
Conference Report

Financial gurus promote 'virtual reality' in Bonn

by Our Special Correspondent

On Feb. 28, the Friedrich Ebert Foundation, the State-financed German think-tank closely associated with the Social Democratic Party (SPD), sponsored a podium discussion on the theme, "How to Keep International Capital Movements from Interfering with Economic Growth." The title, as well as the pre-event brochure and introductory comments by conference coordinator Alfred Pfaller of the Foundation, promised an interesting discussion. Questions would be raised, about how unregulated capital flows and "globalization" were creating massive problems for the physical economy, and potentially even threatening what Pfaller called "societal disintegration." According to Pfaller, the issue is "how to better control" unregulated financial flows, and "what to do politically" about such problems.

What transpired after his introductory comments, however, was exactly the opposite. To the disappointment of many in the audience, the five persons who comprised the panel rejected the very premise of the event, claiming that it were axiomatically unthinkable that unfettered capital markets could interfere with economic growth. They presented a utopian view of the great benefit to the global economy brought about by unregulated capital markets, derivatives, and the like. Speakers downplayed the danger of "systemic risk" to the international system, and spoke out against any "transaction tax" that would attempt to rein in speculation.

The performance was reminiscent of the bizarre article appearing in the January/February edition of the New York Council on Foreign Relations' *Foreign Affairs* magazine, by CFR Director of Studies Ethan D. Kapstein, entitled "Shock-proof." In that article, Kapstein argued that the world financial system was now, essentially, beyond the era of crises, because of the capacities of international regulatory agencies (see *EIR*, Feb. 16, p. 7, and March 1, p. 4). Cumulatively, the Bonn event was "beyond Kapstein."

Derivatives, not 'national economy'

Speakers included Timothy Geithner, Deputy Assistant Secretary for International Monetary and Financial Policy in the U.S. Treasury Department; monetarist Prof. Wolfgang Filc, Professor of Economics, University of Trier; Marc-Olivier Strauss-Kahn, assistant director for international relations, Banque de France (French Central Bank); and Alfred

Steinherr, Professor of Economics and chief economist at the European Investment Bank, Luxembourg. The moderator was Hans-Helmut Kotz, who is with the European Institute of Public Administration in Maastricht, Holland, and is also chief economist at Deutsche Giro-Zentrale (the clearing house for German banks) in Frankfurt.

Filc began the panel, insisting that "globalization is necessary," because it means the "free movement of services," which "must, in principle, enhance and increase wealth." He acknowledged that this sometimes involves "volatility," especially in the trade in derivatives, especially because "derivatives can cause speculation," through what he called "the speculative lever effect." But Filc was less worried about derivatives than about moves to control them. He warned against those who want to "eliminate or kill" derivatives. "To draw the conclusion that this can be eliminated by political measures" would be wrong, because this would "throw stones in the wheels of economic activity." In any case, it is impossible "to eliminate such instruments by economic policy," because people would then just "invent new instruments."

In Filc's view, "We would be mistaken to try to re-nationalize and re-regulate, to impose new constraints and roll back these developments. . . . We shouldn't spend so much time on national economy."

Another Mexico crisis 'unlikely'

Filc was followed by Geithner, whose comments seemed to be coming from another planet, for anyone familiar with the increasing ferment among U.S. voters over the collapse of the economy, as catalyzed by the national television broadcasts of Democratic Party Presidential candidate Lyndon LaRouche, and as represented in the high vote totals for Republican candidate Pat Buchanan in New Hampshire and other primaries, and the impassioned calls by leading Democrats, such as Sen. Edward Kennedy (D-Mass.), Senate Minority Leader Tom Daschle (D-S.D.), and Rep. Richard Gephardt (D-Mo.), for a renewed commitment to economic growth in the tradition of Franklin D. Roosevelt and John F. Kennedy.

Geithner's performance was of considerable importance from a negative standpoint, because he was speaking as an American official before an audience in Germany's capital city (Berlin officially becomes Germany's capital next year). Those attending would take his views as those of the Clinton administration. Indeed, Geithner made the pro forma demurrer that he was expressing his "personal view," but stressed that this view is "at the center of the Washington consensus," and reflected the "general consensus in what might be called 'the Washington establishment.'" At one point, he narrowed this down to be the "Rubin-Greenspan consensus," referring to U.S. Treasury Secretary Robert Rubin ("my boss") and Federal Reserve Board Chairman Alan Greenspan.

