Some in establishment may be sobering up after free-trade binge

by H. Graham Lowry

A major re-evaluation of economic policy is under way within the U.S. establishment, generating an expanding barrage of public attacks upon that most sacred of cows—the British doctrine of free trade. Even as western leaders offer empty self-congratulations over the recently concluded General Agreement on Tariffs and Trade (GATT), the threatened collapse of the entire international financial system has provoked some unusual candor about the failure of free-market policies and the post-industrial society.

In the United States, the skies are virtually ablaze with distress flares fired off by newspaper columns, corporate insider journals, and even a four-and-a-half-hour public television special on the destruction of America's industry and labor force. In Britain, the august voice of the London *Guardian* has raised a cry against cheap labor, deregulation, and the tyrannical reign of global capital markets. In France, Nobel Prize-winning economist Maurice Allais continues his blasts against free trade and the monumental incompetence of international financial institutions. As Lyndon LaRouche said recently, "the ideas of Milton Friedman and Margaret Thatcher have more than worn out their welcome among all sane members of the establishment."

'This is progress?'

The December 1993/January 1994 issue of *CEO/International Strategies* is full of recriminations and alarms over the dead end to which free-market policies have led. A bimonthly featuring ads for the last word in private luxury jets, this insider magazine for corporate chief executive officers boasts an advisory board of political figures, finance ministers, central bankers, think-tankers, and economists from around the world. Up to now, many of them have been rabid advocates of the very policies now under attack.

Consider the titles and descriptions of the first three articles listed in the table of contents:

- "Last One Out, Turn Off the Lights. In the rush for the door to the 'post-industrial' society, aren't we forgetting something? To have a service economy, you have to have something to serve; what we may discover too late is that the master is the manufacturing sector. By William Milberg."
- "Down with 'Free' Trade. Free trade is the war cry these days, but it pays to remember that some free trade is freer than other free trade—and that some is pretty damn expensive. In fact, the best things in life—rising productivity, rising wages, rising consumption and rising investment—are not the result of free trade. By Robert Kuttner."
- "Who Will Buy? Let's see now. Grunt jobs go to low-wage countries. But because there's always a lower-wage country somewhere, wages never rise—though productivity does. Which means unemployed people in the First World, underpaid people in the Third, and a glut of products no one anywhere can afford. This is progress? By Richard Rothstein."

William Milberg's article is subtitled "The Myth of the Post-Industrial Economy," and takes aim at the long-lived idiocy that manufacturing is unnecessary to a "modern" economy. Milberg quotes *Forbes* magazine's 1983 proclamation that, "instead of ringing in the decline of our economic power, a service-driven economy signals the most advanced stage of economic development. . . . Instead of following the pied piper of 'reindustrialization,' the U.S. should be concentrating its effort on strengthening its services." Milberg notes, however, that 20 years into the transition to a "post-industrial economy," the reality is "an economy with a weakened manufacturing sector, slow growth, declining real wages, high unemployment, a large foreign trade deficit and a vulnerability to foreign competition even in high-technology goods. . . . The question should move from whether we need a manufacturing base to how to retain a dynamic one."

Rebuilding national economies

The article by Robert Kuttner, an MIT economist and the author of the recent book *The End of Laissez Faire,* denounces "the futile crusade for ever more perfectly free markets," which are not the solution, but the problem—and the reason the "global economy is in trouble today." Kuttner argues that "our true national interest" is to seek "a restoration of global high growth and rising living standards generally. This will require a reinvention of stabilizing and regulatory mechanisms, not a purer laissez-faire." The task is to rebuild national economies, instead of "a free-market utopia."

Kuttner attributes the post-World-War-II boom in the U.S. to contracts between industry and labor "predicated on non-inflationary full employment;" the use of subsidies, preferential procurement, and "technology-forcing via regulation;" tight supervision and regulation of financial institutions "both to stabilize those institutions, to facilitate monetary policy, and to use banks as engines of national development." All of these measures were thrown on the scrapheap in pursuit of the free market. To reverse the current "race to the bottom," Kuttner calls for public investment "aimed at restoring the virtuous circle of rising wages, rising productivity, and full employment," including repair of basic infrastructure and the development of "new high-speed rail systems."

