The Bush factor: International funds flee depression, pact with Gorbachov

by Chris White and Steve Parsons

Over the last couple of weeks one has unfortunately heard a lot of talk about the emergence of a so-called "Gorbachov factor" on the international markets. The simple version of this, promoted by the *Washington Post* on Jan. 28, and by the *Wall Street Journal*'s Dow-Phone service, has it that threats to Gorbachov's power prompt international investment funds to seek security in the dollar; and, conversely, that security for Gorbachov means safety for the same funds outside the dollar.

This thesis was originally put into circulation via the pages of the *Wall Street Journal* by the London investment house N.M. Rothschild. Threats to Gorbachov, it was argued in the middle of January, promote chaos and instability in Central Europe, and therefore encourage capital to seek safety in the United States.

Political reality is diametrically opposite. The Rothschild-originated nonsense about a so-called "Gorbachov factor" is a straightforward deception, aimed especially at enlisting the uninformed and stupid among U.S. influentials, among whose ranks the editors of the *Wall Street Journal* can usually be found. The aim is opposing the realization of the enormous economic potentials that are opening up in Germany and Central Europe.

Europe's economic bonanza

West Germany's industry is being capitalized for an investment boom premised on the economic development of the newly free nations of Eastern Europe. The withdrawal of foreign funds confronts the United States with the choice of either changing its policy to get in on that boom, or continuing the accelerating slide into the self-destruction of an unnecessary new depression.

The equity boom in West Germany, complicated by London's financial warfare (see page 11), represents the first indications of the political and economic potentials embodied in Lyndon LaRouche's proposed "magic triangle" high-speed railway and infrastructure-based development of the area bounded by Paris, Berlin, and Vienna, as the economic core for development of the approximately 500- million-person emerging superpower embodied in the integration of Eastern and Western Europe (see *EIR*, Feb. 2, 1990, "Paris-Berlin-Vienna Triangle: Locomotive of the World Economy"). Over the next 5-10 years, development of the core area bounded by the triangle, and the connected areas of Poland, Hungary, and Romania to the east, could amount to $2-2.5 trillion worth of infrastructural and capital-investment improvements.

The deceptive nature of the *Wall Street Journal*'s promotion of the "Gorbachov factor" turns out to be of a piece with that newspaper's scare-mongering in the mid-November against the prospects for German unification. Not so shrilly as Conor Cruise O'Brien's hysteria about the emergence of a "Fourth Reich," the more sedate *Journal* limited itself to scare stories about the threat posed by 80 million united Germans in Central Europe. The *Journal* doesn't seem to appreciate that, far from any kind of threat, the investment boom spilling over from the central triangle offers the decaying United States perhaps its last, best chance for survival. Contrary to the *Journal,* what is fueling potentially the biggest sea-change in the direction of the flow of international funds since the oil shocks of the 1973 and 1979, beyond the potentials apparent in Europe, is the emergence of what should rather be called the "Bush factor" in international markets.

Money flees the U.S. depression

The gross picture is as follows. During the last quarter of 1989, West Germany was the beneficiary of a net capital inflow of $20-24 billion. The inflow doubled each month during the quarter, from $3 billion in October to $7 billion in November, to $14 billion in December. The rate of influx picked up again toward the end of January, when East Germany's communist regime conceded to West German Chancellor Helmut Kohl on the timing of East Germany's upcoming elections and advanced the date to March 18.

By December, the monthly inflow into the Federal Republic of Germany had reached the levels which have been required to maintain the semblance of financial solvency in the United States since 1984-85. The United States, in the intervening years, has survived by extorting an annual tribute of $160-180 billion per annum from its allies, who are expected to cover the economic costs of the continuing U.S. trade deficit out of their internal resources, and a portion of the federal government's budget deficit.

Germany's $14 billion December inflow, when annualized, comes to $168 billion. If the flow keeps up, the nonprovision of the aforementioned monthly tribute ensures the rapid collapse of the U.S. banking system—bankrupt five or six times over—and economic dislocation which will make the suffering of the 1930s' Depression seem mild by comparison.

The size of the flow and the rate of acceleration have been cross-checked with financial specialists in the United Kingdom, Japan, West Germany, and the United States. There are two components to the inflow into West Germany: one, funds which under earlier arrangements would have been earmarked for placement inside the United States; another, funds removed from the United States by British, Japanese, and also U.S. money managers.

