

## The second-quarter crisis is on its way

by Chris White

News released in the week of Feb. 13-17 that, for the first time since 1980, U.S. oil imports exceeded domestic production, underlines again that the economy and financial system seem to be heading rapidly toward a new crisis turning point, perhaps to emerge sometime during the second quarter of the year.

The drive toward the point of eruption of that crisis is defined by the combination of internal U.S. and foreign political developments, with the ongoing economic and financial slide into the worst depression of the century. The collapse of domestic oil production, to the lowest levels in the last 25 years, impinges directly on both the financial and economic sides of this.

Much hoopla was made on Feb. 17 about the continuing reduction in the U.S. trade deficit. The December figure, at a seasonally adjusted \$11.89 billion, permitted officials to crow about the almost 20% reduction in the deficit achieved over the year. For 1988 as a whole, U.S. imports exceeded exports by \$137.34 billion, well down from the record 1987 level of \$170.32 billion. The January oil import figures serve notice that this apparent improvement will not last. By the time the January trade deficit figures are released to the public, in one month's time, it will start to become clear that the more pessimistic financial pundits, who anticipate no continued further improvement in the deficit, are also off the mark; in fact, the deficit will get worse.

The increase in oil imports also coincides with an increase in the price of oil, from below \$15 per barrel to over \$18 per barrel. Since oil and oil products comprise some 30% of the trade deficit, the combined increase in volume of imports, and the price of those imports, already insure, no matter what the statistical masseurs in the Commerce Department later come up with, as the result of "seasonal adjustments," that the January trade deficit will be moving back up to the \$14 billion level, and higher. Within two months of the Bush

administration's taking office, the United States will be telling its foreign creditors that it will again be requiring more than \$150 billion of capital inflows for the year.

This message will not sit too well with the creditors, organized around the coordinating center of the Basel, Switzerland-based Bank for International Settlements (BIS). They have insisted, for more than a year now, that never again will they do for the United States what they did in 1987, when they coughed up about \$180 billion, if not more, to keep things afloat.

Coming on top of the announced assumptions and outline of the Bush budget, the foreseeable effects on U.S. financing requirements, of another uptick in the U.S. trade deficit, may well prove to be just too much. The Bush budget has been denounced as a fraud by such organs of world financial power as London's *Financial Times*, and the leading press of Switzerland. In some cases this has extended to denunciation of the fraudulent Gramm-Rudman-Hollings deficit reduction enforcement process, which, with fangs pulled, is increasingly viewed as a joke.

What has provoked the outrage about the budget is the ridiculous assumption that the budget deficit, estimated by some at more than \$170 billion, and in reality more than \$250 billion, will be reduced from about \$155 billion to \$90 billion, by the combination of selected freezes on expenditure, at fiscal 1988 levels, and an anticipated \$88 billion increase in federal revenues. The revenue increase is predicated on a less than 4% rate of inflation, and on a less than 7% base for the calculation of the effects on debt service of rates of interest.

To the creditors, expected to finance the foreign-held part of the United States' obligations, the budget message was read as a curt demand for two more years of the shenanigans associated with the Reagan crowd, since the now presented budget is in effect from Oct. 1 of this year to Sept. 30, 1990.

The budget tells creditors they will have to wait for their day of reckoning until 1991 at the earliest, and perhaps 1992. Hence the cries of "fraud!" from the centers of financial power.

### **Response from the BIS bankers**

The denunciations were accompanied by downward pressure on the dollar, corrected immediately by increases in interest rates within the United States. The interest rate increases further undermined the credibility of the Bush budget presentation. But over the weekend following the presentation, the BIS met in its regular monthly get-together and apparently decided on a reciprocal tight money policy, intended to limit the U.S. ability to maintain an exchange value for the dollar by sustaining an elevated differential between American and European interest rates. This will be implemented through the Group of 10 central banks, chaired by Bundesbank chief Karl-Otto Poehl. Like Federal Reserve chairman Alan Greenspan, Poehl announced that from here on in, the fight against inflation is the main priority.

