Book Reviews

The 'super-blowout' in world finance

by Lothar Komp

Die Globalisierungsfalle
by Hans-Peter Martin and Harald Schumann
Rowohlt Verlag, Reinbeck bei Hamburg, 1996
350 pages, hardbound, DM 38

Yet another taboo in German politics has fallen. Over a long period of time, despite having been bombarded with documentation, petitions, and pamphlets, the political establishment had hysterically denied Lyndon LaRouche's analysis of the inevitable financial disintegration. Now, this line is no longer sustainable. Suddenly, Hessen's minister of the environment, Joschka Fischer, and Prof. Ernst Ulrich von Weizsäcker, director of the environmentalist Wuppertal Institute, are telling everyone within earshot that there is a risk of a "super-blowout in the cyberspace of world finance." You don't have to look far to find the source of this sudden insight: a new book, *Die Globalisierungsfalle* (*The Globalization Trap*), now well on its way to becoming a best-seller in Germany. Written in the snide tone one would expect of *Der Spiegel* magazine staff reporters, the book describes the worldwide onslaught of neo-liberalism (free trade) and the manifest destruction said policy has already wreaked.

The message of the "political-economic Holy Word, with which a veritable army of economic advisers has marched into politics," really means nothing other than "the market is good, state intervention is bad," the authors write. Starting from the Anglo-Saxon world, most Western governments have elevated this dogma into the guiding light of their policies. Deregulation instead of state supervision, liberalizing trade and capital flows, privatizing state firms—such are the "strategic weapons in the arsenal of those governments which have put their faith in the free market economy and into those economic institutions controlled by said markets: the World Bank, the IMF [International Monetary Fund] and the World Trade Organization."

Should anyone still entertain illusions about the consequences of neo-liberal rule, let him look at the United States today. That nation, say the authors, has become "the world economy's biggest cheap labor zone. . . . For more than half of the population, forced-march competitivity has become the new American nightmare: the ladder straight down to hell. In 1995, four-fifths of all male employees and workers in the U.S.A. earned, in real terms, 11% less than in 1973. In other words, over the last two decades, living standards for the vast majority of the population, have actually fallen. Between 1979 and 1995, some 43 million people lost their jobs. Most quickly found another job, but in three-quarters of all these cases, at a far lower wage, and under far worse working conditions."

Similarly, say Martin and Schumann, "capitalist counter-reformation" has brought about acute social decay: "Criminality has taken on epidemic proportions. In California, itself the world's seventh largest economy, expenditure on jails exceeds that for education. Twenty-eight million Americans, over 10% of the population, live entrenched in high-rise buildings or security estates guarded night and day. Americans spend twice as much on private guards as they do on state police." In all vital questions bearing upon the future, governments have surrendered to the "ineluctable constraints of the transnational economy," while politics has become nothing but impotent theater. Globalization has, in fact, become a "trap for democracy," leading to the "20:80 society," in which 80% of the population are ejected from the economy and have to be kept punch-drunk by mass media entertainment.

The book's most interesting passages deal with the global financial markets. They contain a remarkable documentation of expert warnings on the coming financial crash, so far only seen in publications associated with LaRouche. We are treated to Wilhelm Noelling's proposal that "the financial world needs to be protected from itself," by taking measures to ward off a "super-blowout in the financial system"; to Jacques Chirac's expression of "financial AIDS"; to Felix Rohatyn's warnings on the "deadly potential, which lies in the combination of new financial instruments and overly rarefied trading mechanisms which could touch off a destructive chain reaction; the world financial markets have become a greater threat to stability than atomic weapons."

In 1994, Horst Koehler, president of the German Association of Savings Banks, warned that the collapse of one financial institution could lead to a worldwide domino effect: "The risk will hit the stock exchanges, next the currency exchanges, and then, the real world." Therefore, said Koehler, "a blowout on the financial markets is perfectly possible." Were that to be the case, say Schumann and Martin, trade would screech to a halt, "the entire system will break down and a worldwide crash will become as unavoidable as that which took place on Black Friday in October 1929."

Indeed, in the past few years there have been several occasions, upon which the world financial system stood on the edge of the abyss, or, as IMF Managing Director Michel Camdessus put it, "a real world catastrophe" is imminent. A slight rise in U.S. interest rates sufficed to unleash, in early 1994, a chain reaction on international bond markets. While $3 billion of Orange County, California's assets went down the drain, simultaneously, "just overnight more than $3 trillion" of financial paper went up in smoke, catalyzed by the incredibly bloated mass of financial gambling called derivatives trading.

