

## A second quarter payments crisis coming?

by Chris White

Looming large, among the likely candidates for the role of trigger in the next phase of the ongoing global financial crisis, is the growing U.S. balance of payments deficit. According to the government, in figures issued Tuesday, March 15, the net of what the U.S. now owes the rest of the world is \$160 billion, up a bit from the last quarter of 1987, despite what the government calls the improvement in the trade deficit.

The question of what the United States owes the rest of the world, and how it's going to be financed, was brought into sharp focus over the week of March 14, as, in the aftermath of the ill-fated George Bush's "Super Tuesday" election sweep, James Baker and his cronies once more began to put out the word that with the vice president's nomination chances all but sewn up, they will now begin to let the dollar slide internationally, in efforts to save appearances inside the United States.

Europe's financial leaders have figured that such an approach was coming down the pike before it surfaced. Leading Swiss spokesman Hans-Jörg Rudloff, as executive board member of *Crédit Suisse*, told the German newspaper *Welt am Sonntag* on March 13, "In 1987 central banks spent \$140 billion to support the dollar. That means they financed the entire American deficit last year. How can the central banks, over the long term, finance the entire U.S. budget deficit? That they will not do." (See *Business Briefs*, page 18.)

Rudloff's "That they will not do" ought to have been a grim reminder to Bush's macro-managers, like James Baker and Donald Gregg, as well as to Bush himself, that the vice president should about now be looking for a new set of illusions to replace the fantasy that he's going to be elected President.

Rudloff's remarks were chosen as the precise rebuttal of what, over the last years, has become the habituated tactic of the U.S. self-styled elite: Stall, delay, buy time, postpone

the crisis, until after whatever the next critical point happens to be. This time it's the U.S. elections. Rudloff argues that since central bankers can't keep on funding the U.S. deficit, there should be a "recession" in the United States, to correct what he calls "the imbalances" that have built up. And, he told the German weekly, "The longer the U.S. postpones imposing" the necessary correction, "the worse it's going to be." "Unfortunately," though, "we find ourselves in the midst of a presidential election. Therefore, naturally, this necessary correction is postponed."

The Swiss banker, an executive of the institution which has shaped the growth of speculative markets over the last years through its role in the international Eurodollar markets, and its role in the laundering of dirty money, for whatever reason, was among the first, last spring, to warn that financial speculative bubble could not be sustained. It wasn't. Now, when he says central banks won't continue to finance American time-buying exercises, he will most likely turn out to be right, too. It would be prudent to assume that to be the case.

What his remarks highlight is the growing possibility of a payments crisis hitting the United States, in basically the same way the British were hit with a succession of such crises in the late 1960s under the government of Prime Minister Harold Wilson. Payments crises led into a pound sterling crisis and into a dollar crisis as the postwar Bretton Woods system was dissolved, prior to Aug. 15, 1971.

Rudloff and company basically estimate, that given the scheduling of the U.S. budget process, what they consider to be necessary cuts, or corrections, in the United States, combinations of interest rate increases and deficit cuts, will not take effect until the fall of 1989, the beginning of fiscal year 1990. Therefore, the calculation must be that they have to pick up the tab for a least two more years' worth of \$160

billion deficits in the United States, and given the way things are going, perhaps twice that much in this year alone.

### **The 'postpone it' faction**

According to top level European sources, former Federal Reserve chief Paul Volcker is running around Europe arguing against the views put forward by Rudloff, and in favor of yet another round of postponement. Volcker is said to be almost begging that, in the words of some, "The October crash was a signal by the markets to the political community to change policies. Now there is no need to send a second message because there's no one in the White House to receive it. One can keep a financial crash away—if one wants to keep a financial crash away—by psychological and other measures." Volcker is said to be insisting, for "practical, personal, and political reasons" that the coming crash be delayed until March of 1989.

The way the United States would seek to postpone things further was laid out by Beryl Sprinkel, chief of the President's Council of Economic Advisers, as the trade figures for January were announced. Sprinkel reported that there had been a 17% improvement in U.S. exports during the course of 1987. And, that there would be a further 17% improvement in U.S. exports during the course of 1988. Behind that line of talk is the commitment by Baker and company to re-embark on what has been their favorite financial tactic over the last three years, another round of dollar bashing on international markets, sponsored again by the U.S. government itself. According to some, this round of dollar-bashing would be intended to wipe out about 4 million jobs between Western Europe and Japan, and the export capacity that is tied to those jobs.

This way, the decline in the U.S. trade deficit is supposed to keep pace with the growth of the overall payments deficit, since net U.S. indebtedness to the rest of the world will continue to increase, even if the trade deficit does fall, and the foreign creditors will still only have to fork over the same amount of money to keep the system afloat. A Treasury official recently called this "the prison system" of economics. Since we're all supposed to be trapped by the workings of the system, better to leave things the way they are, than try to change and mess up everything for everyone. This is the Baker Treasury Department's conceptual advance over the hoary "zero sum game."

### **The mass of paper keeps growing**

Both sides to this craziness ignore the reality that there's more to the financial system than mere money, in all its many dirty forms. Both insist that the functioning of the physical economy, measured by output of useful goods and services and employment in production of such useful goods and services, and the basic infrastructure, such as transportation and power and water supply that supports such activity, be curtailed to the benefit of the financial system.

Yet, wealth is produced by the real process which they insist on destroying, not by clipping interest coupons from some piece of paper. The more the economy is cut back, the less new wealth is generated to support the growing mass of paper claims against that wealth. The greater the mass of paper relative to the economy that's supporting it, the less stable it becomes.

The confrontation now set, between foreign creditors who say they won't finance another \$160 billion round of U.S. procrastination, and U.S. interests who say, if you don't, we'll collapse the currency system on top of you, threatens to set off the instabilities which would bring down the whole shebang.

While the balance of payments deficit was rising to \$160 billion during the fourth quarter of last year, over \$800 billion worth of new non-financial debt was issued in the United States. Non-financial debt is that of government, at any level, households, and non-financial businesses. Of the total, about \$196 billion was issued by governments and about \$604 billion by the so-called "private sector." It was a near 10% growth rate on the whole mass of over \$8 trillion in private debt. It can be assumed that financial debt, over the same period, grew by at least as much as the non-financial part of the debt.

Debt growth is running away at a double-digit rate, while the economy is declining. This is shown by what's going on in the auto industry, where production has been cut back by up to 30% to permit inventories to be run down, by the steel industry, by the construction industry, and so on.

The growth of debt reflects the means adopted by Baker and Company to delay the crisis from the October crash onwards. They turned to the printing presses, or the plastic equivalent in the age of the credit card, and let them rip. The paper was generated to back up the paper that had been left high and dry after the Oct. 19 stock market crash. Issuing credit to companies so that they can buy back their own stock, or finance takeover bids for bankrupt companies, or for consumers to "purchase" goods they cannot afford on their wage and salary income, may help keep indicators like the Dow Jones relatively stable for a period of time, but has only made the whole thing much worse.

The mass of paper vulnerable to the next sharp market break has increased, and the instability of that paper has increased. Rudloff's sharp "No," is also a refusal to continue to finance the growth of that mass of paper, or to finance bailing it out.

The end of this month, when U.S. banks have to balance their books for the quarter, may mark the beginning of the next phase. Otherwise, the showdown between those who insist on buying more time, and those who insist, like Rudloff, that time has run out, will, whatever the outcome, contribute ultimately to bringing it all down. The more so for, as the rate of growth of internal indebtedness shows, Baker and company have lost control in any case.