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In the United States, Wet Dreams of Recovery Run On

by John Hoefle

The Recovery is coming! The loud refrain of a growing gaggle of financial Chicken Littles, is based on the very real fear that the global financial system is coming down. They are desperate to keep their failing bubble going, and to head off the only viable alternative available, the New Bretton Woods proposal of Lyndon LaRouche.

Take the case of the Chicken Little in Chief, Federal Reserve Chairman Alan Greenspan, who told the Congress on Feb. 27 that "despite the disruptions engendered by the terrorist attacks of Sept. 11, the typical dynamics of the business cycle have re-emerged and are prompting a firming in economic activity." The Chairman of the Bubble did concede, though, that "an array of influences unique to this business cycle, however, seems likely to moderate the speed of the anticipated recovery."

While we hate to disagree with such an august personage, we can only say, in as polite a term as possible: bunk! Far be it from us to point out that Greenspan and his cronies are whistling their way deeper into the graveyard where the banks and other financial institutions are buried, and fresh graves being prepared by the score. The tombstones of the biggest banks do not say "deceased," but rather "merged." As in, "Here lies J.P. Morgan & Co., Merged 2000."

We can sympathize with the financier class, holding onto their fading power by their fingernails, puffing themselves up like those lizards that inflate their pouches in order to seem huge and powerful to predators. Sometimes it works.

The problem is that the present geometry is not defined by Mr. Greenspan's cycles, but by Mr. LaRouche's Triple Curve/Typical Collapse Function schematic, depicting falling production, soaring financial claims, and hyperinflationary monetary policies. There is no recovery! As *EIR* has documented exhaustively over the years, the statistics are frauds, the interpretations incompetent, and the conclusions outright lies.

Delusions Abound

Pick up the business section of any major newspaper, and you will see that the consensus of the experts is that the recovery is a done deal. They may quibble a bit over the details, but that's just to make it seem like a real debate is taking place. Some argue that the recovery has already begun, while others say it is just around the corner, and there are minor disagreements over the speed with which the economy will grow. Some say the economic chart will look like "V," with a sharp rise following the recession, while others argue that it will look like a "U," with the recovery taking a bit longer to kick in. A few pessimists even believe the economy will pull a "W," with a dead-cat bounce before the real recovery kicks in.

And there are a brazen, imperial few, such as Treasury Secretary Paul O'Neill, who refuse to admit *anything* has happened to the economy since Election Day 2000. "It seems quite clear now that our economy never suffered a recession," O'Neill proclaimed on March 5, during a visit to Kuwait. He claimed that the National Bureau of Economic Research erred in decreeing that the recession had begun in March 2001, and that the "economic fundamentals are moving back into place." By the end of 2002, O'Neill insisted, the United States will have an annualized growth rate of 3.5%.

Among the cited signals of recovery:

• Industry: "The badly battered factory sector roared

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out of its 18-month recession in February, generating activity robust enough to signal 4.4% economic growth in the overall economy, according to the Institute for Supply Management."

- Experts: Merrill Lynch "economists told clients last week that the latest data vindicate their 'way-above consensus outlook for 2002,' which has the economy growing at 4.3% and maybe better this year. Merrill Lynch points to 'resilient' consumer spending, which pessimists thought would turn negative after a big surge late last year."
- Spending Power: "Treasury data 'show an upward explosion in income tax refunds,' that is 'providing fresh fuel to consumers,' " *USA Today* quotes John Youngdahl, economist at Goldman Sachs.
- Press: The *Washington Post*'s senior economics writer, John M. Berry, declared, "The U.S. economy not only has begun to grow after last year's slump, but it is apparently doing so far more quickly than even the most optimistic forecasters were expecting just a few weeks ago," "It's all but official: 'R' is for recovery, not recession," the British Empire's Reuters news service reported March 1, citing Richard Berner, the chief U.S. economist at Morgan Stanley, as saying: "Recovery is here and it is here more forcefully than I think just about anybody expected."

Reality Can't Be Fooled

The "R" certainly isn't for reality among this crowd, Behind the façade, the system is crumbling, with indications of a major derivatives crisis and the bankruptcy of huge institutions—and the system itself—coming with increasing speed.

But that "R" could stand for one of their worst nightmares, a run. Few things send shivers down the spines of bankers faster than the thought of runs on their banks, in which worried depositors withdraw their funds in a panic. Even solvent banks can be wiped out by runs, and insolvent ones don't stand a chance. Project that fear to the system as a whole, and you get the idea why the lizards are puffing up their "recovery" with such determination. Imagine the effects of investors pulling out of the stock and bond markets *en masse,* looking for safer havens such as real estate, gold, commodities and other hard assets, and the deflationary effect that such a run would have on the overpriced value of financial assets, and on the extraordinary level of derivatives leveraged upon those overpriced assets.

They should be scared, and so should the public, because the consequences of three decades of economic stupidity and willful violation of basic physical-economic principles have been unleased upon us, like the furies. Natural law is not impressed with press releases or faked statistics.

Reality is that the productive capability of the U.S. economy has been systematically dismantled over the last 35 years or so, cannibalized by a speculative financial system under the guise of moving into the fantasy of the "new economy." We cannot produce what we used to, measured by a market-basket of production and consumption of physical goods per household and per capita, while that shrinking productive capacity is burdened by record levels of debt and other financial claims which simply cannot be paid. No recovery is possible under such a system. The system itself must be replaced.

Rather than face reality, the bubbleheads have chosen to define everything as a sign of "recovery," and to make up the facts to support that claim.

Exemplary is the way the Lazard-controlled *Washington Post* treated the U.S. Labor Department's January jobs report. According to that report, 587,000 people left the workforce in January—in total, there has been a reduction of 2.4 million workers in the labor force in 12 months—and there were 4 million part-time workers who wanted full-time jobs. The number of manufacturing workers fell by 89,000, bringing the total of manufacturing jobs lost over the past 12 months to 1.2 million.

By any reasonable standard, this is horrible news, representing shattered lives, wasted talents and lost capabilities. But in the *Washington Post,* it is a sign of recovery. "The U.S. unemployment rate unexpectedly dropped to 5.6% in January, even as the nation shed more jobs," the *Post* proclaimed, presenting this as a positive development. However, for those who read beyond the headlines, a different picture emerged, with the paper admitting that the drop in the unemployment rate from 5.8% in December "was primarily due to the large number of people who dropped out of the workforce in January." (It is amazing how often the details buried at the end of articles contradict the happy headlines.)

'Turnaround' or Layoffs?

Another widely touted sign that the recovery has begun are the jumps in the indices compiled by the Institute for Supply Management. The ISM, formerly known as the National Association of Purchasing Managers, claimed that "February signals the turnaround for manufacturing," and that "the overall economy grew for the fourth consecutive month." However, it also admitted that "manufacturing employment continued to decline in February."

The underlying assumption in the ISM's proclamation of recovery, is that the excess inventories of manufacturers have now been depleted, and therefore production will began to ramp up, triggering an economic rebound. Underlying that, in turn, is the assumption that we are in a geometry defined by Mr. Greenspan's business cycle, and that what goes down, must go back up in a fairly predictable manner.

There is, however, an alternative to collapse, but that alternative begins with giving up the delusions of business cycles, information theory, financial manipulation and other forms of economic masturbation, and returning to sound principles of physical economy. Let us end the bankers' wet dreams before they become a nightmare for us all.