Is U.S. committing financial hara-kiri?

by William Engdahl

When they met at an emergency conference in California on March 24, U.S. Treasury Secretary Nicholas Brady is reported to have arrogantly told a bitter Japanese Finance Minister Ryutaro Hashimoto that Washington regarded the contractions in the Japanese stock market and the yen currency market to be "strictly a domestic Japanese problem." The tremors radiating outward from Tokyo since then may signal that Washington's short-sighted foolishness has already begun what will be viewed in future history as America's financial "hara-kiri." Here are some little-reported elements of the situation.

Since the beginning of this year, the Bush administration, acting in close cordination with elite Wall Street investment firms, including Salomon Brothers, has launched an economic and financial warfare assault against its principal financial and trade partner, Japan. This is the real background to the breathtaking plunge in Japan's stock market since January.

Aggravating tensions between the United States and Japan was the refusal by Brady, during his talks with Hashimoto, to lift a finger to help Japan stabilize the falling yen. Since January, the currency has lost an alarming 10% against the dollar, and record outflows of funds have been triggered, pulling the world's largest stock market down with it. Since Dec. 28, Tokyo's Nikkei Dow stock index has lost fully 30% of its peak value, with no bottom yet in sight.

What Washington has done must be viewed as the application of the newly public "Webster Doctrine" announced by CIA chief William Webster in a Sept. 19, 1989 speech to the Los Angeles World Affairs Council. Webster announced the intent to reshape U.S. intelligence away from concern with communist powers and toward deployment against allies in Asia and Europe who are now deemed a "national security threat" as "economic competitors."

In the false name of "national security," the Bush administration has pursued an extraordinary series of "softening up" moves to prepare Japan to bleed its domestic economy, in order that the debt-ridden U.S. economy can continue to get transfusions of vitally needed credit from abroad. With tactics which can only be termed imperial, Defense Secretary Secretary Richard Cheney was sent to Tokyo in March to threaten militarily vulnerable Japan with U.S. troop pullout, if Japan did not make major trade concessions to Washington. In early March, Bush summoned newly elected Prime Minister Toshiki Kaifu to California, where he reportedly hammered away on Japan's strategic military dependence on the U.S., before demanding draconian trade concessions under Washington's Structural Impediments Initiative talks (SII).

U.S. drops 'laissez-faire' approach

The disastrous consequences of more than a decade of Milton Friedman-style "free-market" excesses in Washington have brought the U.S. economy to the brink of ruin. The West German daily *Die Welt* on April 3 outlined the horrors of the current U.S. economic reality: "Sand has gotten into the American economic mechanism: Productivity is stagnating, infrastructure has rotted out, the social problems of the 1960s are unsolved. In the biggest market in the world, the domestic businesses are losing ground."

The only factor keeping the financial asset sector of stocks and real estate from collapsing in recent months, has been massive government manipulation of economic data and blackmail pressure, especially against Japan, to keep the flow of money coming into the U.S. economy. As much was admitted in an influential Wall Street weekly, *Bondweek,* on March 19, when it said, "Current fiancial difficulties are driving America to drop its *laissez-faire* approach to financial markets. . . . The externalities of private risk-taking—evidenced by the bailout by the U.S. Treasury of S&Ls, *and the Fed's bailout of the stock market*—may move Washington to supervise and 'guide' financial markets much as Japan's Ministry of Finance."

That's close to an admission that, as *EIR* has warned, the United States is on the brink of imposing fascist controls over "free markets" in order to prevent panic. In desperation to prevent what economist Lyndon LaRouche has called "the great financial mudslide," Wall Street and its Washington assets are resorting to administrative fascist measures that will do nothing to solve the underlying problems.

Here are the essential elements of Washington's "economic warfare" deployment to keep Wall Street afloat:

- Maximum pressure against Japan. This has included a nasty Wall Street-run aggravation of a planned Japanese stock market "controlled deflation." Beginning in mid-February of this year, when it was well known that Japanese stock brokers would have to try to lower their activity as their March 31 fiscal year deadline neared, and when the Bank of Japan was deliberately pushing prices downward, Wall Street houses led by the aggressive Salomon Brothers triggered a "free fall" panic in the Tokyo stock market and the yen. The selloff soon spread worldwide, as speculators from London to Hong Kong began to sell yen futures and buy dollars. The effect was a boon for the threatened dollar. In February, Japan's capital outflows jumped up to $15.1 billion from only $6.9 billion in January, a huge monthly increase. A panic outflow had been started by Wall Street's calculated use of computerized "stock index arbitrage," run in tandem with Washington's unprecedented "Jap-bashing" on trade and other issues.