With this, the world was put on notice that there will be a centrally directed tightening of credit within Europe, coordinated through the BIS, designed to reduce, if not eliminate, the differential. The announcement puts the United States on notice that the BIS crowd have decided to stem the inflow of foreign funds into the United States. The magnitude of that decision was reflected in major American newspapers Feb. 17, in terse reports with headlines like the one in the *New York Times*, "Bundesbank Does Not Raise Interest Rates."

### **Brazil can't pay**

Brazil's President José Sarney then added a further element of inevitability to the perspective of the crisis looming in the second quarter. He announced on Feb. 16 that Brazil does not have the available funds to meet its debt service payments coming due in the month of March. More than a month ago, with the announcement of his anti-inflationary "Summer Plan," Sarney had reserved the right to suspend debt service, should foreign exchange reserves reach "critical" levels. And now he has. Sarney complained bitterly that Brazil had regularized its situation with its international creditors, with its December catch-up of past due interest payments, but to no avail: Funds are still not forthcoming. He pointed out that during the four years of his presidency to date, Brazil has shelled out \$55 billion in interest payments, without reducing the principal outstanding by one iota.

Sarney has arranged to meet with Bush in Tokyo at the end of February, to discuss whether or not some solution cannot be developed. However, Sarney is also part of the coalition of Socialist International-associated Ibero-American heads of state who have rallied around the so-called debt initiative now associated with the name of Venezuela's Carlos Andrés Pérez. This is the same central bankers' blueprint

for world financial dictatorship already associated with the International Monetary Fund, the World Bank, former Japanese Finance Minister Kiichi Miyazawa, Henry Kissinger, and as of last Dec. 7, Mikhail Gorbachov.

The idea is to create a new agency, associated variously with the IMF or World Bank, to discount existing Third World debt against the issuance of new long-term bonds, financed in part by Japan, and collateralized against Third World foreign exchange reserves. This proposal was put on an early April timetable for adoption, at the recent "getting to know you" meeting of the Group of Seven finance ministers and central bank chiefs.

Thus, the debt crisis, and the crisis associated with the effects of the U.S. trade deficit and U.S. funding requirements, with their impact on the dollar and interest rates, have been primed to explode, perhaps in the weeks following April Fools' Day. Perhaps, too, we should decide to shift the dating of All Fools' Day to whichever day does ultimately turn out to have marked the beginning of the next round of turmoil in international markets, thus to commemorate both those who knew what the consequences of what they were doing would be, and refused to change their thinking, as well as those who didn't know, but didn't bother to inform themselves either.

No doubt, buried within the inner recesses of the elites represented by the BIS, there is a grouping, associated perhaps historically with the House of Morgan and its allies in London, Switzerland, and the United States, which imagines that the bubble of the dollar credit system can be deflated to crush opposition to the emergence of a new order associated with the strengthened power of the so-called multilateral institutions, like the IMF. Such interests might perhaps envisage the creation of a new version of the 19th-century gold exchange system, providing the enforcement arm for such an international dictatorial centralization of power. Such a revived gold system would in turn be based on strategic agreements between London financial centers, Gorbachov's Russia, South Africa, and other interests in the Anglo-Saxon world. In this scheme, the intended new institution to deal with Third World debt, would also be the agency by means of which what the markets call "discipline" is imposed on the United States, and savage retribution exacted for what the same crowd calls U.S. insistence on "living beyond its means."

Since no one can know what will happen if the more than \$15 trillion in debt associated with the dollar is thus brought down, such matters will probably remain within the domain of the speculative, and within the walls of those Freemasonic lodges where such things are being discussed. One thing is for sure: The power of those who now prepare to unleash the whirlwind will not long survive what they do so unleash. Whether any of the rest of us do, is an entirely different question. The current generation of would-be Caesars might do well to remember the old warning, "Beware the Ides of March."