G-7 leaders reach new 'Munich Pact' at Lyons summit

by Mark Burdman

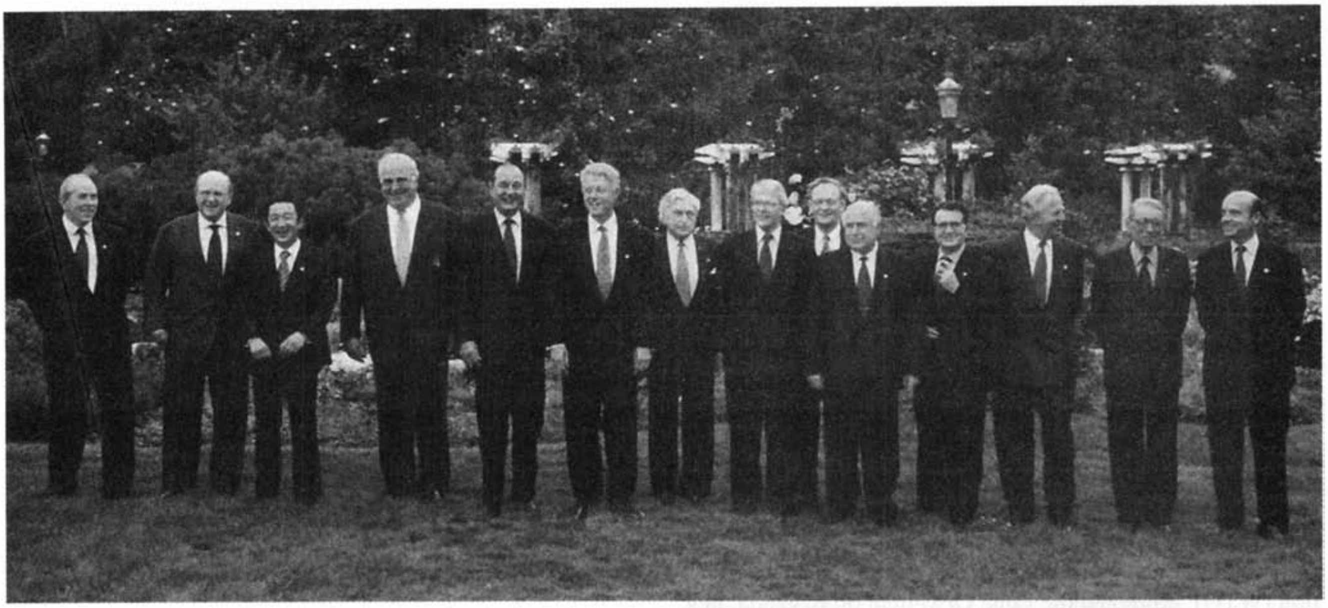
In 1938, British Prime Minister Neville Chamberlain and French Prime Minister Edouard Daladier concluded their shameful appeasement deal with Adolf Hitler, guaranteeing the deaths of tens of millions. Returning to London from Munich, Chamberlain made the macabre declaration that "peace in our time" had just been achieved. Now, nearly 60 years later, the leaders of the so-called "Group of Seven industrialized nations," meeting June 27-29 in Lyons, France, have made a deal every bit as disastrous. The slogan this time, coined by host Jacques Chirac, the President of France, is: "Making a success of globalization for the benefit of all."

At the Lyons summit, the leaders consolidated a pact of appeasement with the United Nations-centered supranational institutions, including not only the UN as such, but also the International Monetary Fund, World Bank, and World Trade Organization. For the first time since G-7 summits were initiated in 1975, the heads of these four institutions were invited to *formally participate,* in discussions with, and as equals to, leaders of sovereign national governments. The "Gang of Four" was accorded expanded powers to deal with the crises that the world is facing.

