EIR Economics

More speculative euphoria can't hide the reality

by Chris White

A new wave of speculative euphoria hit the markets in the first week of April. The result, a more than sixty point run-up on the Dow-Jones index Wednesday, April 6, which, for the first time triggered the market regulators' much-touted, but untested new "circuit-breakers." As the index rose to 50 points up, the electronic signals went out that things were shutting down for a "cooling off" period.

There isn't any basis for this expression of speculative euphoria, of course. This time, though, the craziness seems to be even worse than usual. What prompted the upsurge was a simple rumor. A rumor to the effect that not only were the finance ministers and central bankers of the Group of Seven industrial nations going to meet April 14 on the eve of the semi-annual meeting of the International Monetary Fund's Interim Committee, but that those august dignitaries were also to reaffirm their commitment to international currency stability. Saner heads within the financial community watching such developments were almost reduced to despair that a mere rumor, which even if true, would mean exactly nothing, could produce such a disproportionate result in terms of herd-like hysteria among the money managers.

Others think, perhaps, the euphoria simply fed the expectation that with that Group of Seven meeting fixed, and 10 days away, it can be safely assumed that there will be no dramatic upsets until after the spring meeting schedule of the ministers and their lackeys is over and done with. Euphoria, then, because of 10 more days to play with the future of the world, despite the consequences which such folly will bring.

The euphoria is being quietly fed by George Bush's de facto campaign manager, James Baker, the head of the U.S. Treasury Department. Baker told a group at Fordham University's business school Thursday, April 7, that he was "pleased" with the way the international currency agreement concluded at the end of last year had worked. He repeated the litany of hopes and illusions of the Bush campaign. Namely, that there will be "no recession this year," and that the U.S. economy has proven to be "stronger than was thought" after the market plunge of October 1987. Baker had no official comment on the rumors going the rounds about upcoming future currency agreements.

A U.S.-Japan accord?

Word has gone out that in fact some kind of agreement has been cooked up between the electoral campaign authorities at the Treasury Department and the Federal Reserve, who presently control U.S. monetary and financial policy, and the Japanese. On the U.S. side, the indications for such an agreement include the mooting of a new intervention range for the dollar-yen exchange rate. On the Japanese side, they include statements from the central bank and the finance ministry anticipating the reaffirmation of the end-of-year Group of Seven agreement.

Insiders in the United States and Japan believe that the substance of any such agreement would actually include a further significant decline in the dollar-yen rate. They point to three considerations, two of which are believed to be foremost in Baker's calculations, one of more importance to the Japanese. A further decline in the dollar-yen rate, it is believed, would be sufficient to permit the U.S. monetary authorities to maintain the relatively low internal interest rates which have prevailed since the October crash, and would offset the pressure for interest rates to increase, which has been building over the last weeks, as speculative bond and stock markets have begun to run out of steam, and the specter of renewed collapse has raised its head. Maintaining such low interest rates is key to the electoral trick of targeted credit infusions into problematic financial situations, such as the Texas and Southwest banking collapse, which could pull everything down.

Such an approach, it is thought, would secondly increase the financial pressures now being exerted on the European Monetary System's deutschemark-pegged cross rate system, to the effect of blowing that system apart, on behalf of standing U.S. commitments to increase the influence of the Soviet Union within the European economies. This, too, being part of the "elect Bush" political package that has come together at the top. Joint financial and economic warfare against Europe, is part of the package which is subsumed under the doddering President's commitment to the summit and so-called peace process.

On the Japanese side, the considerations are somewhat different. Since the bulk of Japan's industrial raw materials and food purchases are international transactions conducted in dollars, all the Japanese have to do is sit tight. A declining dollar against the yen cheapens such primary goods purchases, cut by more than half over the past two and a half years, while continuing technologically vectored growth within the Japanese economy, with GNP expected to grow by more than 7% this year, offsets the increase in money terms of Japan's exports, especially into the United States, permitting apparent losses to be absorbed by the increased profitability of the system as a whole. All Japan has to do, unlike the Europeans, in the view of some, is sit back and wait, while the United States commits "hara-kiri" according to the rituals of prevailing economic incompetence and insanity.

There's only one thing wrong with these kinds of calculations. However good they look on paper they don't work. They don't work because they don't address the economic reality of the present process of ongoing financial collapse. The only kind of stability policy that would work under present accelerating crisis circumstances is of the sort proposed by presidential candidate and physical economist Lyndon H. LaRouche: Reorganize the monetary system, on the basis of a return to gold, via a gold reserve system, and through the issuance of gold-pegged Treasury notes into the banking system; provide the credit for production which permits the generation of wealth, in terms of tangible output, to be upgraded. Anything else, masquerading as stability policies, international agreements, or whatever, is simply going to make things worse.

This shows up two ways. For example, consumer debt excluding mortgages increased by more than $5 billion during the month of February, another double-digit increase at annualized rates. Such credit may look good as so-called assets in the accounting columns of shaky banks, but the United States is not producing enough, and has not been producing enough for several years now, to back up double-digit rates of monthly increase in consumer debt. U.S. consumers are being financed to buy imported goods, which the foreign creditors of the country are supposed to finance through purchases of U.S. government debt.

The continued growth of such debt tells the U.S. creditors that the United States is expecting them to keep on providing finance at the level of $160-180 billion per annum and up. After all, for the Bush campaign committee which is running U.S. economic policy, choking off such credit, in an election year, is not among the best ways to win votes.

But Europeans, through such financial community spokesmen as Crédit Suisse's Hans-Jörg Rudloff, have been insisting for months, that U.S. creditors are not able, and will not, continue to pick up a tab, which, even if running at $160-180 billion, can in effect be seen as the electoral expenses of the Bush campaign. Rudloff's views were repeated in the *Financial Times* of Thursday, April 7. To the surprise and dismay of U.S. money managers, no U.S. newspaper, outside this one, has yet seen fit to circulate or comment on the views of this particular policy shaper, which have now become so regular in the pages of Europe's financial press. Rudloff's latest contribution signals the coming end of the practice of securitizing U.S. mortgage and other financial obligations as a means of generating international funding for the U.S. banking system. "It is clear," he said, "that there was an element of excess in the scramble to securitization prior to the crash. The enthusiasms of the bull market encouraged illusions about the marketability of securities and distorted perceptions of value. The crash shattered many of those illusions. As a result, it has become clearer which innovations of the great bull market will endure, and which were part of the froth which bubbled over in October." A retrenchment in this brand of financing will curtail a significant chunk of the internal U.S. credit market, and pull down chunks of the banking system.

It doesn't bode well for the euphoria of the markets, or Baker's insistence that stability will be maintained. Rudloff's colleague, the new chairman of the Union Bank of Switzerland, added his two cents worth when he told the *Wall Street Journal,* Friday, April 8, "I don't know how many institutions [banks] will be left, maybe 12, maybe 20, but I am sure we'll be one."

He bluntly said, "October 19 had a positive side, the structural clean-up may eliminate a share of the competition. That's a chance for the strong to become stronger."

Such statements of intent contradict Baker's electoral mission. Nor is he likely, for the same reason, to heed the *Financial Times'* editorial strictures against those who fall for his "It's twelve o'clock, and all is well" refrain. Pointing out that while "cooperative calm" is the image to be projected by the Group of Seven, those who "scratch below the surface" might be "excused for mistaking it for careless negligence." "The problem is that the markets cannot be relied on to be so respectful of such intentions. There is a serious risk the markets will impose their own solutions." That risk gets greater every day that Baker and company continue to babble about "stability" and "surprising strength."