# How the depression was covered up

by Chris White

The United States entered into economic depression during the winter of 1981-82. It has been in depression ever since. It matters not that deepening depression has been called "the greatest period of sustained economic growth" in U.S. history, nor that recently, the pundits and the administration's responsibles have begun using the word "recession," or "meaningful downturn." They are lying now, just as they have been lying since the winter of 1981-82.

What they called a "recovery" was a tragic farce. It never happened. Depression reality was covered over by two means.

First was the most rapid extension of indebtedness ever seen by any nation in the history of the planet. It was not until the middle of Ronald Reagan's first term that the debt of the federal government reached above $1 trillion, more than ever before in U.S. history. Since then, it has doubled, and is set to double again. The growth of federal debt was accompanied by the burgeoning of consumer indebtedness, along with the debt of financial and non-financial corporations. By the end of 1990, the total debt of the United States, public and private, was in excess of $13 trillion.

Second, the United States stopped producing for itself, and instead resorted to looting the production of those who had earlier been its allies and trading partners. Nowhere is this clearer than in the case of Ibero-America. Before 1982, the nations of Ibero-America could and did find a lot that was not right in their economic relations with the United States. But prior to that date, they were importers of U.S. goods, such as capital equipment for their oil industries. This provided a basis for productive employment inside the United States. During 1982, that ended. From that year onward, Ibero-America's exports to the United States exceeded its imports—not just in oil and raw materials, but in food products, clothing, and other manufactured goods, looted under extortionate terms of trade to pay debt, to cover what the U.S. would no longer produce for itself.

Since 1982, more than 20% of the current consumption of U.S. households and producing industries has been met with goods which have been either looted from Third World producers or extorted from advanced sector allies such as Germany and Japan. This includes about 10% of the food consumed, about 25% of the clothing, about 80% of the shoes, about 30% of the automobiles, the majority of household electronic appliances. And on the producer side, about 60% of the machine tools, about 25% of the steel, and about half, since 1987, of the oil.

The imports, combined with the domestic production, have been less than the level required to keep the economy of the United States functioning, and less than required to bring the collapsed level of activity back to where it was before the winter of 1981-82. It has been more than the U.S. can pay for, hence the trade deficit, running at over $100 billion per year from 1985. And it has been more than the wages and salaries of the U.S. work force can afford to pay for, hence the growth of consumer installment and credit card debt to over $700 billion, about 20% of the population's after-tax disposable income. This does not take into consideration the millions who do not have employment, or incomes.

It was in 1981-82 that the United States was bankrupted, for it was then that the internal resources of the economy were driven below the level at which the economy could keep functioning. By 1984-85, the financial system had been bankrupted too, for in that year the growth of debt and speculation had pyramided to the extent that the service of debt and claims of speculation exceeded the annual wealth production capability.

## Pickpockets on board the Titanic

None of this was the result of the inscrutable working of any "business cycle," or other kind of cycle, as we now hear discussed. It was the result of consciously imposed policy choices. On July 20, 1982, *EIR* published an article by Lyndon LaRouche, "U.S. not reponsible for Eurodollars," in which he wrote: "I hold out an alternative to these would-be, lecherous looters of the people of the United States. It is time to scrap the Rambouillet and subsequent foolish agreements, and to institute quickly those measures of sweeping monetary reform I have been consistently proposing since the spring of 1975. . . . The point of monetary collapse has been reached at which the bankruptcy of the Third World debtors has become the bankruptcy of the Third World's creditors. . . . Only a new gold-reserve-based New World Economic Order can salvage a trillion dollars or so of unpayable debt. You gentlemen are behaving like pickpockets plying their profession among the passengers and staterooms of the sinking ocean liner *Titanic,* who seem to prefer lying rich at the bottom of the Atlantic, to surviving the catastrophe you have brought largely upon yourselves."

## The critical turning point: 1982

As LaRouche wrote, the U.S. banking system had begun to come tumbling down. On July 5, 1982, the Oklahoma oil patch bank, Penn Square, went belly-up. The bank's failure spread shocks rapidly into New York, and more slowly into Chicago. The winter 1984 collapse of Chicago's Continental Illinois began on that July 5, 1982. By July 9, the Federal Reserve had begun pumping funds into the banking system to prevent its collapse into bankruptcy. By the end of August, Mexico's President José López Portillo had taken the first steps to implement LaRouche's proposals for a new monetary system, when he telephoned the Presidents of Argentina and Brazil to ask their support in declaring debt moratoria. The world financial system was on the edge. By the first week in September, the large U.S. banks—Chase Manhattan, Citibank, Bank of America—were unable to market their certificates of deposit. There were no buyers for U.S. bank paper.

