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Bush league finance policy left in shambles

by Chris White

After months of pressure, the central banks of Europe, led by the German Bundesbank, finally did what the band of lunatics who make U.S. economic policy have been demanding. On Thursday, Dec. 3, they lowered, in coordinated fashion, their major bank lending rates. The West German central bank cut its discount rate by a full half a percentage point, from 3% to 2.5%.

And what was the result? U.S. equity markets tumbled again, losing on the day of the rate cut, and losing more on the day after. By the end of trading Friday, the Dow Jones index stood a hair's breadth of about 25 points above its Oct. 19 Black Monday low. Soon the delusions of those who have continued to insist, since Black Monday, that the "fundamentals remain strong," will be sorely tested.

As the markets' reaction to the European interest rate reduction shows, the faction which is represented by Treasury Secretary James Baker III and Federal Reserve chairman Alan Greenspan are running out of tricks. They refuse to face up to the reality of the biggest financial crisis in human history; yet what they do insist on doing, backfires on them, almost as soon as it is done.

Baker issued a statement after the European rate cut, to the effect that the moves represented an "important contribution" to coordinated international economic policy and "should help to strengthen growth in Europe and reduce trade imbalances." Such pomposity, it can be presumed, is for the record only.

'Benign neglect'

In Europe, especially in West Germany, the view is somewhat different. There, people are recalling the Carter administration's Treasury Secretary Michael Blumenthal, who oversaw the steepest dollar collapse in postwar history, in the name of what some called at the time "benign neglect," and what others called the "locomotive theory." At that time, growth led by West Germany in Europe, and Japan in Asia, supposedly promoted by the collapse of the dollar, would pull the world economy out of the financial and economic consequences of what was unleashed following Richard Nixon's August 1971 decision to take the dollar off the gold standard, and following the 1973-75 adoption of the "floating rates" currency system.

Then Europe adopted the tactic of placating the United States while preparing its own defenses. "Stimulus packages," like the 15 billion deutschemark package adopted in the Federal Republic of Germany the first week in December, were adopted "to have something to show to Mr. Blumenthal," as they are now adopted to "have something to show to Mr. Baker." The defense took the form of the formation of the European Monetary System (EMS), at that time, in the outline provided by Lyndon LaRouche, the potential kernel for the reorganization of the world monetary system as a whole.

In some ways, it is not so different now. While the packages are put on the table, other matters are being discussed, including the potential to expand the European Monetary System, into a European central bank and currency arrangement, backed by the gold-backed unit of account, the European Currency Unit (ECU). This has been raised within Germany and France at the highest level. It is also what is implicit in the combination of central bank which acted in concert on Dec. 3.

Those joining the Bundesbank included the central banks of Great Britain, France, Switzerland, Belgium, the Netherlands, and Austria. Noteworthy in this collection was the Bank of England. When the EMS was formed, the British stayed out, preferring to throw in their lot with the dollar. During 1978, they had completed the rundown of that vestige

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of sterling's reserve role, the "sterling balances," and removed exchange controls on the pound. Since then, British finance has played a game of arbitrage between the United States and Europe, selling dear in the U.S. and buying cheap from Europe, especially where City of London financial services are concerned. That financial game was the British share in the international arrangements which underwrote the so-called "Reagan recovery."

The presence of the British central bank in the coordinated rate cut is a sure-fire indicator that that financial game is now officially over, and that the British are beginning to trim away from the dollar, and orient toward Europe.

When Baker talks of "important contributions" to international economic coordination, he is really talking about deepening international cooperation in self-defense against the collapse of the dollar system. Meanwhile, though, the Europeans are now telling the United States, "It's your move; we did what you've been demanding we do—now it's your turn to deliver."

What the Europeans are demanding that the United States do, is as insane, and useless, as what the U.S. is actually doing.

Now, though, this reality is apparently beginning to sink home in some quarters. Former Federal Reserve chairman Paul Volcker—whom some have seen as the potential savior in the present mess, for idiotic reasons of their own, considering his almost single-handed contribution to creating it—is spreading the word that there is a really big financial crisis looming for February. Others are beginning to be as concerned about tomorrow or next week.

Through the Thanksgiving weekend, the theatrical production around the so-called "bipartisan budget reduction compromise" was sufficient political leverage to keep the system afloat. After the Thanksgiving weekend, those illusions, or wishful thoughts, began to evaporate.

On the first trading day after the holiday, the danger lights began to go on again around the world. Simultaneously, all stock markets nosedived, the dollar went into a tailspin, and for the first time since the events of mid-October, the price of gold began to climb toward the $500 level. In London, the expectation was of a new Black Monday; in Frankfurt, the word was "catastrophe"; the Swiss spoke of the development of a new "mini-crisis"
ruling institutions of the United States. The new Japanese Prime Minister Noboru Takeshita appealed publicly for international action to stabilize exchange rates. By the end of the week, the U.S. stock market had lost almost all the ground some thought it had recovered since Black Monday.

The budget-cutting trick had been tried and had failed. The dollar-collapsing trick had been tried and had failed.

Phony 'stabilization' plan

The Europeans who coordinated their interest rate reductions, are coordinating their policy along the lines agreed at the early November Basel, Switzerland meeting of the central bankers' central bank, the Bank for International Settlements. That meeting had not-so-politely demanded that the United States shift policy and deal with the crisis by "fiscal means." Instead of devaluing the currency, the central bankers were demanding that the United States employ tax increases and interest rate hikes to choke off the growth of credit.

Such an approach, if actually adopted, would cause the implosion of whole sections of the U.S. banking system, more or less overnight. For some, it has become the precondition for another meeting of the Group of Seven finance ministers to try to come up with yet another exchange rate stabilization program. British Chancellor of the Exchequer Nigel Lawson has said that a U.S. commitment to increase its domestic interest rates ought to be established before any such meeting is held.

Some kind of "stabilization plan," which would bring down whole chunks of the banking system!

On the U.S. side, the insanity is somewhat different. The President and his supposed economic policy spokesmen have insisted publicly, since that November meeting of the BIS, that it is not the policy of the U.S. government to collapse the dollar. A de facto trading floor, in the range of 1.60 DM, has been established as the new, if only short-lived, benchmark. European insistence, backed up by the threat to let the dollar go into a free-fall, helped set that level.

But since the U.S. "powers that be" won't accept the interest rate hike idea, and since they also won't accept the alternative reorganization measures put forward by LaRouche, because they refuse to admit the crisis is a crisis, those "powers that be" keep on returning to the same old policy: Collapse the dollar, force the Europeans and the Japanese to pay the costs of the bankruptcy of the United States, by bankrupting themselves even as the U.S. sinks.

This line was elaborated by Vice President George Bush, in response to a question posed by Jack Kemp during NBC's so-called presidential campaign debate. Bush asserted that he would not favor setting a value for the dollar against any other currency, nor would he accept increases in taxation. He favors permitting the dollar to go into a free-fall.

Bush's remarks make clear where the Baker-Greenspan policy is coming from. Both are longtime associates and collaborators of the vice president, who has also taken the economic counsel of Harvard lunatic Martin Feldstein, former chairman of the Reagan Council of Economic Advisers. Less extreme, perhaps, than Bush, Feldstein has argued publicly that the dollar is headed, over the next period, to a parity of 100 yen and 1.20 DM.

The deepening split between Europe and the United States, and the absence on either side of the Atlantic of any competent institutional response to the crisis, is the surest indicator that the system is spinning politically out of control. Maybe Volcker is right, and the looming "big" crisis can be delayed into the New Year. The way these clowns are behaving, it more than likely will not be.