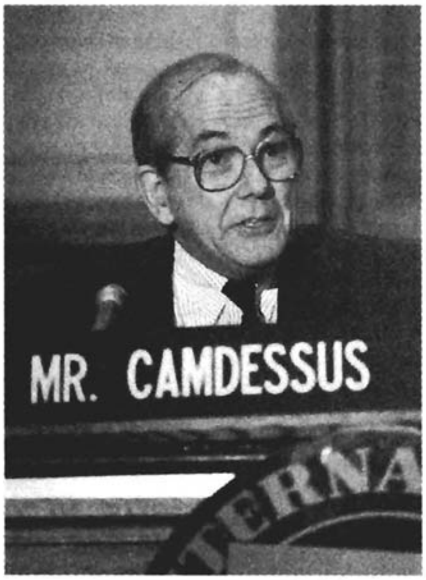
Economic commentary, 1996: warnings and virtual reality

On June 24, 1994, *EIR* published the "Ninth Forecast" warning by Lyndon H. LaRouche, Jr. "The presently existing global financial and monetary system will disintegrate in the near term," he wrote. "That collapse into disintegration is inevitable, because it could not be stopped now by anything but the politically improbable decision by leading governments to put the relevant financial and monetary institutions into bankruptcy reorganization." The following are selected economic commentaries over 1996, either warnings on the threat of a collapse, or denial and insistence on "virtual reality."

Warnings



IMF Managing Director Michel Camdessus

June 28: *Folha de São Paulo,* a leading business daily in Brazil, runs an article, "Next Crisis Is in the Banks," by Clovis Rossi, who filed the story from France, where he was covering the Group of Seven summit in Lyons. Rossi features the pre-summit remarks of International Monetary Fund Managing Director Michel Camdessus, with the subtitle, "Finances: In a seminar preceeding the meeting of the G-7 in France, the director of the organization says that the financial system 'is in pieces.' " Rossi writes:

"The 'next earthquake' in the world, after the Mexican crisis, will be in the banking sector, warned the authoritative voice of Michel Camdessus, managing director of the IMF.

" 'The world financial system is in pieces and it is extremely urgent to tighten the screws,' Camdessus said. . . .

"For the first time, the IMF will participate, alongside the heads of three other international organizations (the World Trade Orga-

Virtual reality

January/February: Ethan B. Kapstein, Director of Studies for the New York Council on Foreign Relations, writes in the council's journal *Foreign Affairs,* under the headline "Shockproof: The End of the Financial Crisis": "Many Chicken Littles had predicted during the late 1980s and early 1990s that trading in derivatives—futures, swaps, and options—would trigger the next global financial crisis. But they overlooked the important role that derivatives have played in moderating systemic risk, providing banks with increased opportunities to diversify their portfolios and protect themselves from sudden market shifts. . . . The international financial markets have not suffered because the roots of the disease have largely been eradicated."

April 23: Release of U.S. federal report, "Job Creation and Employment Opportunities: The United States Labor Market, 1993-1996." The 10-page document was prepared under the direction of Joseph Stiglitz, chairman of the Council of Economic Advisers, and Lisa Lynch, head of the Office of the Economist of the Department of Labor. The four major assertions are:

1. "Since January 1993, employment has grown rapidly—expanding by 8.35 million new jobs" in the private sector through March 1996.

2. *"Two-thirds (68%) of the net growth in full-time employment between February 1994 and February 1996 occurred in industry/occupation groups paying above-median wages"* (emphasis in original).

3. "Even in the traditionally lower-paying service industry, a majority of net employment growth has been in managerial and professional specialty positions, which typically pay above-median wages. Contrary to conventional wisdom, the new jobs are not disproportionately part-time, low-skill positions."

4. "Employment in 'hamburger-flipping jobs' actually fell between 1994 and 1995."

5. "The unemployment rate has fallen from over 7% in January 1993 to 5.6% in March 1996."