The crisis of the spring and summer of 1982 had been the subject of repeated forecasts by LaRouche. Between October 1979 and the end of 1982, forecasts of the LaRouche-Riemann econometric model, published in *EIR*, were consistently the only accurate forecasts produced by any agency. The others were, and continued to be, absurd. Beginning October 1979, LaRouche forecast what the economic and financial consequences of the Volcker high interest rate policy would be. His forecasts warned of economic depression and financial collapse by 1981-82. On Oct. 16, 1979 LaRouche issued a call for the impeachment of Volcker, from his New Hampshire election campaign headquarters: "I have caused my staff to conduct an analysis of the near-term consequences of Volcker's measures. The results indicate that the measures already enacted by Volcker will cause a 15% recession in the U.S. economy, probably putting the United States into a recession twice as severe as that of 1974." It happened. And from 1980 to 1982, the economy followed the downward trajectory laid out by LaRouche in his forecasts.

With the forecasts, LaRouche put forward an alternative pathway. This required monetary reorganization, and the direction of credit flows to the promotion of employment in industry, agriculture, and basic economic infrastructure, in technologically progressive modes of investment, to turn around and reverse the downward spiral.

Through a combination of military deployments—including Britain's U.S.-backed war against Argentina—plus thuggery and blackmail, those who rejected LaRouche's warnings and alternatives from 1979 onward enforced the submission of those who, like López Portillo, had challenged the bankers' rule during 1982. By the fall of 1982, LaRouche warned Citibank's Walter Wriston, then Treasury Secretary Donald Regan, Henry Kissinger, and their cohorts that through such means of genocidal looting, they might perhaps buy themselves five years for their usury system, but that could only be done at the expense of building up the potentials for a far bigger crisis down the road than that which they thought they were overcoming in 1982.

Five years after the autumn of 1982: That brings us to the stock market meltdown of Oct. 19, 1987, when the Dow Jones index lost 20% of its so-called value in a single day's trading. On May 26, 1987, five months before that crash, LaRouche had warned: "Whether the great financial crash of 1987 erupts by October or later, will depend on what leading governments do at the international monetary 'summit' held in Venice June 12. Those bankers who are expecting a crash by October, make that forecast on the basis of assuming that the U.S. government's role at Venice will be a continuation of the foolish monetary policy which the Reagan administration has followed over the past five years. . . . Under those conditions, an October crash would be very probable."

## Who was right, and who was wrong?

More than three years later, there are now people, like Norman McCrae, the former deputy editor of the *Economist*, who denied it both at the time and until very recently, but who now say that the collapse of 1987 was to the depression of the 1990s what the collapse of 1929 was to the depression of the 1930s. They failed to forecast either the crash of 1987 or the crash of 1989. But LaRouche warned on July 4, 1989, two months before the collapse of the junk bond market ended the financial bubble of the 1980s, and three months before the stock market slide of Oct. 13, 1989: "Unless some very radical change in policy occurs by approximately July 14, a coming crash should be visibly in progress during August, and will erupt most probably during September or October."

As they had done repeatedly since 1975, the pundits refused to abandon the policies which had been proven such a monstrous failure. They insisted, in the middle of depression, that there would be no depression. They asserted, in the middle of financial collapse, that there would be no financial collapse. "It's under control," is the slogan that came, and still comes, from the crowd around Bush and their friends in the financial community. They overlook the fact that financial obligations and debt service are ultimately supported by physical production of new wealth, in the form of production, capital improvements, and technological innovation.

Locking up the person who had forecast the course of events and offered alternatives which would work, they insisted, in their insanity, that they knew best. Locking up political fundraisers for the LaRouche movement, the Establishment's prosecutors charged that those fundraisers committed "fraud," by telling people that their money was not safe in the banking system, and should be used instead for a political fight to save the country.

Now, it should be apparent to all that LaRouche and his associates were right, and the Establishment's enforcers were wrong. Now, everyone is going to have to pay the price, in pain and suffering, for what could otherwise have been avoided.