- A deliberate U.S. move to collapse the price of one of the major non-dollar "safe haven" investment commodities, gold. On March 26, a private syndicate of Saudi investors reportedly linked to Saudi Arabia's ambassador to Washington, dumped a staggering 70-120 tons of gold on the market, triggering panic selling in an already weak market. Reliable reports from London gold channels, and banking sources in the Middle East as well as the United States, confirm that the "request" to do this came from the U.S. State Department, because Washington views as "priority number one" to keep the dollar high.
- A drive to delay German-German economic unification and, more broadly, the emergence of an economically unified Western Europe which is opening a vast new economic region of trade and investment into Eastern Europe. Washington has attempted to sabotage French President François Mitterrand's proposal for a European Bank for Reconstruction and Development by blocking one proposal after another.

Financial 'earthquake' looms

The drama is rapidly building to a climax. On April 7, finance ministers and central bankers from the seven leading industrial nations, the so-called Group of Seven, will hold an extraordinary meeting in Paris on request of Washington. The real issue, according to City of London economist Stephen Lewis, will be "whether Washington agrees to help stabilize Japan's yen." Lewis rates chances of Washington agreeing to do this as less than zero, for the reasons alluded to above. The Bush administration is desperate to keep the yen weak so that money keeps flowing into the U.S. debt bubble. "If there is no deal to support the yen," Lewis stated, "the Japanese must act in self-defense." They have no options, other than to let their currency fall like a stone and risk an even more destabilizing collapse, to again raise interest rates, or to impose control on their currency flows. The first is unlikely. Either of the latter two options will, at this juncture, trigger the "financial equivalent of the Tokyo earthquake." Hardest hit will be, of course, the United States. But already London markets are feeling the pain, as Japanese "Eurobond" trading in London has all but collapsed.

All signs at present indicate that Bush may have miscalculated how far he could push Tokyo. Japanese banks may soon be forced to call in their assets in the United States to shore up their domestic positions. As the London *Independent* newspaper put it on April 3, "There are nightmare possibilities such as an international liquidity crisis, caused by falling property and share values, which could force Japanese banks to slash lending as their capital bases are reduced." If that now happens, the biggest losers will be the free-wheeling *laissez-faire* capital centers of London and New York.

Soviets deny plan to adopt Polish model

by Mark Burdman

In an interview with the news agency TASS April 3, Soviet economist Leonid Abalkin stated that the Soviet Union would not adopt the Polish "shock therapy" model. Abalkin, head of an official Soviet commission studying economic reform options, said that the Soviet Union is considering various economic models for possible application. First among these are the experiences of "Austria, West Germany, and Japan after the Second World War." Next are "present-day China and Poland."

After stating that "none of these can be transplanted without modifications," Abalkin commented that the Soviet Union "can not apply the economic shock therapy that has been successfully applied in Poland, to stabilize the situation in the Soviet Union." Poland, unlike the U.S.S.R., had a "10-year preparation period" for such measures, he stressed. Abalkin said that the Soviet priority is to "revamp its financial system," especially by applying "anti-monopoly measures."

Abalkin's statement is intended to refute conjectures that have spread in the West since mid-March, that the Soviets were about to adopt the "Polish model." This has been purveyed in *Newsweek* magazine, in various British papers, particularly the London *Guardian*, by the British Broadcasting Corp., and elsewhere. Such coverage, interpreting what the Soviets mean when they use the expression, "market economy," or "radical reform," is aimed at pushing Moscow down the shock therapy track.

Lyndon LaRouche, the American economist who is an acute observer of the Soviet leadership, commented that despite Abalkin's disclaimer, "the Soviets are not to be believed; there's no indication so far that they are not going with the Polish model." He noted, "The Soviets have a propensity for copying all kinds of things, and accepting all kinds of suggestions; however, the Soviets never like to admit such a thing, so they always change things around, particularly names." He gave an example of "Soviet sophistry" by quoting the following imaginary dialogue: "Can you prove that we've adopted the name of Polish model as a model for our economy?" "No." "Then we didn't, did we?" "No." "All right, then it's not the Polish model."

LaRouche added, "Gorbachov is not exactly a genius in political economy. He's a thief; a thief may know how to steal, but . . . his inclination to steal may reflect his disinter-