Making matters worse, the G-7 leaders and their aides systematically lied about the dangerous situation the world is in, with a carefully manufactured line about the historical irreversibility of globalization, the vast benefits of liberalization and free trade for the entire world, the glories of "the American model of job creation," and other gems seemingly lifted from the Propaganda Ministry described in George Orwell's *1984.*

All the verbiage is bluff and brainwashing. The fact is, the transfer of effective sovereignty to the UN, IMF, et al. is being motivated by a panic, among leading financial and political elites, about the systemic crisis in the financial and banking world, and by the G-7 leaders' confession of impotence and lack of will to mobilize the power of sovereign governments to deal with the impending collapse.

On June 24, three days before the official opening of the summit, IMF Managing Director Michel Camdessus had given a presentation in Lyons, at a colloquium



The Group of Seven meets in Lyons, France, June 27-29, 1996. Left to right: Michel Camdessus, managing director, International Monetary Fund; Renato Ruggiero, secretary general, World Trade Organization; Prime Minister Ryutaro Hashimoto, Japan; Chancellor Helmut Kohl, Germany; President Jacques Chirac, France; President William Clinton, United States; James Wolfensohn, president, World Bank; Prime Minister John Major, U.K.; Prime Minister Jean Chrétien, Canada; Prime Minister Viktor Chernomyrdin, Russia; Prime Minister Romano Prodi, Italy; Jacques Santer, president, European Commission; Boutros Boutros-Ghali, secretary general, United Nations; Prime Minister Alain Juppé, France.

sponsored by the Lyonnaise de Banque, one of France's more powerful banking institutions. While heralding the supposed virtues of "globalization," he warned that "this new era is not without risk. . . . The first is financial. The global economy has suffered several costly financial crises over the last decade. . . . A financial crisis, regardless of its origin, can become worldwide in a flash." He also called for "tightening the screws" to hold the system together (see *Documentation*).

Even if his intent is to increase his own dictatorial powers, Camdessus is de facto admitting that Lyndon LaRouche was right, with his 1994 Ninth Forecast of the coming disintegration of the world financial system. But Camdessus and the rest of the gang at Lyons militantly reject the only sane prescription: a bankruptcy reorganization of the world economy and the launching of a program for global reconstruction based on large-scale infrastructure projects. And since such positive measures can only be carried out by *sovereign governments,* under the leadership of the Presidency of the United States, the push at Lyons for "more globalization," and for a greatly upgraded role for "international organizations," will only make things worse. What we will get instead, if the Lyons "beyond Munich" arrangement is not reversed, is a global fascist dictatorship directed by the UN/IMF apparatus, or chaos, as the King Canutes of the "international system" are unable to (as they would put it) "stabilize" the situation.

What makes the arrangements reached at Lyons yet more disastrous, is that they were agreed to, with publicly stated enthusiasm, by the American Presidency, the latter being the sole institution capable of taking effective *national-sovereign action* to respond to a financial breakdown. The irony is that President Clinton, in response to the terror outrage that had occurred in Dhahran, Saudi Arabia the day before the summit opened, had made the "fight against terrorism" a focus of his activity at Lyons. Yet, what the President has signed on to at the summit, respecting economic-financial policy, will ensure, unless he reverses his position in the immediate period ahead, that people will die—several orders of magnitude more people than the number killed in Saudi Arabia. Lyons is an act of terrorism against the world's population.

In commissioning this *EIR* report, LaRouche described the Lyons summit as the most important single event since the launching of Operation Desert Storm in 1990—and potentially a much bigger catastrophe. In the *Feature* that follows, we tear the public relations packaging from "globalization," revealing it for what it is: the imposition of British imperial free trade policies, whereby national sovereignty is destroyed; labor unions eliminated; wages, health care, pensions, and other social benefits smashed—all to feed the speculative frenzy known as the world financial system. We compare the verbiage of the summit communiqué to the reality of the destruction of world economy (p. 23). Refuting the lies presented at Lyons about the alleged improvement in the U.S. employment situation, we show how the U.S. labor force is being gutted by the same IMF austerity programs that are destroying Russia (p. 28). And, using excerpts from LaRouche's recent Presidential campaign speeches, we outline what emergency action must be taken to reverse the crisis (p. 21).

