporting states have poured an estimated \$90 billion of good money into what is about to become almost worthless paper, to attempt to keep inflating the New York financial markets, to delay the financial crash for the sake of Republicans' presidential aspirations.

The result is the inflationary boom in New York markets' stock and related prices.

The key point is this. The "amplifier" responsible for "positive feedback looping" in financial markets, is the ratio of two ratios. The first ratio, which we might call "price-earnings ratio B," is the ratio of prices of paper to the expected financial capital gains on that paper. The second ratio, "price-earnings ratio A," is the "normal" price-earnings ratio. The ratio of the two ratios, the "financial leverage," B/A, is the factor of amplification.

So, every effort by Bush's friends to dampen a new disturbance in the U.S. markets, has the effect of increasing the amplification factor, B/A, by a significant amount. So, each time such a dampening operation is conducted, the effect is to make the financial markets more explosive, to make the next shock much less easily controlled.

There are two complicating factors, apart from the dollar prices of U.S. stocks, for example: the price of the U.S. dollar on world financial markets, and the absolute and relative levels of prevailing interest rates in various key countries.

As the dollar falls, the price of U.S. stocks and bonds falls on world markets, and the indebtedness of the U.S. government and private U.S. interests is multiplied by the amount by which the price of the dollar falls. Japan, the West Europeans, and the Arab investors are caught between a rock and a hard place. They lose money on every dollar they invest in the attempt to bail out U.S. financial markets; but, if they do not increase their bail-out of Mr. Bush's political ambitions, U.S. financial markets will collapse, and they will lose massively on everything they have already invested in the U.S.

Yet, the Reagan administration, especially Bush's friend, James Baker III, continues, foolishly, to "talk down" the price of the U.S. dollar on world markets, saying that this

will help the U.S. economy to recover its trade-balance!

Most financial markets today are "highly leveraged," holding paper purchased with large accumulations of borrowed money. So, each time the prevailing interest-rate rises by a half a point or so, this forces some among the investors in financial markets to suffer a significant loss of gains. The financial markets are depressed. Each time the interest-rate is lowered, most of the increased borrowing goes, not into sound investments, but into financial markets; the factor of amplification, B/A, is increased.

So, we have the worst financial bubble in modern history, and the biggest in world history. It is stretched to the bursting-point already, and Bush's friends are hoping to delay its bursting by methods which stretch the bubble still more.

Therefore, worried European bankers say that U.S. economic policy has gone insane. James Baker III is considered out of his mind, and references are made to Federal Reserve chairman Greenspan as an "Ayatollah."

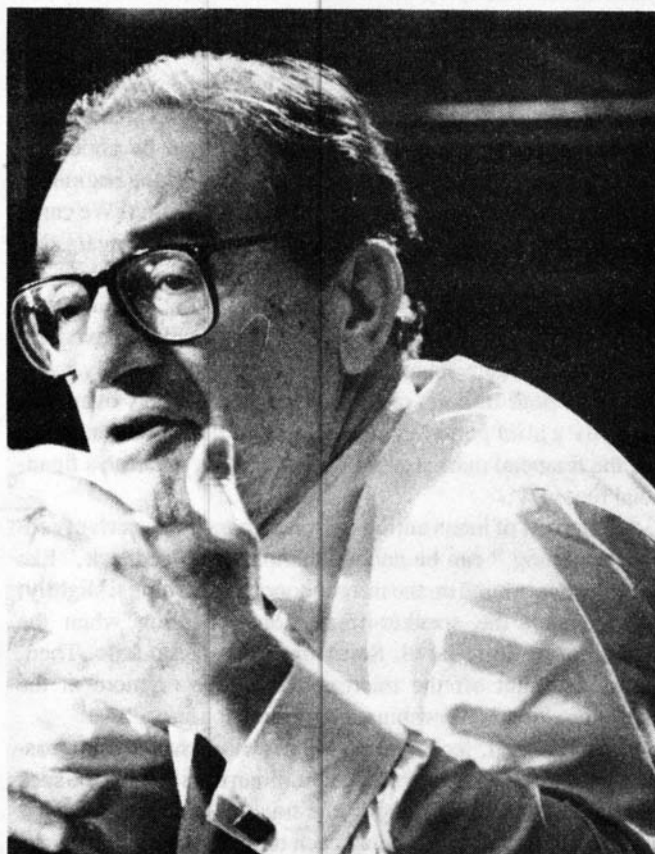
### The 'LaRouche option'

