A White House meeting that did not occur

by Chris White

On June 24, the White House press office confirmed that a meeting between President George Bush and former West German Chancellor Helmut Schmidt had not taken place. The non-meeting has generated a certain amount of outrage among well-placed circles in Western Europe, especially those with some insight into the accumulating dangers on the financial and economic fronts. Among such circles, the June 22 meeting which did not occur has been understood as confirmatory evidence of the thesis, that on the crucial questions of financial and economic policy, the crowd who runs the present White House is out of the real world.

The significance of the White House report was cross-checked in London, Switzerland, France, and West Germany. Circles in those countries concur that the conclusions which may therefore be drawn include, firstly, that the White House has no economic policy, and secondly, that world economic and financial questions have ill-advisedly been relegated to low-priority status. Instead of a policy, the fantasizers of Washington, D.C. insist that they can continue to "muddle through." Capital flight out of Asia, especially from Hong Kong, in the wake of Deng Xiaoping's Tiananmen Square butchery, running according to some well-qualified circles at a rate of $3 billion net per day into the U.S. dollar, provides the cushion on which such complacency rests.

More generally, the complacency which dominates today is compared with the same type of mind-set which dominated the administration of the ill-fated Herbert Hoover between the stock market crash of October 1929, and the banking crash of 1931-33, which was set into motion by the failure of the Austrian Kreditanstalt in the summer of 1931. If 1929 was a problem, it is being pointed out, 1931 was a real disaster. So, now, October 1987 in retrospect may seem like a problem overcome, but the crisis of the summer and fall of 1989 is, for those with whom we cross-checked this story, something waiting to happen.

From his jail cell in the Alexandria, Virginia Detention Center, political prisoner Lyndon LaRouche wanted it known that he agrees both with this view of the attitudes prevailing in and around the White House, as an objective assessment, and with the concomitant evaluation of the dangers that lie ahead. Regular readers of *EIR* will recall that it was LaRouche who, back in May and June of 1987, predicted in the pages of this publication and elsewhere, what would occur in the fall of that same year. LaRouche's predictions were based on his analysis of the slide into a new Herbert Hoover-style depression of the world economy.

LaRouche, from his jail cell, is now running for Virginia's 10th Congressional District seat, as he put it in his announcement of candidacy, "in the tradition of Henry Clay." From Congress, in the life-and-death crisis of 1810, Henry Clay, organizer of the faction known as the Whigs, rallied the United States to fight for survival.

Alarm bells in Europe

As far as the European side of the matter goes it is not simply a matter of canvassing the private views of those with insight and expertise on the matter. The kind of behind-the-scenes ringing of the alarm bells about the course the United States is taking, has also become a matter, increasingly, of public discussion. France's veteran laureate of the Nobel economics prize Maurice Allais took to the pages of the leading Paris daily *Le Monde* on June 28, to editorialize that "in fundamental terms the world economy is potentially unstable. . . . In the short term its evolution is unpredictable. . . . Reform is needed." In his editorial, titled "From Crash to Euphoria: The Plague of Credit," Allais compared the world economy to a giant casino, and argued that the untrammeled growth of credit that has prevailed in recent years, has brought matters to a breaking point.

The same views are expressed privately by those quite familiar with the workings of such U.S.-based outfits as David Rockefeller's Trilateral Commission. One such told us: "There should have been a crash already, but it hasn't happened. . . . As long as the U.S. administration and Congress are oblivious, what can you do? I wouldn't be surprised to see a new October 1987 business, but all this doesn't seem to matter on Capitol Hill or in the White House."

One day after this report was provided, confirmation again came from within the adminstration. On June 29 the Commerce Department presented its annual estimate of the magnitude of U.S. international assets and liabilities up through the year ending Dec. 31, 1988. By that time, the U.S. had become the world's single largest debtor, owing the world, according to the Commerce Department's estimates, $532.5 billion. Equally staggering, the total owed increased by 40%, up from $378.3 billion at the beginning of 1988. Up until 1984-85, the United States had been a net creditor of the rest of the world from the end of the First World War.