These assertions were evaluated in *EIR* on Aug. 2, and shown to be in wildly fraudulent error.

June 28: The Group of Seven heads of state summit in Lyons, France issues an economic communiqué, titled, "Making a Success of Globalization for the Benefit of All."

From the Preamble: "Economic growth and progress in today's interdependent world is bound up with the process of globnization, the United Nations Organization, and the World Bank).

"Camdessus proposes, in order to 'tighten the screws,' that the systems of banking control that today are applied by the so-called G-10 (the ten richest), be generalized."

The article gives many references to the world economic and financial crisis, including the following:

• Standard and Poor's has downgraded Brazil's bonds; the Brazilian banking system is the riskiest one among the large Latin American countries.

• A report was issued in June by the Bank for International Settlements, warning "of the need for central banks to tighten their vigilance over the financial system and to gather more information about the global derivatives market which, in 1995, moved something around $40.6 trillion."

• French Minister of Economics Jean Arthuis favors international controls over money flows. " 'We want the financial markets to be organized and for there to be prudent rules that allow us to avoid the systemic risks that could be disastrous for the world economy,' said Arthuis."

• The Socialist International held a seminar in Lyons, prior to the G-7 meeting, proposing a reform of the monetary system that would take into account "the need to correct for the excessive weight of international capital flows and the total lack of taxation on speculative operations."

• Nobel Prize economist James Tobin has, for years, advocated a tax on currency speculation, "even named after him, the 'Tobin tax.' "

Sept. 28: IMF Managing Director Camdessus, at a press conference during the Washington, D.C. meeting of the Inter-American Development Bank (IADB), is asked, where, following Mexico's 1994 crisis, lightning would strike next. Camdessus replies, "My answer is that I don't know, but I suspect it will start with a banking crisis." He says that there is urgent need for reform, and, in reference to Venezuela's 1994 banking collapse, declaims, "Ladies and gentlemen, nevermore! Nevermore! This just cannot be so!" He says that banking "reform" in Ibero-America is lagging. "The fundamental causes of unsound banking systems persist, including poor internal governance and a lack of transparency about banks' operations . . . inadequate supervision and excessive official complacency about problem banks."

Oct. 1: Camdessus speaks to the IMF Board of Governors, stressing four of the "eleven commandments" on banking practices, incorporated in the recent Madrid Declaration, which must be followed by all countries. He warns that "macro-economic and structural weaknesses persist in all of our countries. Moreover, we know that the forces of globalization can magnify the adverse effects of policy weaknesses, pose new risks for all of our countries, and raise difficult policy dilemmas even when policies are sound."

The fourth commandment is "to take urgent care of the Achilles' heel of the global economy today—the fragility of national banking systems . . . in many countries, a banking crisis is an accident waiting to happen. And we know all too well why. Why? Weak macro-economic policies and poor economic performance undermine the banking sector. And, conversely, weak banking sectors stand in the way of effective macro-economic policymaking. As a result, countries with banking problems may shy away from tightening policies when needed, for fear of provoking a domestic banking crisis. But the failure to take early action can be costly. For the country concerned, the fiscal cost of resolving banking sector problems can be truly exorbitant and involve a tre-

alization. . . . These characteristics ["rapid dissemination of information, technological innovation and the proliferation of skilled jobs," etc.] have led to a considerable expansion of wealth and prosperity in the world. Hence, we are convinced that the process of globalization is a source of hope for the future."

From Section IV, "Implementing a New Global Partnership for Development: An Ambition for the 21st Century": Many developing countries are "experiencing robust growth" in international trade and capital flows.