The financial pundits attribute the shifts to purely technical factors, and caution against the rashness of over emphasizing the political elements involved in the decision to withhold, and withdraw, funds from the bankrupt United States. "Technical factors" in this case mean primarily increases or decreases in relative interest rates in the financial markets of four countries, Japan, Germany, the United Kingdom, and the United States.

As usual, the pundits are wrong. Between September and October of last year, with the successive collapses of the junk bond market and the stock exchange, it became apparent to influentials in Europe and Japan that the present leadership of the United States was qualified neither in training nor inclination to do anything to reverse the accelerating slide into deflationary collapse. Between November and December, it also became apparent that this same Bush team was prepared to sacrifice its allies to securing its delusions of long-term agreements with *Time*'s Man of the Decade, Mikhail Gorbachov.

Contrary to both the Reagan administration and the successor Bush administration, there never was an economic recovery in the United States. The economy was pushed into bankruptcy by Paul Volcker between 1979 and 1982. Since then, during the intervening months of the recovery to date, the economy never again attained the levels of output or consumption reached in the period before 1979. The U.S. turned to others, especially Germany and Japan, to produce what it would no longer produce for itself. It bankrupted its own financial system by 1985, and insisted that allies continue to provide the funds that kept up the appearance that everything was all right.

During the "Recovery," the U.S. simply piled on debt, at a rate of more than $1 trillion per year, to the extent that by the end of 1989, total debt exceeded $12 trillion, holdings of speculative funds exceeded $8 trillion, and the federal government had committed its "full faith and credit" to the support of more than $9 trillion of obligations, in the form of deposit insurance, mortgage insurance, pension insurance and the rest. The cost of servicing debt, and maintaining earnings on speculation, each quarter, exceeds annual wealth production.

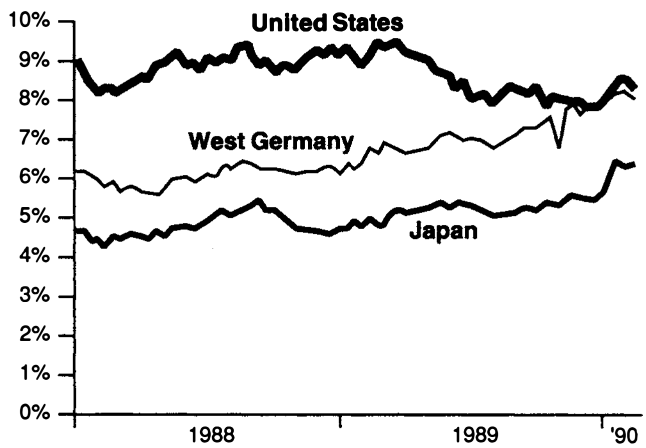
LaRouche was right, again

It should be pointed out that it was an *American* who came up with the political and economic design for the European development and recovery program which is getting off the ground. This is the same American who also predicted, almost to the day, the developments which shook financial and stock markets last October, as he also had in 1987. However, that American, Lyndon LaRouche, happens to have done that from the jail cell where he has been confined by his political opponents, who insist that his way of doing things—though proven correct—is an unacceptable intrusion into their own willfully incompetent exercise of power.

Between 1979 and 1983, LaRouche also designed the main features of a workable economic recovery program for the United States, using the same method of physical economy employed in the "triangle" program, to specify how investment in technologically advanced, capital-intensive, energy-intensive employment, and improvements in basic economic infrastructure, might provide means to secure survival from looming depression and bankruptcy. Today, U.S. participation in the European effort, and thus survival, would depend on Americans who, although their votes supported the contrary policies in the intervening years, would change

FIGURE 1

Yield on U.S., West German, and Japanese 10-year government treasury notes



Note: Weekly closes for U.S. and Japanese data; weekly averages for German data.
Source: Shearson Lehman

their minds about themselves, as well as LaRouche.

Without the funds from abroad, there is nothing to stop the surfacing of the reality of economic and financial bankruptcy in the most brutal way. Yet if LaRouche's proposals had been followed between 1979 and 1983, none of the above would have happened, and the country would not be confronted with the life or death decisions that will have to be faced in the coming weeks.

Since the political bosses of the international money managers know full well what they have been doing for (and to) the U.S. over the last five to six years, by funding the nonexistent recovery, one is warranted to assume that they also know what they are doing when they decide to stop doing so. Thus the decision is not *technical,* but absolutely and supremely *political.*

Figure 1 shows the movement, over the last year, in interest rates on 10-year bonds issued by the governments of the U.S., F.R.G., and Japan. Note that what had been an almost 5% differential between the U.S. and Japan, and a 2% differential between the U.S. and Germany narrowed over the year to about 2% in the first case, and nothing in the second.

