Central banks seek ouster of Reagan's economic team

by Chris White

The just-concluded monthly meeting of the central bankers' central bank, the Basel, Switzerland-based Bank for International Settlements, probably won't go into the history books as one of the most important that institution has ever had. However, there were exceptional features to the Nov. 8-9 meeting, and its conclusion raised, by implication, demands that have never been heard from that body before.

For the first time in a long while, the chiefs of all the central banks which make up the BIS attended the meeting. Usually, the top honchos from Europe attend, and the more distant United States and Japan send underlings. This time Greenspan from the Federal Reserve, and Sumita from the Bank of Japan, respective chiefs, attended.

Then, there is, seemingly by convention, no communiqué ever issued from such meetings. The results of the bankers' deliberations usually appear, later, in the form of interest rate increases or declines, or changes in currency exchange rates.

This time, there was a formal communiqué, read to the international press at the end of the proceedings by the head of West Germany's Bundesbank, Karl-Otto Poehl.

Three paragraphs of the statement are noteworthy, both for what was said, as well as what was left unsaid. They are:

> The central bank governors of the Group of 10 countries. . .
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> • stressed the importance of moves by governments of major industrial countries to adopt fiscal policies with the objectives of reducing existing payments imbalances, promoting exchange rate stability, and sustaining non-inflationary growth.
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> • They are ready to support these objectives with appropriate monetary policies.
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> • They welcome the recent measures taken by the European central banks, which reflect their strengthened monetary cooperation.

The cited three paragraphs constitute, in effect, a sharp attack on the present U.S. economic "team," led by James Baker and Alan Greenspan, emphasized by publication, and a demand for change from the United States.

In simple English, the central bankers were asserting that they were no longer going to carry the costs, in terms of destruction of especially the European economies, of the policy represented by James Baker at the Treasury Department. On Thursday, Nov. 5, Baker had told the *Wall Street Journal* that the defense of the dollar was no longer an objective of U.S. economic policy, rather the avoidance of what he called "domestic recession" was. In the two weeks before the meeting, the dollar had been allowed to fall by about 7% against both the West German mark, and the Japanese yen.

The communiqué essentially said, "Enough is enough, the Baker team has to go."

Indeed, within 24 hours of the publication of the communiqué, the United States, from the top down, switched gears. The President told the press, Nov. 10, during a so-called "photo opportunity" with Israel's President Chaim Herzog, that it was not U.S. policy to have the dollar fall further. The same point had been made, less forcefully, earlier in the day, by Marlin Fitzwater, White House press spokesman.

By the following Thursday, Baker seemed to have shifted his tack, too. At least to the extent his former speechwriter Paul Gigot can be believed. "Stung by the reaction to last week's interview, Mr. Baker wasn't talking in public this week. Other Treasury officials made it clear enough, however, off the record, that Mr. Baker is *not* talking down the dollar. Far from it, they say, Mr. Baker believes the path to calming the markets lies in reinvigorating the international policy-coordinating process he helped start in 1985." Gigot was writing in the *Wall Street Journal* Nov. 13.

The European view was put somewhat more forcefully, the day after the BIS meeting, by Helmut Schmidt, once called "The Lip," in the pages of the German daily *Die Welt*. Schmidt told the Europeans, "It's not worth negotiating with James Baker," since he won't abandon the methods of the "Wild West."

The central bankers object to what the Baker-fronted bankers' team have done, in forcing the costs of the U.S. generated depression collapse to be offset by looting Europe and Japan. But what they would put in its place is just as insane.

As the communiqué asserts, and as was argued by the head of the Swiss National Bank in the pages of the *Neue Zürcher Zeitung*, before the BIS meeting, the central bankers insist that the crisis be handled with what they call, euphemistically, "fiscal means." That is to say, "cut budgets, and increase taxes," and of course, "increase interest rates."

Within the United States, there is a grouping which agrees with this. There is a faction on the Board of Governors of the Federal Reserve, led by Governor Kelly, which argues that the dollar ought to be allowed to fall no farther than it already has. Apparently, there is also a consensus on the Fed's Board of Governors that the Fed's Funds Rate, the rate at which the Reserve system lends to the commercial banks, has been lowered enough. Lowering the Fed Funds Rate was the means adopted by Greenspan to create liquidity to paper over the "Black Monday" stock market crash. The import of those statements began to show up by the end of the week, as the Fed Funds Rate began to move back up toward 7%.

Gorbachov's program

More, there is also the grouping for a "Bipartisan Budget Policy," led by Richard Nixon's Commerce Secretary Peter Peterson, who also happened to be a leading member of the notorious commission associated with former West German Chancellor Willy Brandt. The program of that commission has recently been adopted by Soviet party chief Mikhail Gorbachov, and features as the fourth point of the budget-slashing set of measures put forward by the Peterson commission. Peterson's group is running a high-profile national advertising campaign on behalf of a vicious, "Neither guns, nor butter," austerity and disarmament package, aimed at the old and sick, national defense, and U.S. allies, in the advanced and developing sector.

The "fiscal" program advocated by Peterson and Company is the same as the kind of program that the Bank for International Settlements meeting pompously announced that central banks would support.

That's where the insanity lies. For example, Marty Feldstein and C. Fred Bergsten, the latter a Carterite-Trilateralist, the former a free enterprise fanatic, are now both arguing that the fiscal policy, ought to reduce the United States budget deficit faster than the requirement for foreign finance is offset by cutting back imports from Germany, Japan, South Korea, and Taiwan to zero. This way, they say, there would be no need for interest rates to increase, so there would be no danger of "recession."

What all these characters overlook is that there is no world in which the U.S. budget deficit can be cut, either enough, or fast enough, to offset the loss of revenues to the Treasury which has already occurred as a result of the last weeks' developments on the stock markets.

Their "responsible fiscal policies," are not only a recipe for the worst depression in human history, they are also insane.

However, the central bankers' rejection of the efforts of U.S. banks and administration to shift the cost of the depression on to the rest of the world, now confronts the powers-that-be in the United States with a choice. If they proceed with the policy of collapsing the dollar, they will find that everyone else will simply, at some point, walk away. Already, the Bundesbank is leading working groups in Europe on the formation of a European central bank, and central banking system. This used to be known as Phase II of the European Monetary System, and would see the creation in Europe of a gold-based monetary system, combined with exchange controls, and so forth.

The fiscal route, including higher interest rates, budget cuts, and tax increases, will simply turn the collapse back into the United States, setting off a new round of stock exchange disasters, and a wave of collapses of the banking system.

European newspapers, such as *Le Monde* and *Libération* in Paris, are already pointing to one reason why this approach is unacceptable in the United States. It means banking collapse and depression in an election year.

The monetary route of dollar collapse, and so-called "fiscal responsibility," or "neither guns nor butter," both lead inexorably to the same destination.

There is, of course, the emergency reorganization proposal put forward by presidential candidate Lyndon LaRouche, under which the constitutional and statutory powers of Executive and Legislative branches would be employed to bring order to the accelerating chaos.

The monetary route has been rejected. The fiscal route leads to the same insane consequences. So far the administration seems to continue to think that statements about the dollar, and hoked-up trade figures can be employed to continue to delay the day of reckoning. Well, they can't. Something actually has to be done. And the decisions have to be reflected in changes in personnel, such as the replacement of Baker, and the rest of his team. The unusual results of the BIS meeting demonstrate that the rest of the world will not accept much longer the way the United States has been accustomed to conducting its business in the past.