EIR Economics

Bush-league bankers jeopardize U.S. sovereignty

by Chris White

The obsessive refusal of the U.S. financial and political powers that be to face up to the reality of the worst financial crisis in history, is feeding increasingly desperation-driven international efforts to try to come up with ways to insulate against the effects of that collapse.

The latest such proposal was put before the opening session of the annual conference of the European Management Forum in Davos, Swtizerland by former Japanese Prime Minister Yasuhiro Nakasone. The European Management Forum's annual get-togethers of the high and mighty, have often turned out to be occasions on which marching orders are put out to the elites. That's how it worked out in the late 1970s, with the "great oil hoax" of 1973-74, and the second, Carter-Khomeini oil shock.

Nakasone's proposals, seen as representing those elements of the Japanese policy consensus which can be given public expression, were motivated by the need to increase cooperation among advanced-sector nations in the aftermath of the Oct. 19 stock market shocks, and the Dec. 7 conclusion of the INF treaty. The London *Financial Times* of Jan. 29 paraphrased Nakasone thus: "The West needed to adopt global approaches to both economic and security problems. If the world economy were to break down, so would world security. The framework for economic policy co-ordination among the G7 industrial nations could be just as important for security as a military alliance."

That, of course, is a thesis that no one in their right mind could ever object to. It is also, given the premise that world economic breakdown is actually a clear and present threat, in sharp contrast to the kind of platitudinous inanity and lying fakery that dominates discussion of such matters in Washington and New York.

On the "what to do" side of the matter, it's a more mixed bag. One set of measures which Nakasone proposed would have the United States establish tax incentives to encourage savings, as the Japanese do. If that were done on the basis of the revival of the Kennedy-style investment tax credit, as leading economist and Democratic presidential contender Lyndon LaRouche has proposed, it would be quite useful. Another proposal, to standardize taxation policy among the industrialied nations, belongs more in the domain of utopian fantasy.

'Reagan bonds' scheme

The most immediate proposal for the current crisis situation was the following, according to the *Financial Times*: "If stock markets crashed again, Japanese and other investors would be more cautious about investing in U.S. financial markets, Nakasone warned. By issuing government bonds in other currencies (potentially of greater interest to foreign investors than dollar bonds), the U.S. could send another signal of its determination to maintain confidence in the dollar."

The proposal made public by Nakasone, had been floated the week before as a leak by the Japanese wire service Jiji.

The leak, designed as a profile of options available to the Bank of Japan and the Japanese finance ministry, put forward two pathways. One, that the Japanese central bank simply recycle its holdings of short-term U.S. Treasury paper into long-term U.S. bonds. This may not be an issue in the first week of February, when the U.S. Treasury markets its quarterly issue of government debt, but it will become such as the year progresses—the more so as the Japanese central bank's foreign reserves increased by $37 billion last year to total $81.5 billion. A large portion is in short-term U.S. government debt.

The second route, according to the leakers, is aimed at putting a price tag on future cooperation with U.S. authorities, by insisting that the United States issue its debt as foreign currency bonds. Already known as "Reagan bonds," in memory of the similar such issues in the late 1970s known as "Carter bonds," it is thought that such an approach would insulate against the dollar's further fall.

That's where the desperation-fed insanities enter the picture. U.S. issuance of foreign-denominated bonds wouldn't help stabilize the dollar and dollar credit system at all. It would signal that the day of the dollar is over, that dollars in international circulation are worth about as much as, or maybe less than, bathroom tissue. Those who want this type of approach admit as much, when they argue, as Nikko Securities did in late January, that since the dollar is going to continue to fall, there is no point in investors moving into long-term dollar paper, only to take further losses.

For the same reasons, foreign central banks have been the mainstays of the marketing of U.S. government debt; private institutions won't touch it.

What could be done?

Nakasone is of course right. There is an intimate relation between economic and military support. But to argue that junking the dollar is the way to pull together the advanced-sector countries, is to ensure that there is neither economic nor military security for anyone. In effect, the adoption of such a proposal would guarantee that the rug is pulled out from under the leading financial institutions of the West, as the direct result of the dissolution of the credit system on which they depend.

Since that credit system is already good and bankrupt, that, under present policies of choice, is going to happen anyway. Why not say so, such that a useful discussion could be had around the question of what type of credit and financial system must be organized to replace the shards of the bankrupt one we now have?

The outline of this, based on gearing up production in a capital-intensive, energy-intensive mode, providing credit, through a gold-reserve standard reorganization of the banking system, has been put forward by LaRouche. The other approaches, as with the package Nakasone put forward in Davos, one way or another start with the assumption that the methods and procedures, if not the fictitious capital gains themselves, which caused and symptomize the current bankruptcy of the financial system, be preserved at all costs.

Morgan and Hoover, take two

There are those in Europe, London, Switzerland, and elsewhere who scoff at the poor American cousins repeating the blunders of Herbert Hoover. That's fair enough as far as it goes, except that those who scoff are themselves repeating the blunders of those who maneuvered Hoover into the mess in the first place—chief among them being the combination of financial interests associated internationally with the House of Morgan. They can kid themselves that they organized the last depression as a "bear trap" and survived. They did nothing of the sort. Their efforts to ensure that their interests were protected from collapse, were what ensured that the collapse happened as it did. Hoover, like his present unfortunate incarnation, was simply a dumb actor, incapable of changing the lines of the script that had been authored for him.

Then, as now, the name of the game was: Forget about the paper, as paper; control raw materials, industrial capabilities, and politics.

The "Reagan bonds" scheme is a front for something far worse that's been pushed for some years by the central bankers' central bank, the Basel, Switzerland-based Bank for International Settlements. Namely, the return of a 19th-century imperial-style gold exchange settlement system. If the United States agrees to the foreign currency bond schemes afoot, and junks the dollar, what mechanism will be employed to set the parities between the tissue paper dollar and the borrowed foreign currencies, and between the respective currencies of the lenders? Only gold is available for that purpose.

Not accidentally, then, it is the House of Morgan and its associates which are in the middle of negotiating gold and raw materials access agreements with the Russians in southern Africa, Brazil, and other places. One of the tip-offs as to those negotiations is the current fight to take over the Belgian mineral giant Société Général.

The whole package is guaranteed to fail. The problem is, that it's the looney-tunes played by the powers that be within the United States, that gives the latitude for such nonsense to be put on the table at all.

Treasury Secretary James Baker and company, the friends of George Bush in the banking community, still insist that the Japanese simply trade in holdings of dollars accumulated in the last rounds of currency warfare against new issues of U.S. debt, and let the depreciation of the dollar wipe out their earnings. They insist that newly "revitalized" U.S. manufacturing industry is on the eve of an export boom which will earn the hard currencies which will enable the United States to pay its way in the world. Presumably, in this view, the growth of inventories reflected in the last quarter's GNP figures, twice the growth of GNP as a whole if Commodity Credit Corporation purchases are added in, is simply U.S. production lined up waiting for foreign purchasers to come and buy it.

The outlook is captured by the joke going the rounds about the Executive Branch's draft report on the economy in 1987. They don't want to call the chapter on the events of October, "Black Monday" or the "October Crash," because of "the Hooveresque tone," so it's being referred to as the "Great Correction."

Maybe they can swing their package past the foreign creditors one more time, during the quarterly bond sale in the first week of February; that will only be because the foreign creditors are more scared of a further collapse of the dollar than they are of a revival of inflation within the United States. Either way, their obsessive lunacy is making things worse, even while it looks like stability might be returning—to those who don't look too far.