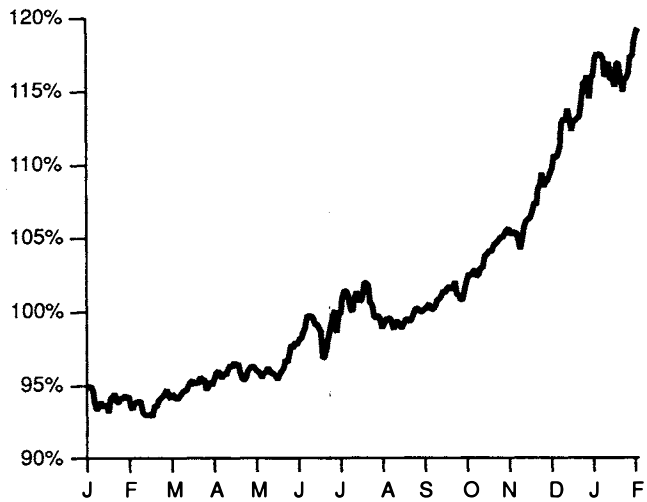
Leaving aside, for the moment, the matter of what such increasing yields might mean for Germany, the main point remains. And it is not simply technical. Beginning in June, and accelerating since October, international markets have been rigged against the United States. Last year we warned that the financial powers represented by West Germany's former Chancellor Helmut Schmidt, had given the U.S. until the end of June to get its house in order. The U.S., under Bush, did not. *EIR* identified the semi-annual report of the Bank for International Settlements, published at that time, as threatening the cutoff of the funds on which the U.S. depended. American investment houses told us, "It will never happen. It is purely technical." Similarly on Oct. 2, when West Germany's Bundesbank increased its discount rate by a full percentage point, *EIR* pointed again to the threat to cut off the funds on which the country depends, and we were told again, "They would never do it. It is purely technical."

Now compare the paired **Figures 2** and **3**, **4** and **5**, and **6** and **7**. These plot the movements of the dollar against the

FIGURE 2
Dollar/deutschemark index, 1989–90
(Sept. 1, 1989 = 100%)

FIGURE 3
Dollar/deutschemark index, nodal points
(Sept. 1, 1989 = 100%)

FIGURE 4
Deutschemark/yen index, 1989–90
(Sept. 1, 1989 = 100%)



deutschemark, the deutschemark against the yen, and the deutschemark against the pound sterling, over the last year, and over the five months since Sept. 1.

Figures 2, 4, and 6 show the gross movements over the year. The dollar has fallen in value by about 20% against the German mark, but the mark has appreciated over the same time-frame by about 30% against the Japanese yen. German investments thus became better for Japan than those in America. The pound sterling has fallen against the mark in the same way. Note too the general pattern of the changes: that half of the mark's appreciation against the yen takes place in the last quarter of the year, and half of that in the last month. The dollar fell 5% against the mark in September and October, 10% in November.

Figures 3, 5, and 7, which begin in September, fine-tune the gross picture. The movements reflect the accelerating flow into the F.R.G., correlate with two time lines of development—one, the elaboration of the financial bankruptcy of the United States; the second, with Bush's efforts to support Gorbachov. Thus we do not have a "Gorbachov factor," but we do have what should be called a "Bush factor." The international money managers are pulling the funds out from under Bush because they do not approve of what could be called his management methods.

For the financial and economic time-line, correlate the dates Sept. 15, Oct. 2, Oct. 13, Nov. 15, Dec. 12, and Dec. 25, with the movements on the chart. On **Sept. 15,** Robert Campeau brought down the $200+ billion junk bond market when his department store chains defaulted; **Oct. 2,** the Bundesbank increased its interest rates; **Oct. 13,** the New York Stock Exchange took its 190-point nosedive; **Nov. 15** was a big day for short-term borrowings of junk bond holders like Drexel Burnham, as they tried to cover losses; **Dec. 12,** the dollar crashed 8 pfennig, against the mark, to recover later; **Dec. 25,** Japan increased its discount rate; end of January, Campeau sought Chapter 11 bankruptcy protection, and $25 billion of debt issued by RJR Nabisco was downgraded by Moody's.