European and other leading bankers have been studying my proposed monetary and economic reforms since April 1975. The greatest attention has been given, in these quarters, to a book-length study I published during the first week of August 1982, *Operation Juárez*. It is the expressed opinion of the most powerful banking institutions that my analysis is correct, and that my proposals will work exactly as I have stated. However, it is also the expressed, angry opinion of the same circles, that my reforms are to be avoided, if it is possible to delay the financial crash for a while in any other way.

It is agreed in those circles, that my reforms would save the banking system. However, it is also agreed that my reforms would eliminate the "post-industrial" policies of the past 20 years, and would strip away much of the enormous political power which international financier circles exert over the U.S. government today. Therefore, most leading bankers refuse to accept my reforms, as long as they see any way of avoiding this last-ditch alternative.

These bankers are also troubled by another issue. They ask themselves, "Can we not keep LaRouche's reforms in reserve and, if necessary, implement those reforms without allowing LaRouche to become President? Can we not groom some other choice of candidate to carry out his reforms, and get rid of him?" They know that would not work, but they hope desperately that it would.

Any major crisis is what mathematical physicists would describe as "nonlinear." In other words, during a crisis, every significant development leads into what physicists would describe as a "phase shift" in the general situation. Every solution leads to such "phase-changes." No political careerist, who has come up through the ranks of our political system over the past twenty years, is mentally or emotionally equipped to deal with a crisis which is dominated by successive "phase-



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Stuart Lewis

changes" of that sort. Such crises require someone like France's President Charles de Gaulle, from outside the ranks of ordinary leading politicians.

In a crisis, every week is a new crisis. The President must have the knowledge and temperament to make the right spot reaction immediately, with no drawn-out deliberations. He is like the captain of a ship, passing through perilous waters during a fierce storm. He is like the commander-in-chief in a major war. Only an original thinker, who has correctly worked through each step of the crisis over many years before the crisis struck, has the acquired knowledge and instinct for the right choice of almost life-or-death decisions under the conditions of crisis now erupting. The ordinary sort of politician is a disaster under such circumstances, even if his general policies might be the correct ones.

This is made somewhat clearer by listing some of the most important changes in policy needed to overcome the financial crash now looming on the horizon.

The roots of the present financial and economic crises go back to the end of World War II, and especially to the reforms in credit policies and the Internal Revenue Code, back in 1954. Truman's administration bungled the transition to peace time production, and bungled the postwar inflationary crisis. President Eisenhower came in under the influence of a rabid

“free-trader,” economics professor Arthur Burns.

Even as late as 1967-68, the Bretton Woods monetary system could have been saved, had neo-malthusian convert President Johnson not acted to cut back on rates of investment in capital-intensive modes of technological progress, and had he acted to increase the price of gold monetary reserves to reflect the price of production of monetary gold. Johnson bungled the 1968 monetary crisis. Nixon inherited Johnson’s bungling and neo-malthusian drift in policies, and made matters worse by adopting “Ayatollah” Milton Friedman’s “free trade” dogmas. Like Johnson in March 1968, Nixon reacted to the near-financial-crisis of 1970 and the crisis of August 1971 with the worst possible choice of policy-changes, creating the “floating exchange-rate” system, to replace the gold-reserve system.

It is that “floating exchange system,” created under Nixon and Ford by such officials as George Bush and Paul Volcker at the 1972 Azores and 1975 Rambouillet conferences, which created the bubble now on the verge of bursting into the biggest financial crash in history.

