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Second quarter 1990: Wall Street's turn in the barrel

by Chris White

Had you been an international investor of dollars, with your money in Japan, over the last three months you would have taken a 33% loss on your investment, as the combination of losses on the Japanese stock exchange, and a renewed, if temporary, rise of the dollar against the yen. Had you invested your money in West Germany, and concentrated on that country's equity markets, you would have chalked up gains of 8%. And, if you had kept your money in the United States, the return would have been just under 2%.

This pattern is the effect of an international shift in investment funds which has been building since the months of September and October 1989. Drawing the consequences of the U.S. Establishment's refusal to face up to the realities of accelerating plunge into economic depression, and financial bankruptcy, together with the insane insistence that momentary agreements with Gorbachov's Russia must supersede the alliance system built up over the last 40 years, international investment funds are pulling out of the United States, and for the moment, leaving the country to go wherever the blindness of its existing leadership takes it.

On the one side, the shift, in part, is of funds moving into investment in the potentials of economic development focused on West Germany and the adjacent countries of Central Europe—East Germany, Austria, and Czechoslovakia primarily. On the other, dispositions are also being made internationally in the expectation of a financial and economic crash inside the United States—a crash made increasingly inevitable, if not unavoidable, because the ruling Bush team refused to face realities last September and October. They insisted then, and still maintain today, that "everything is under control, and will continue to be under control," and that the possibility of a new crash can be ruled out.

The LaRouche forecast

In early March, U.S. economist and political prisoner Lyndon LaRouche warned from his jail cell in Rochester, Minnesota, that in his view, the most likely timing for a new crash would be between March 10 and April 10. LaRouche pointed out that he does not usually make forecasts of such specificity, but when he has done so, as in May and June of 1987, and again in the spring of 1989, and September of that year, his specific forecasts have been borne out, as they were in the October 1987 and 1989 stock market crashes. In early March, LaRouche warned that the coming crash would begin in Tokyo, and would spread to Wall Street.

The Tokyo part of the warning has come to pass. The Tokyo stock index has been on a slide downhill since Christmas Eve of 1989, when Japan's Central Bank increased its discount rate. In the last three months the stock index has lost 25%, more than wiping out the gains made during the previous year. The cumulative collapse over the quarter has been greater than the Wall Street market meltdown of Oct. 19, 1987.

Since losses can be offset against corporate and financial tax obligations, calculated at the end of Japan's fiscal year, March 31, there is a sense in which the Tokyo market dive can be seen as a battening down of the hatches for what is now likely to come from within the United States. The more so, as in February, Japan's banks wrote off their holdings of Mexican debt against the appreciation of the very stocks which have subsequently collapsed.

And in the United States: The quarter ended with Federated Department Stores, the other part of Canadian Robert Campeau's department store empire, filing to join its sister chain, Allied, in Chapter 11 bankruptcy, and with Cam-

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peau's holding company defaulting on semi-annual debenture payments. The default of Campeau's junk-bond empire last Sept. 15, was what set off the irreversible deflationary spiral which the Bush team's crisis managers have refused to face.

Among the investment houses, Salomon Brothers is taking a charge against losses, General Electric is bailing out its investment subsidiary Kidder, Peabody, as American Express has been forced to do with Shearson Lehman, and Thomson McKinnon—14th largest—is filing for Chapter 11 bankruptcy protection. The money center banks, led by First Chicago, Chemical Bank, and Manufacturers Hanover, are also to be hit with a new wave of charge-offs. There is a line of other corporations, often the victims of junk bond-financed leveraged buy-outs, waiting to form outside the entrance to the federal bankruptcy courts.

$2 trillion in losses since last fall

Behind all this it is estimated by some, that losses sustained since the autumn, in the scramble to obtain cash to cover maturing debts, amount to more than $2 trillion. Chief among the subheads in this overall total are the approximately $1 trillion wiped out in the collapse of the Japanese stock market, about $500 billion lost from U.S. bond markets since November, where prices are conservatively estimated to have fallen by 8%. In reality it is more, since whole classes of financial paper are untradable at any price. And another $500 billion was lost from the markets for British government debt, and from German and Japanese bond markets. The total global estimate, circulated by financial analyst Maxwell Newton, is about twice the size of the losses sustained during the one-day market meltdown of Oct. 19, 1987.

Such financial losses are compounded by the continuing collapse of consumer spending in the United States. The financial shocks of September and October, which took the form of the Campeau default, and the subsequent stock market slide, were anticipated in part by a collapse in consumer spending, which began to register right after the end of the summer holidays.

The last week of March the government produced its revised Gross National Product estimates for the fourth quarter and the year as a whole. In the fourth quarter, consumer spending for both durable goods, such as automobiles, and non-durable goods, such as clothing, collapsed at an unprecedented rate. The more so, since the Christmas sales season, when retailers generally expect the cash registers to ring for half of their annual turnover, fell within that period. The accelerating collapse of consumer spending in the year and three months since George Bush was inaugurated President, is one of the better indicators of the rate at which the underlying collapse in depression is accelerating, for what was called the "Recovery" since 1983, was based on the expansion of debt to finance consumer purchases of increasingly imported goods. The collapse of consumption is the economic death knell for the entire debt structure that was built thereon.

Bankruptcy, near-bankruptcy, cumulatively enormous evaporation of assets, combined with an accelerating collapse in consumer spending: This is the combination which is scheduled to erupt into crisis in the weeks ahead.

It may be delayed beyond April 10, and then again it may not. Among the considerations which have to be taken into account in determining that is the extent to which the U.S. crisis managers maintain sufficient control over the effect of the decisions they may want to make. Dependent since 1983-84 on the inflow of more than $150 billion per year in foreign funds, 40% of which from Japan, the United States has found itself, since December of last year, absent a growing portion of the funding which has been required to keep appearances in line with the crisis managers' insistence that everything is under control.

Will foreign funds be withdrawn?

This shades over into the fear that foreign funds will be simply withdrawn. On March 29, a strategy meeting in Japan's Finance Ministry, bringing together government, bankers, and insurance companies, produced a wave of rumors that Japan had decided to pull out of the United States. The rumors produced a selloff in U.S. bond markets by non-Japanese. April 10 has been set as perhaps the next day to test the ability of Bush's crisis managers to run their own affairs. On that day, the Resolution Trust Corp., the outfit supposed to bail out the bankrupt S&Ls, will go to the market with another batch of 40 year bonds, to secure continuing finance for its operations.

An earlier effort in January was a dismal flop. The RTC is making the effort now, it is said, because were it not to do so, this would be interpreted as an admission that the January sale had indeed been a failure, and such sales could never be attempted again.

This time, though, the usual crisis management methods will not work. So far, the Federal Reserve, working under the White House Working Group on Financial Markets, the body set up to implement the findings of the report produced by the Brady Commission, after the October 1987 market crash, has maintained a network of operatives in relevant markets, who deploy under direction, to rig the markets' flow in the direction the Fed intends. Thus when Tokyo collapses, funds have been made available to organize the purchases, and movements of futures indexes, which help ensure that the U.S. does not follow suit.

This works within the limits of very narrowly defined market movements. However, the pricing structure of the market as a whole is about to be overwhelmed by the chain-reaction effects of the more than $2 trillion in global losses which have accrued since November. Then the tricks employed by the market riggers will not work any longer. Such is the shock inflection point which is rapidly approaching.