Then correlate the principal dates in the unfolding of the condominium agreements and the revolutions in Eastern Europe, with the movements of funds. On **Sept. 22,** James

FIGURE 6
Deutschemark/pound index, 1989–90
(Sept. 1, 1989 = 100%)

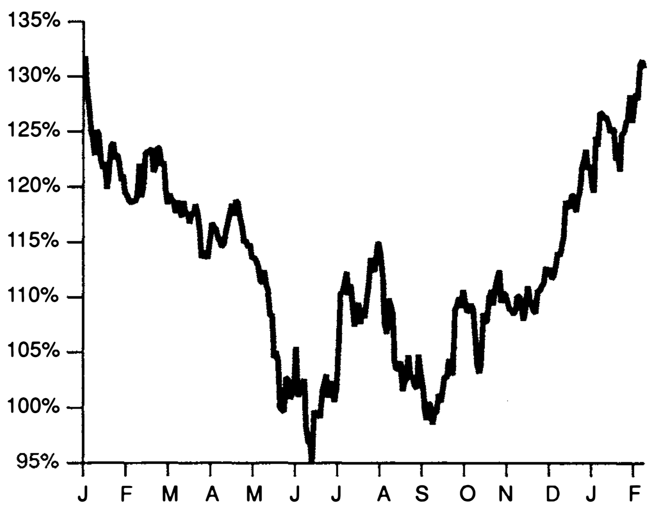


FIGURE 5
Deutschemark/yen index, nodal points
(Sept. 1, 1989 = 100%)

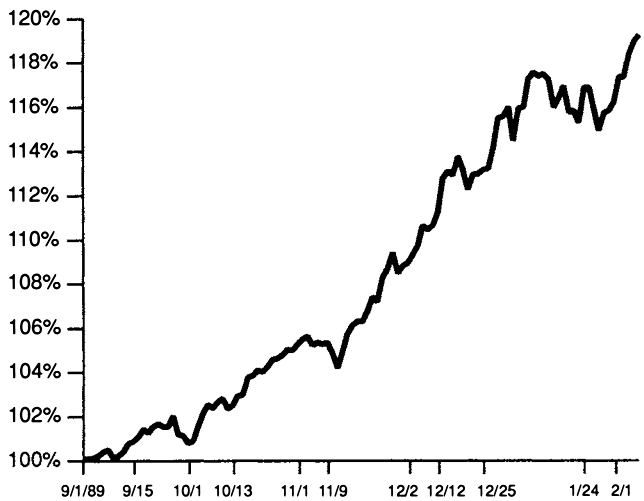


FIGURE 7
Deutschemark/pound index, nodal points
(Sept. 1, 1989 = 100%)

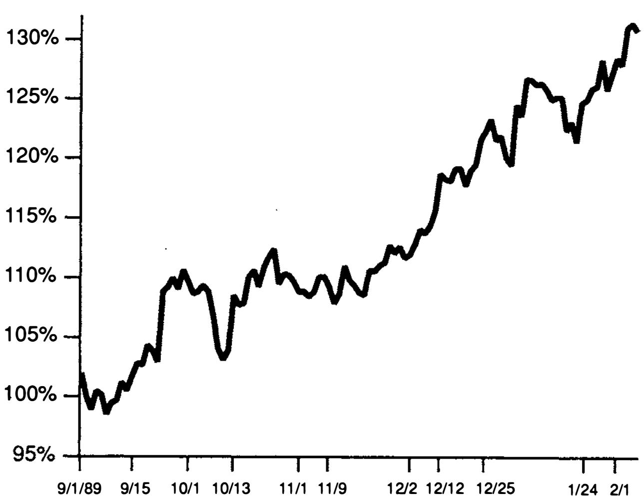


FIGURE 8
Frankfurt DAX versus Dow Jones Industrial Average, 1989–90
(Sept. 1, 1989 = 100%)

