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'Resilient' U.S. market: heading toward the mudslide

by Steve Parsons

To the casual observer, the last week of February and beginning of March provided new "proof" of the remarkable resiliency of the U.S. economy. Despite a plethora of bad news, including another huge plunge in the Tokyo Nikkei, the U.S. stock market chugged on, registering advances each day from Feb. 26-March 2, while even the battered junk bond market remained relatively stable.

Of course, none of the historical illiterates in Washington or on Wall Street cares to notice that the calendar is fast approaching the anniversary of the abrupt termination of the reign of a certain omnipotent Roman emperor. The current emperor in Washington undoubtedly believes that he, too, can make it through the Ides of March, perhaps after bashing the premier of Japan at Palm Springs and getting a new round of tribute.

But the confluence of events, amid an ever-accelerating decline in the U.S. economy, are fast reaching the point where official power becomes the imprecations of King Canute shouting against the tides.

Some devastating statistics have been released around March 1, that underscore the continuing headlong collapse of the American economy. The worst was a Commerce Department report that January registered a 10.5% drop in durable goods orders, the single largest fall since record-keeping began in 1958. Leading the plunge were transport and military equipment, which declined 27.6% and 36.0%.

True to form, most economists shrugged this off with comments about "special factors," like the ending of Boeing's surge in orders after its strike. Typical was the sheer idiocy, as exemplified by Allen Sinai, First Boston's chief economist, who pontificated, "The bright spot is that manufacturing is now a relatively small part of the economy, so this doesn't spell recession for the economy as a whole." Yet even this sage added, "But we can't go on excusing reports like this with special factors."

Most indicative of the convulsing economic base was the report that machine tool orders had dived 14% in January, compared to January 1989, and down 4.2% from December 1989, largely as a result of the sharp drop in the auto industry. Machine tool production once marked the United States as the world's pre-eminent industrial power; now, its anemia marks the "success" of the U.S.'s post-industrial policies.

As for the auto industry, sales of cars and light trucks dropped 12.1% during mid-February, compared to year-earlier levels, despite large rebates and incentives. And on Feb. 26, General Motors laid off 4,200 more workers and shut down parts of three more plants.

The magic of the market

Yet none of this was reflected in the upside-down stock market, which rose every day, with the Dow Jones closing the week on March 2 nearly 100 points higher. The last day's rise even dismissed the horrifying news of a 7.1% drop in home sales, and a report that the leading economic indicators were flat in January, much weaker than expected. But most remarkable is that the rise defied nearly the worst plunge ever in Tokyo's Nikkei stock average. On Feb. 26, while the Nikkei endured an almost 1,700-point slaughter, the Dow actually went up.

While the Wall Street mavens marveled over the magic of the market, at work behind the scenes was the same consortium of Federal Reserve and Treasury officials, along with Wall Street's elite, who have manipulated the market results at every critical juncture since at least the Oct. 13, 1989 mini-crash. This team has been in full operation since the Drexel Burnham bankruptcy filing on Feb. 13, ensuring that the

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market registered no breach with the Establishment's line that the financial system could "discount" Drexel as a mere aberration due to its junk bond excesses.

One particularly well-informed Wall Street insider recounted the "innocent" explanation, retailed by the London *Economist* among others, of why the market hasn't blown out despite catastrophes like Drexel and the Nikkei drop. The reasoning is that in recent downturns, many investors have been burned by selling short on the initial downturn, only to lose badly when the market swerved up. Now, investors are waiting and holding their "shorts."

However, something much more sinister was at work on Feb. 26, he insisted. Even under the best of conditions, with calm investors, there was simply no way for the U.S. stock market to open higher on that day, simply because many would have shorted just as a hedge, and "the market should have gone down 15-20 points. And that's assuming people weren't nervous."

But with the 1,700-point drop on the Nikkei being played big all over the media, "people in New York were messing their pants. The market should have dropped *at least* 60-70 points at the opening bell. Maybe it would have come up if there was no big movement out of stocks. But instead everything opens higher, and keeps going up. This is totally abnormal after such a catasclysmic event for the market to go straight up.

"Somebody wasn't letting it go down."

This insider confided that at least two long-time members of the Chicago Mercantile Exchange—one of whom is a Merc official—are acting as front men for the Federal Reserve. Under instructions from the Fed, they buy stock futures, getting funds through a cut-out like a Swiss bank or some other institution, with the Fed guaranteeing their exposure. On Feb. 26, they put the word out at the Merc that "nobody sells the S&Ps [the composite of stock futures] at the opening bell, nobody." The pits were empty, except for those who were *buying*. "And the futures shot up like a rocket, even though everyone was losing his bowels."

While this manipulation may be successful in the short term, our confidante noted that these market "successes" are drawing in the "weaker money," that is, those who are suckered into the market by its continual rises, while the "smart money" is fleeing because of the volatility and uncertainty. The weaker money does not have the reserves behind it to reverse a fall; they're just going to take the hit and get creamed. Therefore, "it's making things more unstable in the future, such that when you get a crack in the market with this kind of money in it, *it will be absolute.*"

A suckers' rally amid insanity

New York Post columnist John Crudele concurs. In a column entitled "Setting the Stage For a "Suckers' Rally," Crudele points out that "once stock prices started to rally, smaller investors were sucked in. And stock prices rise even more. When this happens, there is really nothing substantial behind the rally and it can fizzle out at any moment. Professional traders know this, so they remain very agile—ready to abandon the market at the slightest sign of trouble. "And there could be lots of trouble ahead," what with the sputtering economy and interest rates trending upward. "This makes a strong case for those who believe the stock market is staging a suckers' rally."

Jailed political economist Lyndon LaRouche specified two other significant aspects to the perverse rise in the market. First, he said, "We have some very definite indications of some market manipulation going on, but not quite enough to account for the whole picture. We have to look at the factor of *insanity,* especially insanity in Washington.

"We have conclusive proof that the Bush administration circles, at least the majority of them, are collectively insane. While we must assume that there is also the possibility that a good deal of this is caused partly by manipulation with some intelligible purpose, we also must not overlook pure insanity, which is thriving."

Second, "The Bush administration under Super 301, the Carla Hills atrocity, has engaged in outright financial warfare against Japan, and is preparing to run political and financial warfare against continental Europe, with emphasis on West Germany in particular, and on German unification. We've already had financial warfare being run from London against the German bond market a couple of weeks ago. Now we have financial warfare that is also being run against Japan, despite all disclaimers that it is going on. We have meddling in Japanese markets by relevant people, including Salomon Brothers."

As one top European banker related to *EIR,* "Salomon is the largest foreign firm in the Tokyo market. They have taken the lead in setting up not only computerized stock futures trading modeled on Wall Street-Chicago, but in December, they created a new contract which allowed investors to make money 'betting' that the Tokyo Nikkei Dow would *fall.* Suspiciously, just at the time when the large Japanese trading houses could be known to be less active in the market because of the close of the Japanese fiscal year on March 31, a rash of press articles in the *Wall Street Journal* and other relevant papers came out highlighting how vulnerable Tokyo was. The Salomon 'put' contract became very popular with investors. I expect they will continue, despite pleas by the Tokyo Stock Exchange, to use their position to force Tokyo further down."

"In any case," says LaRouche, "we're looking at a situation in which the markets, particularly the U.S. markets, are overripe for the great financial mudslide of 1990 . . . as I projected last January into the early part of February. We're looking straight between the middle of March, the 10th of March and the 10th of April, plus or minus five days each way. The possibilities are 95% that it will occur during this period."