A new international order

As noted, the Lyons summit was the first-ever G-7 gathering, at which there was a formal presence of the Gang of Four supranational institutions. The Gang of Four appeared at the concluding press conference on June 29, sitting to the left of President Chirac. He described their participation at the summit as "the most important" of the "innovations" introduced in Lyons. In response to a question from this correspondent, the French President said that discussions between the Gang of Four and the G-7 leaders were important for the achievement of a "new international order."

David Woods, spokesman for the World Trade Organization (WTO), promoted the same Orwellian propaganda, in a discussion with *EIR*. He claimed that the presence of the Gang of Four meant that "the rest of the world" were represented there, not just the "industrialized nations." He added that the summit, historically, represents a "turning point," in "raising the political profile" and "increasing the political influence of the organizations representing the multinational system."

This is the real agenda involved in the mantra of "globalization": the deconstruction of the nation-state. Former French Prime Minister Raymond Barre, a notorious monetarist who, as mayor of Lyons, played a prominent role in the summit, spoke at the same pre-summit colloquium that Camdessus addressed. Barre declared that globalization has reduced the margin of maneuver of governments, had made "national analysis" of situations pointless, and has undermined "the protectionist temptation." We are now in an era of "increased competition," he emphasized, and the purpose of the G-7 summit is to "define the rules of the game for the new world."

A senior British diplomat, in private discussion with this correspondent in Lyons, stressed that the British "recognize that the process of globalization is unmanageable by governments." A normal person would consider that a bad thing, but not the British elites: "Globalization shakes everything up, which is good. We are very much in favor of globalization. It is in accordance with our long history of support for liberalized free trade. It also brings about more competition." Other British spokesmen boasted that Britain is "uniquely attuned" to the process of globalization. After all, as *EIR* pointed out during a background briefing by British spokesmen, globalization is simply an updated modernist variant of the old imperial arrangement.

Chatterings from the Mad Hatter's tea party

The fundamental summit work was summed up in two conference documents.

First is the Chairman's Statement, issued by Chirac in the name of the other leaders, under the title, "Toward Greater Security and Stability in a More Cooperative World." It is an unabashed endorsement of the UNO-globalist agenda. Encapsulating the "global issues" segment of the discussions held by the G-7 leaders, it demands a "strengthened United Nations Organization. . . . The UN is called upon to play an increasing role as the twenty-first century approaches." The UN, the document asserts, must be the "cornerstone" of the "international system." The Chairman's Statement promotes the assortment of global ecological-fascist programs, under such catchwords as "sustainable development," "global warming," and "biological diversity."

Even more egregious is the economic communiqué released on June 28, under the title, "Making a Success of Globalization for the Benefit of All" (Chirac's slogan). The communiqué is complemented by a shorter "annex," entitled "G-7

LaRouche: Lyons summit 'a desperation effort'

In a radio interview with "EIR Talks" on June 26, Lyndon LaRouche commented on the Lyons summit, and the comment of International Monetary Fund Managing Director Michel Camdessus, that the financial system is falling apart:

This gives a lesson in reality. Over 1992, I did a nationwide television broadcast, as part of my campaign, indicating that the financial system was suffering a kind of mudslide, a gigantic, global mudslide, which was leading to a collapse of the entire financial and monetary system. In 1994-95, I reiterated that in a campaign paper for the 1996 nomination, Democratic nomination, on the subject of what I called the Ninth Forecast. That is, I've made essentially, in my career as an economist over, now, what—almost over 40 years—about nine forecasts. And, each one of these, the first eight, turned out as I prescribed.

The Ninth, is this one, that the international financial system is on the verge of a general chain-reaction collapse, the monetary and financial system, unless certain measures are taken; and, that while the date of this event is uncertain, the process leading up to the event is in progress, and there's no question we're headed in that direction.

Now, at the beginning of this year, you had a report issued by a fellow called Kapstein, who was from the New York Council on Foreign Relations. He put out a report saying, "Well, there have been crises in the past, but the

Finance Ministers Report to the Heads of State and Government on International Monetary Stability." The "Making a Success" document is based on a text submitted some months ago by the French government, and then worked through, by what one senior British diplomatic source in Lyons described as "a process of consensus," by the seven governments' special G-7 advisers, called sherpas. In essence, the text was completed, except for unresolved secondary matters thrashed out in Lyons, by the end of May. It is unlikely that the leaders had even read it before coming to Lyons.