June 28: U.S. Treasury Secretary Robert Rubin, speaking in Lyons at the G-7 summit, tells a press briefing, "With respect to job creation . . . we have had a remarkably successful 3.5 years economically in the United States. With the 9.7 million new jobs created, we have created almost 85-90% of the jobs that have been created in the G-7. . . . One of the things that struck me, at least, at this summit, was how much respect there was for what's been accomplished in the United States over the past 3.5 years, and how dramatically our position at these summits has changed now, as versus, say, five or six years ago, by virtue of having dealt with the deficit—the issue that the world has wanted us to deal with for so long, and our success in job creation."

July 31: A representative for the Africa division of Cargill, Inc., the largest company in the world grain cartel, speaks of the superiority of Cargill's private sector work in contributing to food security. The Senate Committee on Foreign Relations hearing on "Food Security in Africa," chaired by Sen. Nancy Kassebaum (R-Kan.), takes testimony from Cargill spokesman Michael Davies, who reports, "Cargill has been active in Africa since 1981." He stresses that his company represents the success of "private investment," with "offices and facilities in 10 African countries—Egypt, Ethiopia, Kenya, Malawi, Nigeria, South Africa, Tanzania, Uganda, Zambia, and Zimbabwe." Davies says, "The central management of Cargill Africa is located in Cobham, Surrey, England, and it is there that I work." Besides stressing that private companies can best take care of food needs, Davies underlines that governments must keep hands off. "Investors struggle when governments try to control the economy. Governments in Africa have fallen into the habit of attempting to set prices, especially food and currency prices. This has been a recipe for economic disaster. Governments are awful at trying to guess what farmers should be paid or what the price of bread should be or what level the kwacha/naira/shilling should be against the dollar. It's not their role. And as long as they try, they are going to cause more confusion, more economic chaos."

Sept. 18: Renato Ruggiero, director general of the World Trade Organization (WTO), says at the Dublin meeting of European Union trade ministers: "Your meeting in Singapore in December will be an event of world political significance. . . . The WTO must become the World Trade Organization in fact as well as name. The 30 accession candidates must be brought in as soon as possible, in a way which strengthens the multilateral system. . . . European commitment and activism will be indispensable. I congratulate my good friend Leon Brittan on the key role he has played so far in moving these negotiations [unfinished GATT "reforms," such as those concerning financial services] forward."

Sept. 25: International Monetary Fund releases its annual "World Economic Outlook," at a Washington, D.C. press conference by Michael Mussa, IMF director of research. The two-volume report begins with the theme, as stated in the IMF press remendous drain on countries' resources.

"On the basis of recent experience, let me tell you that this is something that we truly don't want to see repeated. At the same time, we must also avoid the systemic consequences such crises can entail."

Oct. 19: World Bank President James D. Wolfensohn addresses the Board of Governors of the World Bank Group: "Strong financial systems [in developing countries] are key. But there are pervasive problems with prudential regulations and their enforcement. About one in five developing countries face the banking crisis that Michel Camdessus spoke about."

Oct. 29: The *Times* of London runs a column by Anatole Kaletsky, "Watch Out for the Explosion." He states that there are "signs of wild speculation and rumblings of alarming [financial] policy changes that most of the pundits have chosen to ignore." Kaletsky repeats the warning of Hans Tietmeyer, head of Germany's central bank, the Bundesbank, that the decline of German interest rates is over, but the world has not understood this. Kaletsky describes various financial maneuvers in Japan, and concludes, "Japanese financial incompetence plus Bundesbank anger is a potent combination if you want to produce a worldwide financial explosion. You have been warned."

Nov. 4: Kenneth Courtis, chief economist for Deutsche Bank's Tokyo operations, says in an interview published in *Handelsblatt,* Germany's leading commercial newspaper, that during the summer of 1995, the world financial system was at "five minutes to midnight," nearing the point of complete disintegration. Courtis says that only a $500 billion financial rescue package—an unprecedented sum—assembled by U.S. and Japanese monetary officials, saved the world from "the biggest crash ever."

