EIR Economics

Disarray in Crisis Is Clear Among G-7 Finance Ministers

by Paul Gallagher

A most unusual set of statements resulted from the Feb. 21-22 Paris meeting meeting of the Group of Seven Finance Ministers and central bank governors, which had been expected to indicate what monetary moves the industrialized nations would take to meet the shock of a new Mideast war. If one judges by the statements made public, the Finance Ministers were simply unable to discuss this critical question, and threw up their hands at the prospect of deepening global depression. If they did discuss it in secret, the ministers certainly failed to agree on any specific action to prevent the global economy from sinking further. What they did discuss revealed a widening rift of policy positions—not only in respect to an Iraq war and its economic-financial consequences.

The scant joint communiqué from the meeting did acknowledge that the economic situation in the United States, Europe, and Japan is "weakening." The word speaks volumes, as G-7 communiqués, no matter the mudslide going on, usually speak only of differing rates of "growth" in near-meaningless Gross Domestic Product calculations—which will "grow," like hair and nails, on a dead man.

The seven economies—United States, Britain, Canada, Japan, Germany, France, and Italy—have all been suffering continuous loss of jobs—especially industrial jobs—for many months, with the European countries acknowledging unemployment rates of 10% or more while Britain and the United States have equally high jobless rates but cover them up. Even economists in the United States who were hyping "a turnaround" in December-January now say the labor market "hit a wall" in February, driving the famous U.S. "consumer confidence" into a 15-point plunge. New figures on machine tool production showed a 16% decline worldwide in 2002, led by a 37% decline in the United States, a 31% decline in Japan, and a 17% decline in Germany. The world's reserve currency, the dollar, is sinking despite a continuous crude oil-price rise which would "normally" hold it up—and that when Iraqi oil production has actually risen, and when more than half that production has been going to the United States. That means the United States is taking more oil now from Iraq's decrepit and undermaintained oil infrastructure, than it would conceivably take in the aftermath of invasion and conquest of that country.

'Each Nation On Its Own'

The real prospect, if war begins in the Mideast, is for an accelerated collapse. And all the G-7 governments, and their state or provincial governments, have been undergoing a drastic, depression collapse of tax revenue—which means that without a dramatic policy change, they have no means to intervene into that collapse.

Given this, the second aspect of the Finance Ministers' statements was even more unusual, and disastrous: Instead of even indicating an overall plan, they said that each nation should take "whatever steps it saw fit" to get out of the crisis. Not even the hint of a policy was claimed.

The G-7 impasse flows in significant part from the Bush Administration's insistence that tax cuts, free trade and deregulation are the answer to the economic problems, and a growing realization in Europe that those policies are the problem, and must be reversed. What is brewing in Europe, is renewed talk of protectionism, infrastructure projects and easing the Maastricht austerity criteria; as the crisis deepens, the ideas of Lyndon LaRouche are increasingly appearing on the agenda.

U.S. Treasury Secretary John Snow said the American government is already doing a "great job" for the world economy, and all problems could be overcome once the rest of the

G-7 were to follow the American example. Snow promised that once Congress passes President Bush's $690 billion tax cut package, U.S. economic growth will be 3.3%, 500,000 new jobs will be created, stock prices will be boosted, and economic growth around the world will be promoted. But the global economy is in free fall thanks to the very policies Snow was promoting. The tax cuts are opposed even by Sir Alan Greenspan, the architect of the largest bubble in history, who was at the Paris meeting. Greenspan fears that the cuts would trigger a rise in long-term interest rates, thereby blowing out the American housing bubble. He knows all too well the way the overvaluation of real estate in the United has been used to create trillions of dollars of fictitious asset values. If—that is, when—the real estate market blows, the resulting devastation of household balance sheets will quickly spread to the banks and other holders of suddenly glaringly worthless household debts.