The proclamations in the communiqué are a combination of the chatterings at the Mad Hatter's tea party in *Alice in Wonderland,* and policy prescriptions that can only be labelled "fascist."

The communiqué's Preamble proclaims: "Economic growth and progress in today's interdependent world is bound up with the process of globalization. Globalization provides great opportunities for the future, not only for our countries, but for all others too." The many "positive aspects" of globalization "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."

The Preamble acknowledges that globalization has also produced "challenges to societies and economies." This acknowledgment was the subject of considerable fanfare throughout the Lyons proceedings, particularly from Chirac. He stressed that the distinguishing feature of the Lyons summit was that it was the first major gathering, to focus on the problems of those hurt by globalization.

Chirac contrasted the Lyons summit to the February 1996 World Economic Forum gathering in Davos, Switzerland, where globalization was promoted as an unqualified benefit. He portrayed himself as a great defender of the cause of

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international financial institutions have things under control." A bunch of bunk. But, this report by him, was part of a perception in leading circles, including Camdessus of the IMF, that the international banking and financial system generally, was in the process of collapsing. And, naturally, what they wished to do, was to convince the suckers that this wasn't true, there was no such danger—which is what you always tell the suckers. You always tell the suckers to invest, when you're pulling out. And, that's what they were doing.

So, what Camdessus did, on the eve of this so-called G-7 Summit in Lyons, France this past week, was to admit the push for establishing a world government by a Gang of Four, headed by the UNO secretary-general, Boutros Boutros-Ghali, seconded by himself at the IMF, and the heads of the World Bank and of the World Trade Organization.

This was a desperation, a last-ditch, desperation effort, because they were all convinced that the world monetary and financial system was on the verge of a general collapse—what is called a systemic collapse. They were convinced that the series of crises, such as the Barings crisis, the Sumitomo crisis, the crisis in Orange County earlier, and so forth, that all these things were part of a pattern leading toward—and the Mexico devaluation—were all part of a pattern leading toward a general banking crisis in the near future.

So therefore, they said, the last ditch is *us.* The governments can't handle this, the nation-states can't handle this; and therefore, what we have to do, is we have to create a supranational, world government institution to manage everybody's financial affairs, and *maybe,* maybe that will keep this coming crisis under control. That's what happened at Lyons.

The important thing at Lyons is that there was a tacit admission, that the world financial system, in its present form, is finished, as I've been warning for some time. It's finished. What Clinton says, has been saying under the influence of that Roy Cohn clone, "Dirty Dick" Morris, who's his campaign adviser, is all nonsense: There is no growth, there is no recovery in the United States, and there hasn't been in the past years. It's a lot of nonsense. But, Dick Morris tells him that's the way to get reelected, so he says it. . . .

Pure hysteria occurred at Lyons. The international financial oligarchy, using President of France Jacques Chirac as their particular agent in this case, tried to set up an environment in which they entrapped President Clinton, with some cooperation from some monkeys on the U.S. side.

So, they set up this big dog-and-pony show which is the super-world government, led by Boutros Boutros-Ghali, the UNO secretary-general, and seconded by the three other institutions, sort of a "Gang of Four," as the Chinese might call it, to run the world. Well, it's not going to work! What this is, is *pure hysteria,* pure desperation, hysteria, a last-ditch effort. It's not going to work!

This reminds me of a similar Entente Cordiale operation of Britain and France in the persons of Neville Chamberlain and Daladier, the French prime minister, going to meet with Hitler in Munich, to try to prevent World War II: *It didn't work.* Similarly, this new Munich Pact of Lyons, is not going to work, either. It's going to blow up in people's faces. . . .

those harmed by globalization.

