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EIR Economics

Hot air at Hot Springs round table gathering

by Chris White

The weekend of Oct. 8, the U.S. Business Round Table held its semi-annual get-together in the secluded Virginia resort town of Hot Springs. The principal agenda item seems to have been the one which has come to dominate all such financial policy gatherings over the past period, and which may still confound those who have been counting on postponing the dropping of the second shoe in the ongoing financial collapse until after the Nov. 8 elections. It is, of course, the question of what to do about the U.S. budget deficit.

The volatility of the question was highlighted, once again, on Thursday, Oct. 12, when the trade deficit figures for the month of August were released to the public by the Commerce Department. At $12.18 billion, the deficit was significantly larger than some had hoped. Advance rumors that such was the case triggered a sharp fall on the stock market Wednesday, and provided the groundswell for a broad retreat of the dollar, from its recent high levels against both the West German mark and the Japanese yen.

In London, the lability of the market, approaching the first anniversary of the Oct. 19, 1987 stock market meltdown, was portrayed as a warning signal from the Bank for International Settlements and the international central banks to the United States. The message delivered is supposed to be to the effect that, "You Americans have promised to deliver budget-cutting austerity, if only you are permitted to get through your elections without a repeat of what happened last October. This is to remind you, you had better deliver on those promises. Your time is running out."

Almost with each day that passes, the absurdity of what the central bankers and creditors of the United States are demanding becomes more apparent. Equally absurd is the kind of discussion apparently going on, inside the United States, about what to do regarding such demands. The Hot Springs Round Table highlights the latter.

Two views were put forward there. On the one hand, there was Bob Strauss, former big cheese in the Democratic National Committee, and a subsequent member of the hated cabinet of the worst of the entire bunch of postwar U.S. Presidents, Jimmy Carter. Strauss is now, in one incarnation, a ranking behind-the-scenes fixer, and in another, one of two chairmen of the bipartisan Commission on National Economic Policy. On the other hand, there was Walter Wriston, the former chairman of New York's Citibank, reputed to be, together with Donald Regan, one of the architects of the shady practices, known as "creative" or "innovative" financing, which bubbled the world financial system between 1982 and 1987.

Why Dukakis is the bankers' boy

Strauss represented forthrightly the views known to be associated with at least one of the factions represented on the cited commission, and it is the view that the foreign central banks want to hear. He was reported to have told participants that the incoming President, whoever that might be, will have three choices, and three choices alone. Either he will cut the budget, or he will increase taxes, or he will do both. Present budgetary constraints provide no other alternative, he has argued, no matter what anyone may say to the contrary.

It's becoming increasingly clear that the proponents of this line are also thereby supporters of the Mussolini-modeled technocrat from Boston, Michael Dukakis. Dukakis, with his usual sly grin, has avowed himself to be the man who will "make the hard choices" on taxes, and especially on cuts in defense expenditure, while Bush has equally insisted "no new taxes," using the argument of Ronald Reagan, that he is averse to choking off the longest-running "economic expansion" in postwar history.

In this line-up, therefore, Dukakis becomes the man of

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the international bankers who insist on the obsessive litany of budget cuts, tax increases, and austerity as the price the U.S. Faust must pay when his devil's pact falls due. Since the same international crowd also has the capability to steer and catalyze flows of international funds, it is equally not to be excluded, that those from the world of finance who see Dukakis as the one who will implement their savage austerity after the election, might intervene beforehand to help create the kind of crisis that might usher him into position. Be prepared, therefore, for the kind of surprises some in the international financial community have the capability to spring.

The opponent view was represented by Wriston, who argued that the U.S. budget deficit is not really a problem at all, especially if compared with the overall size of the economies of other deficit-running countries. Relative to the Gross National Product, he asserted, it's an average type of deficit, and then continued to argue for the benefits of running such deficits.

Hooker's incredible report

Wriston's case was later buttressed by a newly issued report produced under the auspices of the RAND Corporation by a certain Mrs. Hooker. She was commissioned to do a study debunking the decline of the United States to its present position as the world's largest debtor nation—a job which the *Washington Times* claimed she had done successfully.

Among the gems in this approach are the twins: The United States only became a borrower when it stopped lending to especially Latin America in 1982, and the U.S. only seems to owe more to foreigners than foreigners owe the United States, because of accounting errors. Foreign investments in the United States are more recent than U.S. investments abroad. Therefore, it is not surprising that more recent foreign investments are bigger than older U.S. ones. But if the two figures are adjusted, it can readily be shown that far from being a debtor, the United States remains a creditor nation. Both this, and the Wriston argument on the beneficial effects of budget deficits, are of course nothing but attempts to insist that nothing need be done—things are fine the way they are.

Of course, that's incompetent to the point of absurdity, but so, too, is the set of demands put forward by Strauss on behalf of the foreign creditors. It's past time that this entire stupidity about whether to cut the budget deficit or not be replaced with something sane as well as competent.

Those, like Strauss, who argue for cuts, are nuts on several counts. First and not least because the Western world's defenses will be first down the tubes. Those who want to impose what they call "fiscal and financial" orthodoxy on the United States, thereby propose to leave the Western world open to Russian irregular warfare, military blackmail, and worse. They are also proposing to make life impossible for the aged and the sick and the unemployed.

Steady as she goes?

Those who argue that nothing need be done, because everything is all right, are equally out of the real world. The depression collapse of the U.S. economy has collapsed government revenues and forced the United States into dependence on both foreign produced goods to replace what is no longer produced in the United States, as well as foreign funding to cover the revenues that are no longer generated here.

Financially, the point of no return was reached already last year, with the stock market collapse. Nothing that has been done over the last year has achieved anything except to postpone the coming of the inevitable, ultimate day of reckoning.

What is needed, as presidential candidate and economist Lyndon LaRouche has proposed, is the kind of leadership which will face up to the reality of a deepening international bankrupcty and insolvency crisis, and which will address that crisis by adopting the kind of reorganization of credit and taxation policy that will permit production to resume. Away with the kind of thinking that insists, one way or the other, that budgetary constraints are some kind of immovable obstacle to doing anything. Changing credit and financial policy changes the constraints.

Both the budget-cutters, and the steady-as-she-goes crowd, ignore the simple reality that the budget deficit is going to be increased anyway. The collapse of the savings and loans will add from $100 billion and up to the budget deficit, the writing down of Third World debt to just 50% of face value across the board will add another $50 billion and up to the deficit, and the further financial shakeout and contraction of overall economic activity that follow from all three will add more than another $100 billion. Threats to collapse the dollar to force the country to cut its deficit will make it still worse. No one, except the Texas wild man H. Ross Perot, has come up with anything like a means to cut $250 billion out of the budget. Nor can they.

So why not admit the effort is nothing if not an insane obsession, and get down to something that will work: economic recovery to expand out of the crisis that cannot be postponed much longer? Otherwise, whatever is put forward by any of the protagonists will ultimately lead to the same disastrous results. And furthermore, as Strauss's collaborator on the National Economic Commission Felix Rohatyn, from the investment house Lazard Frères demonstrated in *Time* magazine of Oct. 17, such an outcome has already been discounted anyway. Rohatyn has a plan to end speculation and return to what he calls investment. As he has written before, if not in *Time*, his anti-speculation package is actually something that could only be done after the next crash hits. Then the wipe-out of $10 trillion-plus of unsecured paper will indeed make many speculative practices moot. If the Hot Springs Round Table didn't have a way of dealing with that, they may well not be having any more of their gatherings.