Nov. 4: José Neme Salum, lead financial analyst for the Mexican daily *Excélsior,* writes that many "pro-monetarist analysts" are now warning of financial collapse, and quotes from Anatole Kaletsky of the London *Times,* Elaine Garzarelli of Germany's *Der Spiegel,* and Carlos Conrado H. of Argentina's *La Nación.* There are so many warnings, that Neme asks, "Why now, from 'the City' of London, to Wall Street and the IMF itself, do they accept the conclusions of the Ninth Forecast of U.S. economist Lyndon LaRouche, made in May 1994? Why do all of them now want to be LaRouchistas?"

Neme cautions, however, "Readers should also be aware that there are various intentions behind this recognition of the coming collapse of the financial markets. The most dangerous, that of the IMF, which today tells nations: 'The situation is out of control. You, as a country, cannot do anything. You should let the IMF manage the world crisis.' " Neme reiterates his own frequent warning, that the only solution is "to throw [the IMF's] bankrupt world order in the garbage." Neme notes that there is a possibility that, if the Democrats win the U.S. elections, they may impose a tax on speculative operations, as part of a set of needed measures.

Nov. 21: Prof. Maurice Allais, French Nobel Prize-winning economist, writes an article in the French daily *Le Figaro* entitled "How to Really Fight Unemployment," warning that "precipitous and anarchic globalization can only bring unemployment, injustice, disorder, and instability everywhere." Allais goes on:

lease, that, "the global economic and financial conditions remain generally encouraging, notwithstanding a disappointing performance recently in continental western Europe, and the global economic expansion is expected to continue at a satisfactory pace in 1996-97 and over the medium term. The strength of economic activity is particularly impressive in the emerging market countries of the developing world, with an increasing number of them reaping the benefits of structural reforms and strong macroeconomic fundamentals."

The IMF report runs 85 charts and tables; no physical economic metric units are used (no water, power, infrastructure, population characteristics, employment), except for oil, but only such measures as: "simulated response of real GDP to monetary tightening" and "openness" of nations (the nation's sum of value of exports and imports, taken as a percent of its GDP).

Sept. 26: IMF Managing Director Camdessus speaks at a Washington, D.C. press conference, on the occasion of the annual IMF meeting; he praises success in the Mexico economy. "Our program is functioning well. I need not mention the successes in purely financial terms. . . . But we can also now speak in real economic terms, in particular, in terms of growth. The economy is reviving . . . about 3% growth. . . . The International Monetary Fund is preparing the program which will be a framework for Mexican growth in the coming years. But the IMF cannot do more than play its role. In particular, it's not up to us to say where, in macro-economic terms, our financing should be applied, nor in particular what should be the priorities in terms of economic development. That is up to my friends in the World Bank and IDB; they do this very well." In particular, Camdessus told reporters. in regards to Mexico, "I know my friend Jim Wolfensohn has been visiting your regions where there are indigenous populations, and wishes to maximize decentralizing bank activities in Mexico and, indeed wishes to establish a regional decision area in Mexico."

Sept. 26: U.S. Treasury Secretary Robert Rubin, before the Group of Seven finance ministers meeting, and the IMF and World Bank annual conferences: "The meetings over the next few days will be touching on the global economic picture and the issues all of us face. We come to these meetings at a time the United States is experiencing very healthy economic conditions, in part because the private sector has become competitive on a global basis across a broad array of industries. . . . Overall, the global economy is continuing to grow at a healthy pace."

World Bank President James Wolfensohn

Warnings	Virtual reality

"France is self-destructing. In the name of pseudo-liberalism, and by the spread of deregulation, we are heading bit by bit toward a globalist *laissez-faire chienlit*" (a *chienlit* is someone who soils his own bed).