Yet, according to the June 30 *Wall Street Journal*, "Bush administration economists said the strong flow of foreign capital, particularly direct investment, proves that the U.S. economy remains attractive. 'It reflects continued confidence in the U.S. economy,' said Anthony Villamil, chief economist for the Commerce Department." In principal categories, foreign direct investment in factories and companies amounted to $328.9 billion, up 21% from the year before. Foreign holdings of Treasury securities totaled $96.6 billion, up 19%. Foreign holdings of other securities totaled $393.6 billion, up 12%. Foreign borrowing by U.S. banks totaled $609.5 billion, up 11.3%. The overall total of foreign assets in the United States climbed to $1.786 trillion, up 15.4%.

While foreign lending to U.S. banks may have risen more slowly than the growth of liabilities as a whole, or the growth of enumerated subcategories, the more than $600 billion taken in by banks from abroad is among the chief indicators to watch, since that portion of the total is primarily made up of the flight capital leaving crisis spots—among them, in 1988, the debt-strapped nations of Ibero-America. Since such money is short-term, following interest rate movements and currency differentials to maximize short-term gain, and since the internal U.S. real estate bubble which has provided the chief source of support for such short-term gains, via brokered deposits into government-insured savings and loan accounts, is going into a new downturn, the dominant complacency is insanely misplaced.

No welcome for Schmidt's advice

Schmidt, who was in the United States for a meeting of the World Forum, out in Vail, Colorado, had apparently hoped to present Bush with the findings of his recently formed commission on international financial flows. Similar to the World Forum, which is made up of former heads of government, like Schmidt himself, Britain's James Callaghan, and France's Valéry Giscard D'Estaing, the commission on international financial flows consists, among others, of former central bank chiefs such as Paul Volcker of the U.S. Federal Reserve and Maurice Clappier from the Banque de France. U.S. participants at the World Forum meeting such as Special Trade Representative Carla Hills had not been too kindly treated by discussants on such matters as the U.S. implementation of its Omnibus Trade Act of 1988, and its so-called Super 301 trade war features. Apparently, the same sort of concerns were to have been addressed by Schmidt at the White House, had the meeting occurred. Schmidt, it was said, had prepared some statements, designed to warn the United States about the dangers that lie ahead. But the White House didn't want to hear it.

Since the period March-April of this year, Helmut Schmidt, on behalf of the financial interests he represents, has been telling those who would listen that the Bush administration has been given until the Group of Seven heads of state summit meeting, scheduled to be held in Paris on the July 14 anniversary of the fall of the Bastille in 1789, to come up with a serious program to cut the U.S. budget deficit. Failing that, it is further implied, the foreign creditors of the United States will not continue to look so kindly on making available the further funds required to sustain the United States' ever-increasing appetite for foreign finance.

This perspective was adopted by the Bank for International Settlements, the Basel, Switzerland-based central bankers' central bank, and was presented in that agency's annual report in the form of unusually harsh attacks on all aspects of current United States fiscal, monetary, and economic policy. Following the BIS annual meeting, European central bankers began to cooperate to force the dollar down from the high level it had reached against the deutschemark at the end of May. In the last week of June, the same European central banks increased their interest rates, in a coordinated move which took effect on June 28 and 29. Further downward pressure was thus exerted on the U.S. dollar, and also on the U.S. stock market, which lost 91 points for that week, its worst performance in some 15 months.

Both indicate the kind of instabilities that continue to characterize the financial markets, and that will become the turmoil of the late summer and fall, after the Paris summit gibberings are over and done with. Such instabilities will increase with the progress of the political calendar, in particular where the $350 billion savings and loan bailout is concerned, and with the early August breaching of the present $2.8 trillion U.S. government debt ceiling. If the present administration continues with its willful disregard of the crisis it refuses to concede exists, then by Hallowe'en the ghost of Herbert Hoover will probably have taken over in the White House.