Kuttner also insists that "we need massive flows of public capital to the former Soviet bloc. Rather than relying solely on the shock therapy of privatization, we need commitment of western credits on the scale of the Marshall Plan, to help eastern Europe recover." In a signed commentary on this same subject in the Dec. 24 *Boston Globe,* Kuttner attacked U.S. backing for the "shock therapy" policy, warning that it could push Russia into "terminal collapse." If it continues, "we will soon spend far more rearming ourselves against a new Russian menace that is fascist rather than communist."

Echoing aspects of policies long advocated by Lyndon LaRouche, Kuttner also calls for reforming the international monetary system, "to discourage purely speculative movements of capital and to return to something like the Bretton Woods system." He notes that of more than a trillion dollars of foreign exchange trades daily, about 90% are for "purely speculative purposes. . . . The system needs a tax to take the profit out of purely speculative short-term money trades. It needs much stronger coordination among the major financial powers, to create relatively stable currency alignments. And it needs international lending agencies willing to make available plentiful credit at low interest rates."

The speculative bubble engulfing the world economy is also the target of the latest attack on free trade and the GATT agreements by Maurice Allais. Writing in *Le Figaro* Dec. 28, Allais declared:

"The same men at the World Bank, the OECD, and GATT, who hold out the prospect of an increase of wealth of $213 billion per year . . . by the year 2002, *remain absolutely silent* about the financial flows amounting on the average to $1.1 trillion *per day,* which is 40 times more than the amount of flow corresponding to trade payments. These financial flows *destabilize exchange markets totally* and make it impossible to apply trade agreements in any reasonable way. The fact that experts from leading international institutions practice such disinformation, consciously or unconsciously, is beyond comprehension."

Worse yet, Allais adds, is that the "experts" defend their absurdities with the claim that "the large majority of their fellow economists agree with them. . . . For centuries, [the] majority was convinced the Earth was flat; at other times, that the Earth was at the center of the universe. Today we know that this was a matter of 'collective deception.' "

Howls from London

Even in Britain, the mother of the free trade rationale for imperial looting, there are some anguished cries of acknowledgment that the whole venture is on the rocks. Writing in the London *Guardian* Jan. 4, John Gray, Fellow of Oxford's Jesus College, bemoans the dominance of the "devastatingly destructive economic philosophy" in Britain which he chooses to call "liberal capitalism," now forcing a globalization process justified only by the "spurious claim" that it is "forced upon us by an inexorable historical process."

In the same issue, economics editor Will Hutton rages that booming stock markets are simply the result of governments letting the free market system get totally out of hand—fed by the mania for lower deficits, "low inflation and cheap labor, deregulation and privatization. . . . The means of regulating the market system is being steadily withdrawn. . . . The world is taking the same course as it did in the late 19th century, and the results promise to be no less destructive. It is the veto on politics placed by the global capital markets that is the real source of the crisis," Hutton concludes. "Here an anonymous global capital market rules," and the result is a virtual tyranny wielded by the financial markets; and if governments "do not obey the policies that the market approves, then their debt and currencies will be sold," he complains.

While the British may sense that the jig is up, they are still rummaging about in search of a more harmonious version of the same old tune. But, as Lyndon LaRouche has repeatedly warned, speculative looting and asset stripping *typify* the free-market, free-trade system, and inevitably destroy the real physical economy.

In his weekly "*EIR* Talks" radio interview on Jan. 5, LaRouche said, "The derivatives market, which is, shall we say, the ultimate paradise of a purely monetarist, purely free-trade speculative market, is the bottom of the bottomless barrel. You're falling through it. It's like the guy jumping off the Empire State Building. He's going to hit the ground, and he may say everything is all right, until he gets down to the last story, at which point it's all over; and that's the kind of situation we're in. *We're coming to the end of a road of 30 years of successive follies,* which became acute in the 1970s with the floating exchange rate—a market system that *could not* possibly work; then deregulation; then the Volcker deregulation measures of 1979 through '81, '82; then legalized deregulation through congressional acts of 1982; then the whole swindle, the S&L scandal, this business. *We are coming to the end of the road*; and if we don't change our ways, we are finished."