"The globalization of the economy," he continues, "is certainly going to be profitable to certain groups of privileged people. But the interests of these groups cannot be identified with the interests of humanity as a whole. In the best analysis, in a truly liberal and humanist society, it is man who constitutes the final objective and the essential concern. It is to this goal that everything must be subordinated. . . . The globalist opening up of the European economy at all costs, done in a global context which is fundamentally unstable, and which is perverted by the system of floating exchange rates, is the primary cause for a profound crisis, which is leading us to the abyss. The facts are stunning: Economic analysis confirms them and explains them. The facts, as well as theory, permit us to state that, if the present policy is continued, it can only collapse. Today's crisis is, above all else, a crisis of intelligence."

Allais concludes, "Today's crisis, the intolerable massive unemployment which characterizes it and which dishonors us, the destruction of French society day by day, are only the consequences of the dogmatic policies followed without let-up since the great break of 1974, and they are leading us to disaster. It would be criminal to pursue these policies. The present situation cannot last. It must not last. And it will not last. . . . The economy must be at the service of man, and not man at the service of the economy."

Dec. 5: U.S. Federal Reserve Board Chairman Alan Greenspan states in a speech to the American Enterprise Institute: "But how do we know when irrational exuberance has unduly escalated asset values, which then become subject to unexpected and prolonged contractions, as they have in Japan over the past decade? And how do we factor that assessment into monetary policy? We as central bankers need not be concerned if a collapsing financial asset bubble does not threaten to impair the real economy, its production, jobs, and price stability. Indeed, the sharp stock market break of 1987 had few negative consequences for the economy. But we should not underestimate or become complacent about the complexity of the interactions of asset markets and the economy. . . .

"The successes that most please us are not so much the visible problems that we solve, but rather all the potential crises that could have happened, but didn't.

"Doubtless, the most important defense against such crises is prevention. Recent mini-crises have identified the rapidly mushrooming payments system as the most vulnerable area of potential danger. We have no tolerance for error in our electronic payment systems. Like a breakdown in an electric power grid, small mishaps create large problems. Consequently, we have endeavored in recent years, as the demands on our system have escalated (we clear $1.5 trillion a day on Fedwire), to build in significant safety redundancies. This has been costly in terms of equipment and buildings.

"Along with our other central bank colleagues, we are always looking for ways to reduce the risks that the failure of a single institution will ricochet around the world, shutting down much of the world payments system, and significantly undermining the world's economies. Accordingly, we are endeavoring to get as close to a real time transaction, clearing, and settlement system as possible. This would sharply reduce financial float and the risk

Nov. 13: U.S. Agriculture Secretary Dan Glickman, from a speech on behalf of the United States to the World Food Summit in Rome, from the section on "U.S. Role in Food Security": "The United States will continue to answer the call of those in need. We're the leading supplier of food to the world and among the world's most reliable suppliers of food. We are also a major provider of food and development assistance. Domestic market reforms have unleashed the full potential of American agriculture. Our farmers now plant for world demand instead of for government programs. We've also led international research efforts and increased our focus on sustainable development to ensure that the progress we make today does not come at the expense of food security tomorrow."

Federal Reserve Chairman Alan Greenspan

Dec. 2: "U.S. Sails on Tranquil Seas; Recessions No Longer Seem Inevitable as Nation, Policymakers React Quickly to Changes," is the lead headline in the *Washington Post*, presenting expert commentary on the theme that, "Many economists believe that this stability could easily continue for years to come because of a host of changes in the economy, including new technologies, the deregulation of many industries and the increased globalization of business and finance." Sources quoted include:

Lawrence H. Summers, deputy U.S. treasury secretary: "The economy seems better balanced than at any time in my professional lifetime."

Charles L. Schultze of the Brookings Institution, chairman of President Carter's Council of Economic Advisers: "We have come to an end of an era dominated by the politics of inflation and unemployment. I won't say we have solved those problems, but apart from something like an oil price shock, we've made an awful lot of progress."

Edward Boehme, president of the Philadelphia Federal Reserve Bank: "I think we have a reasonable chance of having a record peacetime expansion. The real world sometimes holds surprises . . . but this is a remarkable period with no noticeable imbalances in the economy."