The situation is similar in Britain, where the Bank of England recently and suddenly lowered interest rates in hopes of propping up stock prices and saving the British insurance sector. The move infuriated the big British banks, which feel that the Bank of England's sudden shift from "all is fine" could push Britain's own housing bubble over the edge, with disastrous consequences.

The European officials attacked the core of the American economic recipe. European Central Bank President Wim Duisenberg described the U.S. twin deficits—current account and the Federal budget—as "a cause of concern for the EU and the world." Nikos Christodoulakis, the Greek Finance Minister who currently chairs the European Union finance ministers, stated that Europe was skeptical about "the size, the composition and the timing" of the Bush stimulus package. He said, the twin deficits "may create risks, which . . . would have significant ramifications well beyond the United States itself."

A European Emergency Counter-Policy

The Germans and the French are also bucking the Anglo-American globalist faction by discussing the need to ease the budget restrictions built into the EU's Maastricht Treaty and Stability Pact. Italy, Germany, and France are known to be considering bolting from Maastricht under conditions of war crisis, and going for coordinated public infrastructure-project spending.

It is not known whether a breakout from Maastricht, as a economic countermove to a U.S.-British war on Iraq, was actually discussed at the Paris meeting, with Snow, Greenspan, and Bank of England Governor Eddie George there to oppose it; but it is being discussed elsewhere. German Chancellor Gerhard Schröder was reported in the German media to have told the Social Democratic Party's national executive meeting recently that he is consulting with the French government on ways to ease the Maastricht budget restrictions. France and Germany have already contacted the European Union Commission in Brussels on the matter. *Le Figaro* reported on the eve of the meeting that German Economics Minister Wolfgang Clement and Finance Minister Hans Eichel had said "there is not the shadow of a doubt" that Maastricht would be bent in the case of war.

As for the EU, Commission President Romano Prodi said that "exceptional circumstances" call for a new interpretation, and confirmed to the French daily *Le Figaro* that a partial suspension of the Maastricht criteria is indeed an option.

Italy, where discussion of breaking the Stability Pact emerged in force last Fall after the influential speeches and meetings of Lyndon LaRouche in that country, is now also moving toward restoring industrial protection by the government. "We must not be afraid of talking about tariffs," Italian Finance Minister Giulio Tremonti had said on Feb. 13. "Maybe it is true that globalization will make us all richer in the future, but we risk arriving there dead. We must defend Italian products." Tremonti announced that Italy would propose the reintroduction of import tariffs during the coming European Union semester.

These moves have "LaRouche" written all over them. Back in February 2000, nine Italian Senators introduced a motion calling for an international conference to create a New Bretton Woods financial system. The motion was prepared with the help of LaRouche's European representatives, and heavily reflected LaRouche's analyses and solutions. After two years of discussions and appearances by LaRouche to brief parliamentarians, the Italian Chamber of Deputies voted a motion for such a new monetary system on Sept. 25, 2002.

Shocks to Banks Anticipated

Preparations for economic and financial emergencies are clearly underway in Germany.

On Feb. 16, a crisis meeting took place in the Berlin Chancellor's Office, which included Chancellor Gerhard Schröder, Economics Minister Clement, Finance Minister Eichel, and the top managers of Germany's largest banks.

According to Germany's financial daily *Handelsblatt,* which cited government sources, the meeting was not so much focussed on the situation of the German banking sector, which is precarious enough, but rather on threats to the German and global banking system that might materialize due to "external shocks," such as the "incalculable risks" posed by an Iraq war or terror attacks.

Another kind of "external shock" which had been discussed, was "the campaign against Commerzbank last Autumn," including nasty rumors spread from London (this referred to an e-mail sent by a Merrill Lynch London officer in October 2002 which caused a panic collapse of the shares of Commerzbank and other German banks). Measures that had been discussed include the building of special funds by German banks to prepare for the possibility of such attacks, and also the possible establishment of a publicly financed institution that would buy up bad loans from the banking sector.