So, what I must do to bring the crash under control, as your next President, breaks down into two general topics: first, the sweeping change in economic philosophy of government which must be introduced; second, the concrete measures which must be taken in accord with that economic philosophy.

Essentially, my economic philosophy is summed up in the words, “The United States shall be returned to the American System of political economy, as established by President George Washington, as elaborated in Treasury Secretary Alexander Hamilton’s three famous reports to the Congress, on the subjects of national credit, a national bank, and manufactures.”

This means an end to Adam Smith, “free trade,” “deregulation,” and “monetarism.” It means a return to emphasis on fostering capital-intensive investments in high rates of technological progress. It means low borrowing costs for investments in these categories. It means generous investment tax-credit incentives for these categories. It means a massive program of repair and improvements in the nation’s basic economic infrastructure, both by public utilities, and by agencies and authorities of federal, state, and local government, including rebuilding of education and the health-care system.

I shall defend the value of the U.S. dollar on world markets. I shall defend the par value of the debt of the government of the United States. I shall keep essential local banking institutions’ doors open, and act to protect the par value of savings by depositors. I shall use the regulatory powers of government, as provided by the Constitution and by acts of Congress, to accomplish these four primary goals of financial stabilization.

I shall declare a national economic emergency, under which I shall “federalize” the Federal Reserve System, trans-

forming the Federal Reserve banks into a de facto national bank along the lines of the original and second Bank of the United States. I shall ask Congress to authorize successive issues of gold-reserve-denominated U.S. Treasury currency-notes, as required under Article I of our federal Constitution. These issues, which will total several trillions of dollars over the period of my first administration, shall be loaned through the Federal Reserve System at interest rates of between 1% and 2%, for job-creating investments in agriculture, manufacturing, other physical-goods-producing industries, basic economic infrastructure, and export-credit loans for production by U.S. farmers and manufacturers. By these means, the tax-revenue base, in the form of increased incomes of business and households, shall be expanded to effect the balancing of the federal budget without increasing tax-rates on the basic income of households or operating incomes of businesses producing physical goods.

The included purpose of these emergency reforms, is to shift the percentages of employment of the total workforce, away from emphasis on overhead-burden occupations in services, administration, and sales, back into employment of scientists, engineers, technicians, and operatives, in the production of physical goods. The immediate objective is to increase employment of industrial operatives by 5 million, and to proceed toward a goal of 50% of the labor force employed as such scientists, engineers, technicians, and operatives before the end of this century.

This shift in composition of employment will, by itself, be counterinflationary and will significantly increase the productivity and competitiveness of the U.S. economy.

To ensure the permanent growth of household and business incomes, I shall establish a super-NASA program of cooperation between government and private agencies, around the long-term objective of establishing cities of permanent colonization of Mars beginning approximately the year 2027 A.D. This program will become rapidly the main supplier of advanced technologies into the private sector of our national economy, and will be geared to foster both a technological revolution and large-scale growth in the U.S. machine-tool sector supplying capital goods to U.S. employers.

I must also deal with AIDS crisis, as the Reagan administration has refused to face this horrifying reality thus far. I shall begin with \$3 billions a year for biological research leading toward a cure for AIDS, and shall supplement that with major measures, in cooperation with states and localities, for providing facilities specializing in health care for victims of the infection. I shall reconstruct the national public-health system torn down significantly under President Carter, and institute universal periodic testing for AIDS, combined with such measures of quarantine, modeled upon the successful “Chicago” program for the “white death” plague of tuberculosis, as biological professionals agree is necessary. I shall bite the bullet on this, as government so far has refused to do.

While acting so to control the financial crisis, and expand the economy, I must deal simultaneously with the effects of this financial and economic crisis on a world-scale.

As a result of the worldwide influence of my 1982 *Operation Juárez* proposal, I have agreements from developing-sector nations already in my pocket, so to speak. We should expect new treaty agreements settling the "Third World" debt problem within the first days of my presidency.

I must also reach agreements on this with Western Europe and Japan. This will include agreements establishing a new gold-reserve monetary system, and tariff and trade agreements designed to foster rapid expansion in levels of world-trade.