Camdessus: the puppet on a string

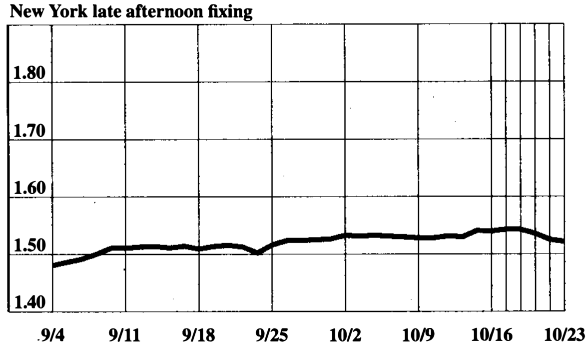
By December 1994, things had gotten much worse. When the Mexico crisis hit, the world financial system was about to disintegrate. As the authors document, a worst-case scenario was impeded only by a desperate, and, in effect, illegal, action by the IMF's boss. "On a cold Monday evening, Jan. 30, 1995," push came to shove. "At 9 a.m. Camdessus received a piece of news which made him shudder. He stood quite alone, shouldering all responsibility to prevent the very disaster which he himself had always thought could not possibly occur. Wracked by anxiety, he could not sit still at his desk. He collected his papers, and left his wood-panelled office for the large conference room, where IMF directors normally gather to discuss issuing credit. 'I was seeking the answer to a question which had never before been posed,' said Camdessus. Should he put aside all previous IMF rules, and, without conditions, without contract, without even the lenders' agreement, grant the largest loan in the fifty-year history of the IMF? Camdessus picked up the telephone, and within a few hours, the mighty director of the world's largest credit institution became but a puppet himself, its strings pulled by people he himself did not even know." The book describes that in these dramatic hours, Camdessus had received a barrage of "calls made by leading New York bankers and investment managers," pressuring him to opt for a gigantic bailout. "Were the Mexican market to collapse, he had heard, nothing could stop hell breaking loose. A chain reaction would be touched off by the mere apprehension of a similar crisis in other Third World countries, the which might well lead to a world wide financial crash."

Such a crash, according to the authors, is, in effect, much more likely than many of the movers and shapers of global markets are admitting to themselves and their clients. Of course, how such a "financial machine run amok" shall ever be brought back under the control of the governments of nation-states, how social tranquility and a decent living standard shall ever be restored, does not overly preoccupy Martin and Schumann. Vaguely pointing to the "Tobin tax," and calling for "a vital, vigorous European alternative to destructive Anglo-Saxon market radicalism," will not do the job. Listening to proposals of a "continent-wide ecological tax reform," coupled with monetary union, "in order to make the Euro the major currency," one can only draw the conclusion that the authors cannot distinguish a coffin from a lifeboat.

Currency Rates

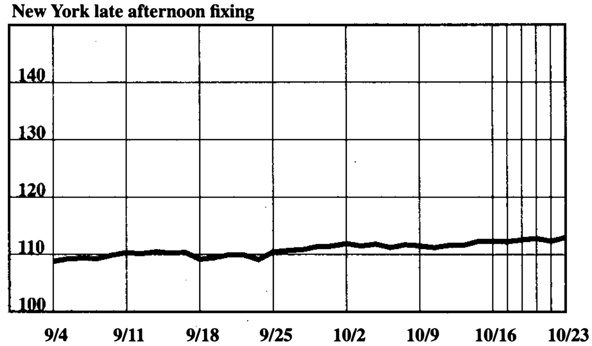
The dollar in deutschemarks

New York late afternoon fixing



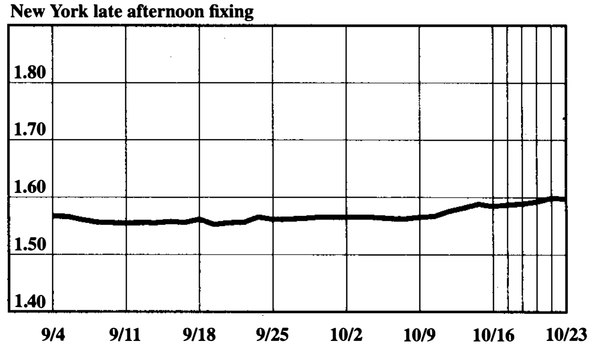
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing