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The reality behind the G-7 debacle

by Mark Burdman

A meeting of the finance ministers and central bank governors of the seven leading Western industrialized nations in Washington on April 28 broke up in disarray, as U.S. representatives unsuccessfully sought to force the others to bail out the U.S. economy. The disputes and fissures that led up to the "Group of Seven" meeting, and the "comprehensive failure" (in the words of the *Times* of London) of that meeting itself, are not events of primary importance in and of themselves, but are rather symptoms of three fundamental developments in the economic, political, and strategic spheres.

First, there is the undeniable reality of the economic depression in the United States, now graphically confirmed even by figures released by the same Washington bureaucracy that had previously been heralding the phony "uninterrupted months of recovery." Second, and linked to this, is a phase-change in the process of economic collapse, leading into a new round of shocks in the financial system, parallel to those that occurred during the October 1987 stock market crash. This parallel, and the danger of a new "Black Monday," is now being openly discussed in the European financial press. Third, there is the crude attempt of the Bush administration, manipulating such controversies as the one over interest rates, to shift the blame for the American economic depression onto Germany.

This attempt is an integral part of a widening European-American confrontation on several fronts, which threatens to lead to the creation of a new, unstable global system of three political and trade blocs—a "North American Free Trade" dollar zone, a Japan-dominated yen zone in Asia, and an ecu zone for Europe. This is the financial aspect of the "new world order," unless influential forces in Europe, Asia, and the United States begin to converge on an alternative policy, along the lines specified by Lyndon LaRouche, for launching a world recovery instead of building up mutually conflicting trading zones.

'The crash is programmed'

On April 26, the U.S. Commerce Department released figures showing the first-quarter 1991 performance of the U.S. economy. Even these figures, undoubtedly massaged by the Commerce Department before being released, demonstrate the accelerating economic collapse of the economy:

- housing expenditures plummeted 26.5%;
- business investment was down by 14.4%;
- retail sales fell 3.3%, adjusted for inflation;
- personal savings went down 4.1%;
- business failures soared by 54%, rising to 20,881, up from 13,577 in the first quarter of 1990;
- in the state of California alone, business failures were up by 78%; in Connecticut by 525%;
- exports fell by $700 million, compared to the fourth quarter of 1990.

These and other figures indicate a depth of collapse that must inevitably catalyze further upheavals in the financial and equity markets. The Bush administration's policies will only reinforce such trends. What is happening now, harkens back to Lyndon LaRouche's warning of Oct. 7, 1987, on the eve of that month's historic debacle: "We have the worst financial bubble in modern history. It is stretched to the bursting point already. Bush's friends are hoping to delay the bursting by methods which will stretch the bubble more."

Even some of the leading voices of the liberal financial world of Europe are pointing to the striking parallels between the Bush-Baker-Brady approach of 1991, and what happened in the autumn of 1987, when then-U.S. Treasury Secretary James Baker III adopted an unusually aggressive attitude, demanding that Germany shore up U.S. financial markets. Under the heading "Financial Crash," the Düsseldorf weekly *WirtschaftsWoche* wrote in its editorial of April 26: "The crash is programmed. The point in time: Sunday, April 28, 1991, at the meeting of the finance ministers and central bank governors of the seven leading western industrialized nations in Washington. . . . The skirmish is reminiscent of the autumn of 1987." Recalling the American-German conflicts then, the magazine says the result was "the stock market crash of October 1987."

On April 30, the economics editor of the London *Times*, Anatole Kaletsky, warned that the "comprehensive failure" of the G-7 meeting, and the international markets' nonchalant reaction to that failure, "led some observers of the international financial markets to warn of a possible financial catastrophe ahead, reminiscent of October 1987. . . . Black Monday is widely believed, in retrospect, to have been linked to a similar breakdown of international economic coordination. The attitude of the foreign exchange markets to the G-7 meeting is also ominously reminiscent of the stock market in the summer of 1987, and the oil market just before the fighting began in the Gulf war."

Most devastating, was an editorial in the *Financial Times*, mouthpiece of the City of London, also on April 30: "Rarely can a great power have come to an important international meeting with arguments as feeble as those advanced by the U.S. at the meeting of the finance ministers and central bankers of the group of seven industrial countries

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in Washington, over the weekend. But the arguments were not merely indefensible; they were dangerous. Those who recalled the row between Germany and the U.S. that preceded the stock market crash of October 1987, must have shuddered, especially since an exceptionally strong stock market preceded that meeting, too. . . . U.S. arguments are not merely unpersuasive; they are cheeky. The U.S. has received resource transfers from the rest of the world worth some $670 billion in 1990 prices over the past nine years, and enjoyed current account deficits totaling around $1 trillion. . . . It is no less outrageous for the U.S. to complain about high global real rates of interest."

The editorial concluded with a pointed message to President Bush, informing him that "the principal aim of the rest of the G-7 is not to secure the reelection of the President, however many specious arguments may be put up for the purpose."

'The guilt will lie with Bonn'

This last comment touches on the political dimension of Bush's campaign to force Germany to lower its interest rates, as well as the administration's sudden decision to lower American interest rates after the G-7 meeting. The fact is, neither in 1987 nor in 1991 has Germany been in a position to submit to American pressure. Furthermore, in neither instance would the policy demanded of Germany have any serious impact on the economic and financial condition of the United States. Rather, Bush administration confrontationism against Germany on the interest rates issue should be seen as an attempt to blame Germany when the U.S. financial system goes through further upheavals.

As Deutsche Bank chief economist Norbert Walter stated during an April 30 radio interview, the reality behind the interest-rate war is the fact that the U.S. is in a "deep recession" and Bush is very worried about the 1992 presidential election. The same point had been made by the Milan daily *Corriere della Sera,* in its lead editorial April 28. The paper said there was no sane reason for Bush to launch a public fight with Germany on interest rates, knowing that such public targeting would never gain concessions from the Germans. Bush's real aim, claimed *Corriere,* was "to have an effect on public opinion in the U.S. If the U.S. economy falters in getting out of the recession, the guilt will be with Bonn, Tokyo, and their central banks."

This squabble is one key feature of a widening American-European trade-financial and political-strategic confrontation. With the Gulf war, it dramatically escalated, and has now become the uppermost issue in discussions among European elites. Bundesbank Governor Karl-Otto Poehl described his position at the G-7 meeting as like that of "Daniel in the lion's den." The reality, no matter what is stated in public, is that no other problem is more on the minds of influentials in Europe than this worsening relation with the United States.

Slovak leader shift reinforces IMF foes

by Paolo Raimondi

The change in the Slovakian government on April 23 may represent a major positive historical chance for all of Czechoslovakia. Jan Carnogursky, the leader of the Slovakian Christian Democratic Movement and the symbol of the anti-communist resistance during his imprisonment before the November 1989 revolution, was voted prime minister by the majority of the Bratislava Parliament.

Carnogursky, a Slovakian patriot, may play a critical role for the whole country, because of his strong opposition to the austerity policy of the International Monetary Fund (IMF) and his Christian pro-social, pro-industrial approach, aimed to integrate Czechoslovakia into a strong continental European alliance. His coalition goverment, which will be largely dominated by the Christian Democracy, has replaced Vladimir Meciar, the leader of the Public Against Violence party. According to reliable reports, Meciar, a former communist who was educated in the Soviet Union, was using the growing economic crisis and labor unrest to begin a cagey and quiet counter-coup, to get Slovakia back into a new type of alliance with the Soviet Union. Meciar recently reportedly began discussion with Soviet generals to prepare the ground for such a shift. The danger of this move compelled the Christian Democrats to act preemptively and sack Meciar.

The communist plan—and the 'Chicago boys'

Besides the general economic difficulties in moving out of the communist system, Slovakia's economy has the serious problem of being exclusively oriented toward the Soviet market, which has almost totally collapsed in the past months. With a population of 5.5 million, Slovakia has a military-industrial complex with 111 firms and 70-80,000 employees, which produced all kinds of weapons for the Soviet Union and the Warsaw Pact, beginning with the T-72 main battle tank. The furniture industry, to give another example, employs 30,000 people, who produce mainly for the Soviet market.

The growing unemployment is producing fear and unrest which is then fueled in an explosive way by the incompetent and irresponsible austerity policy and price increases of Czechoslovakia's federal finance minister, Vaclav Klaus,