These agreements will all be reached during the first week or so of my presidency; the months between my election, in November 1988, and my January inauguration, will be used to allow those foreign nations to prepare to reach agreements rapidly once I am inaugurated. Similarly, all of the executive orders and bills I must introduce at the beginning of my administration will be readied for introduction at the time of my initial address to the new Congress.

In every area of economic policy, foreign policy, and defense policy of the federal government, I shall personally design the policy. I shall go far beyond President Franklin Roosevelt, in television and radio appearances in which I personally explain our new policies in these areas to the citizens. The only Western head of state in the postwar period who was nearly as deeply involved in running his own government as I shall be, was President Charles de Gaulle, and I shall be much more an activist in this way than de Gaulle was, or Franklin Roosevelt before him.

It has become conventional to imagine that some people specialize in thinking, while others specialize in doing. One of the reasons the establishment fears me, is that I fit neither type, because I do both. I am much more a thinker than any head of state of any nation during the postwar period to date, but I act decisively in implementation of my policies. I accomplish this by neglecting matters which are of no direct bearing on the purpose of my work, and by working long hours, with great concentration on what I am doing.

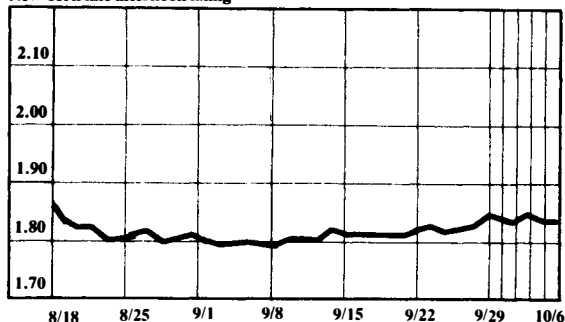
The establishment prefers to have the thinkers in one corner, and the doers in another. In that way, the establishment can control the traffic of policy-shaping ideas between those thinkers and the doers. In such cases as the captain guiding a ship through a perilous stormy way, or the commander in major wars, or the President of the United States in a crisis like the one before us, such division between thinkers and executives who do is fatal to all concerned. If the establishment believes that a crisis is running out of control, the establishment itself screams for a man who is both a thinker and a doer; at all other times, the establishment prefers to bury such exceptional sorts of potential statesmen.

So much for the establishment. Perhaps, this time, for a change, you the citizens ought to make the choice.

## Currency Rates

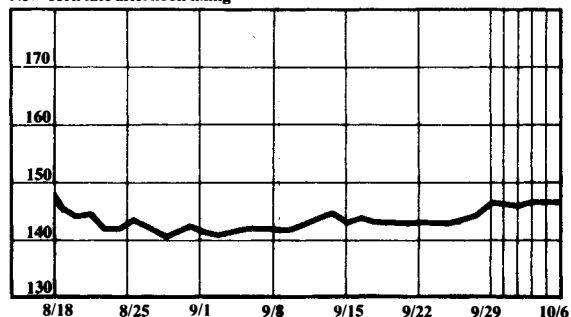
### The dollar in deutschemarks

New York late afternoon fixing



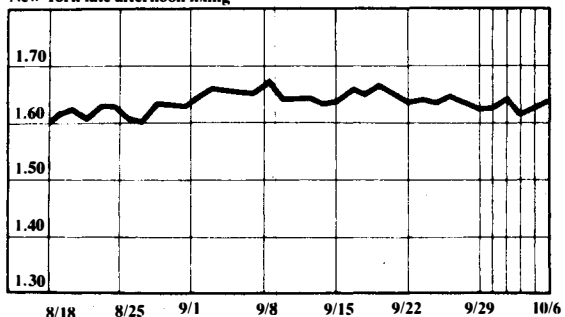
### The dollar in yen

New York late afternoon fixing



### The British pound in dollars

New York late afternoon fixing



### The dollar in Swiss francs

New York late afternoon fixing