Geithner began by "rejecting the premise" of the event, namely that capital movements could "interfere with eco-

conomic growth." According to him, "a rapid increase in capital movements is a good thing, it is beneficial, not malign or threatening." Any "unsustainable policies" there might be, would be "punished by the markets, and that is a good thing." What is key, is strengthening the supervision of the banks, and the regulation over financial markets, particularly by strengthening the "collective capacity" of "the International Monetary Fund [IMF] and the monetary authorities" to "manage risks." Turning reality upside-down, Geithner insisted that there is "much less systemic risk" if there is *more* "innovation" rather than less, because there is "more risk if you bottle up financial activity in one market."

The early-1995 financial-monetary crisis in Mexico, he affirmed, had nothing to do with "liberalization," unfettered capital markets, or "globalization," but simply resulted from "an absence of disclosure standards" and inadequate resources of the IMF, to handle such events. Hence, he was "very supportive of the efforts of the IMF to strengthen disclosure standards," and he was fully supportive of doubling the IMF's General Agreement to Borrow facility. Continuing with the "What me worry?" attitude, Geithner affirmed: "We are unlikely to see a future Mexico, but we're better served" to have these disclosure and financing capacities.

Geithner argued that "we should not contain volatility artificially, or control change," because this "would be damaging." From this standpoint, he advised that "we," i.e., the

Treasury and/or Clinton administration, "are no fans of transaction taxes. They are ineffective, since they must, by their nature, be punitive, and this would be damaging to capital movements generally."

French official: It's all in your mind

French Central Bank senior official Strauss-Kahn next gave a utopian overview of the financial situation. He began by documenting the "tremendous increase" in international capital movements, to the point that "the average daily turnover of the global exchange markets" has reached the level of \$1.2 trillion, an amount "larger than the international reserves held by central banks." But, he assured his audience, there "is no increased instability in financial prices" in the global financial system, the problem is only that there is a "perception of an increase of instability. . . . The mere perception of financial instability may have increased. . . . There is more and better information available, so the awareness of capital movements has increased. Financial price instability may *seem* greater."

Having put himself on the side of necromancy, Strauss-Kahn advised that what is required is not a change in policy, but rather "pedagogy and better information."

On derivatives, he affirmed that "in periods of stress," they may "exacerbate instability," but this doesn't happen "in normal times." While members of the audience were scratching their heads in bewilderment over this statement, Strauss-Kahn concluded: Any transaction tax would be "ineffective and disruptive." What is needed, instead, is "improved information and voluntary disclosure," because financial crises are really crises involving the "disruption in flows of information." Again, he said, "No significant increase in volatility in financial alignments can be observed in 1995."

The next speaker, Alfred Steinherr, was characterized by Fil as "Mr. Derivatives." Steinherr poured forth figures and charts, to show the great breakthroughs achieved in the world of "securitized finance"—as opposed to official government financing or commercial bank loans—in the world over the past decade. He saw great hope for the future, saying, "We are still at the primitive stage of development of derivatives," the which have a great future in the "emerging markets." In perhaps his only truthful statement of the evening, Steinherr affirmed: "We have failed to explain the relation of the financial markets to the real economy."

'Americans are too parochial'

The first question from the floor was posed by a representative from the newsletter *Washington Insider*. He said that the more he heard Geithner associate himself with "the Washington establishment," the more he understood why more and more American voters were voting for anti-establishment candidates. He charged that the whole presentation was at complete variance with the growing discussion in the United States about "national economic security," and the "bipartisan" mood seen in the Buchanan and Kennedy-Gephardt-Daschle et al. phenomena.



LaRouche Campaign Is On the Internet!

Lyndon LaRouche's Democratic presidential primary campaign has established a World Wide Web site on the Internet. The "home page" brings you recent policy statements by the candidate as well as a brief biographical resumé.

TO REACH the LaRouche page on the Internet:

<http://www.clark.net/larouche/welcome.html>

TO REACH the campaign by electronic mail:

larouche@clark.net

Paid for by Committee to Reverse the Accelerating Global Economic and Strategic Crisis: A LaRouche Exploratory Committee.