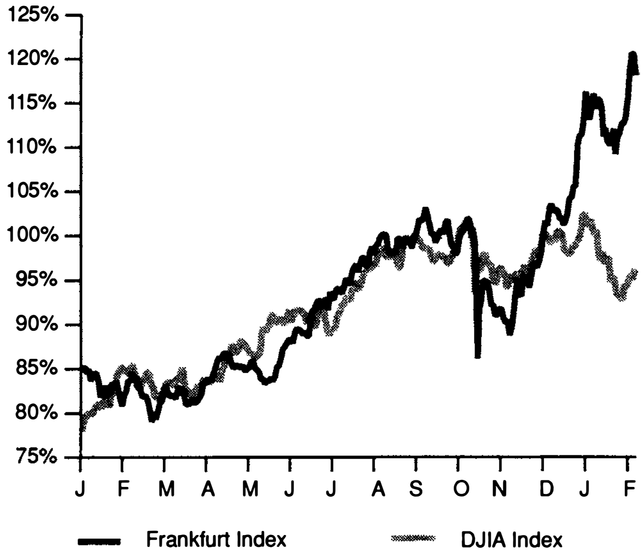
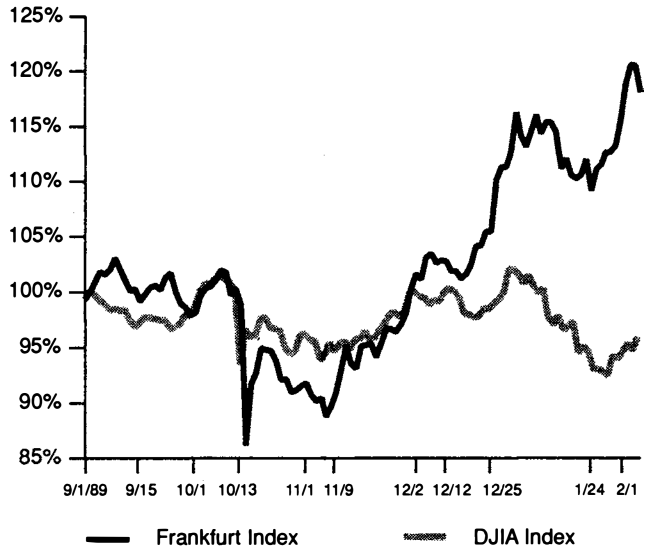


FIGURE 9
Frankfurt DAX versus Dow Jones Industrial Average, nodal points
(Sept. 1, 1989 = 100%)



Baker and Shevarnadze met in Wyoming to discuss economic ties between the superpowers; **Oct. 9** was the day outgoing East German dictator Erich Honecker planned a bloodbath against demonstrators for freedom in Leipzig; **Nov. 9** was the opening of the Berlin Wall; **Dec. 2,** the storm-wracked Malta summit; **Dec. 12,** Baker, insulting East and West Europe alike, went to East Berlin to support new Communist chieftain Hans Modrow; mid-December through mid-January, East Germany's freedom demonstrators paused, and the Stasi secret police attempted a counteroffensive, which was reversed when Kohl won out on the question of early elections. The flow picked up again.

Figures 8 and **9** show how this process has been reflected in the stock markets of the United States and West Germany. Again, the year as a whole and the last quarter are compared. The point is that the two exchanges move together through October, and then begin to move apart. The separation accelerates in December after the Malta summit and Baker's homage to Modrow. It is worth noting, parenthetically, though not shown in separate charts, that the London and Tokyo stock exchanges continue to track the Dow Jones Index, in terms of direction, after the events in December.

The counter-deployment, covered by the disinformation of N.M. Rothschild and the *Wall Street Journal,* is reflected in the increasing interest rates on West Germany's 10-year bonds. British finance has been liquidating holdings of West German government debt, while simultaneously creaming money profits from the surge in Frankfurt stocks. They are doing this, not because Gorbachov is threatened—though in his present incarnation he may well be—but because London's future as an international financial center is on the line. Economic development, in Central Europe, spilling outwards to affect the world economy as a whole, will end the regime of usury which London, with its allies in the U.S., and also Japan, has sought to promote, on behalf of racist visions of a world purged of black, brown and yellow peoples, in the name of environmental protection.

In London's view, German unity today is the biggest threat to that criminal enterprise. Two West German dailies, *Bild Zeitung* and the *Frankfurter Allgemeine Zeitung,* have accused the House of Warburg and Morgan Bank of coordinating financial warfare against Germany with the assistance of traditional Mitsui allies of Morgan from Japan, at Nomura Securities. All are associated in the United States with the financial interests which stand behind such political types as Henry Kissinger, and his clones within the Bush administration. These also happen to be the interests, and individuals, who insisted that LaRouche be jailed, because they would not tolerate what his policies meant for their power. They are the ones hyping the chimerical "Gorbachov factor."

So now, the same crowd opposes LaRouche's "triangle" proposal and German unification, as they earlier opposed his recovery programs for the U.S. Yet without the success of those projects, the U.S. will not survive. The shift in internationally deployed funds over the last months confronts the the U.S. with such decisions now.