Geithner cynically downplayed the significance of this phenomenon in the United States, saying that the economic policy ideas of “Buchanan and the left” are “not close to threatening the mainstream view in the U.S.” He said that President Clinton is a true believer in the wonders of “free trade,” and has simply continued the policies of the Bush administration in this regard. This shows “how strong the consensus is in favor of liberalization. The broad neo-classical consensus is *intact* in the U.S.”

Finally, Geithner proclaimed, “most Americans are still too parochial, and insulated enough,” to have meaningful views about the problems posed by “globalization.” Here again, this was disinformation: In a speech made one day earlier, at the Economic Strategy Institute in Washington, Gephardt had singled out “globalization” as one of the central reasons for a growing “economic hunger and anxiety” that “President Clinton himself” has pointed to.

A queasy feeling

Geithner later affirmed his agreement with Kapstein, that there is no significant “systemic risk” to the global financial system, and that the recent big crises (Barings, Daiwa, Mexico) show how resilient the system is, rather than the reverse. Not surprisingly, a representative from the British embassy in attendance was clucking that, while all the

speakers were “very much in line with the City of London view,” Geithner, in particular, “thinks along the same lines as I do.”

One emotional intervention was made from the floor, by an Ebert Foundation expert on Mexico. He charged that the speakers had completely ignored the vital matter of the relation of the financial markets to the real, physical economy, and had misrepresented the causes of the crisis in Mexico. He correctly affirmed that Mexico had, indeed, profoundly suffered from “liberalization,” “globalization,” and the North American Free Trade Agreement (NAFTA). In response, the speakers who were covering up for the ongoing collapse of the financial system, betrayed their utter intellectual bankruptcy. Geithner again sung the praises of the capital markets, saying the successes in the U.S. economy were a testament to how “more open and more competitive financial markets” are “efficient at financing growth” and creating employment. Strauss-Kahn pitched in: “The financial sphere and the real economy are well-linked. This has been disputed for years, and we will not solve it here.” So much for reality.

The irony of the event, is that the moderator’s name, Kotz, is the literal German-language translation for the American slang expression for the act of regurgitating. That was certainly the feeling of many in the audience, by the time the four-hour event had drawn to a close.

Correction

In our March 1 issue, the article “IMF Admits That It Is Exacting a ‘Brutal’ Toll from Russia” contained errors in the tables on the collapse of Russian basic industry and agricultural production. We reprint the correct tables here.

TABLE 1
Collapse of Russian basic industry, 1990-95

	1995	1994	1995 as a percentage of 1994	1995 as a percentage of 1990
Electricity (billion kilowatt-hours)	862	876	98%	78%
Oil (million tons)	307	316	97%	58%
Natural gas (billion m ³)	595	607	98%	92%
Coal (million tons)	262	272	97%	67%
Ferrous metals (million tons)				
Iron	39	36	107%	66%
Steel	51	49	104%	57%
Metal-cutting machine tools (thousands)	16.5	18.2	90%	23%
Stamping presses (thousands)	2.08	3.1	68%	7%
Trucks (thousands)	113	142	80%	39%
Tractors (thousands)	21	28.7	75%	10%
Combines (thousands)	6.4	12	53%	6.7%
Chemical industry (million tons)				
Sulphuric acid	6.9	6.3	110%	54%
Synthetic fabric	0.23	0.19	116%	66%
Gasoline	28	26.4	106%	68%
Diesel/fuel oil	66	70	94%	66%

TABLE 2
Collapse of Russian agricultural production, 1990-95

	1995	1994	1995 as a percentage of 1994	1995 as a percentage of 1990
Grain (harvest, million tons)	64.7	81	80%	60%
Potatoes (harvest, million tons)	37.7	34	110%	94%
Livestock (millions of head)				
Cattle	39.2 ¹	44	89%	81%
Hogs	22.6 ²	25	89%	75%
Sheep and goats	28.4 ³	36	78%	62%
Milk production (million tons)	5.8	7.2	80%	32%
Meat production (million tons)	2.3	3.2	71%	28%

1. Or 29 (from non-government studies).
2. Or 13 (from non-government studies).
3. Or 18 (from non-government studies).