All of this, however, is pure damage control and opportunism. The French President and others are aware that there is a growing backlash, in the United States, Europe, and elsewhere, against the economic and social ravages caused by globalization. The signal "cry of alarm" in this respect, was the article in the May-June 1996 issue of the New York Council on Foreign Relations' *Foreign Affairs* magazine, by the same Ethan D. Kapstein who had, earlier in the year, assured his readers that the world financial system were "shockproof." But in May-June, Kapstein warned that globalization was producing an angry revolt, and that if something were not done, "populists and demagogues" would ride to power in various countries. That Kapstein piece was widely circulating among French and German elites, in the days leading up to Lyons, as confirmed by the French daily *Le Monde* on June 27.

The actual prescription put forward in the communiqué for those "challenged" by globalization, is brutal austerity. Point 3 in the Preamble goes on to assert that the "benefits" of globalization "will not materialize unless countries adjust to increased competition. In the poorer countries, it may accentuate inequality and certain parts of the world could become *marginalized.* The adjustment needed is, however, imposing rapid and sometimes *painful restructuring,* whose effects, in some of our countries can *temporarily exacerbate the employment situation.* Globalization of the financial markets can generate new risks of instability, which requires all countries to pursue sound economic policies and *structural reform*" (emphasis added).

What makes this all the more shameless, is that the "adjustment" and "pain" are portrayed as necessary and beneficial. Such Orwellian use of language is in line with a point made by Raymond Barre, in a French TV interview immediately after the summit. Asked about the curiously vacuous discussions about solving the unemployment problem during the summit, at a time when France itself is suffering soaring joblessness, Barre responded, "Globalization is all a matter of vocabulary."

IMF: jackboots in pinstripes

The brutality of the communiqué is further underscored by the constant demand for reinforcing the powers of the IMF. The communiqué welcomes the fact that since the Halifax, Canada G-7 summit of June 1995, "the surveillance capacities of the IMF have been enhanced." Furthermore, "we welcome the agreement reached on a framework for doubling the resources currently available to the IMF, under the General Agreements to Borrow, in order to respond to financial emergencies." Or, later: "We are committed to a continuing Enhanced Structural Adjustment Facility (ESAF) as the centerpiece of the International Monetary Fund support for the poorest countries."

The concluding section, "Toward Successful Integration of Countries in Transition into the Global Economy," is particularly shameless. At a time when countries in Central and Eastern Europe are being ripped to pieces by IMF shock therapy policies, the communiqué simply welcomes the "resolute stabilization and structural reform programs" pursued by these countries; "welcomes the latest agreement with the IMF" reached by the Ukrainian government; and endorses the IMF approach in Russia.

Behind the scenes, panic reigns

But as stated above, the impetus driving all this, is an awareness that the financial system is going bust.

On June 28, a well-informed journalist told *EIR*'s Christine Bierre, that there were two things that had the assembled leaders in a state of panic, no matter what they might say in public: terrorism and the financial crisis. She was also told by a spokesman for the French Presidency, that, at the meeting of G-7 finance ministers that had taken place on the evening of June 27 and into the next morning, the focus had been on the dangers of a "violent financial crisis" or of "snowballing" and "domino effects" emerging from monetary turbulence. The spokesman specifically accused "the new financial instruments" of being the cause of turbulence, and mentioned the case of the recent Sumitomo affair in Japan.

But the only "solutions" being promoted, he said, were the extension of the rules of the Bank for International Settlements (BIS) and the Organization for Economic Cooperation and Development (OECD) to all entities involved in financial trading, including "emerging" countries—not just banks or brokers. This will lead to a strengthening of the "multilateral" institutions, with the IMF being in charge of extending those rules to the entire world.

A variant of the same point was made by Chirac, at his June 28 press conference. He stated that the G-7 leaders "devoted almost all of our lunch today, to talk about the international monetary system, and what we said was that the system, as it existed today, was so enormous and was so powerful, that we had to take the necessary prudential measures to avoid catastrophes. The Mexican crisis comes to mind. . . . When you have flows of money which amount to billions and billions of dollars every day around the world, that gives you some idea of the extent of these flows and the dangers that they can represent for the world."

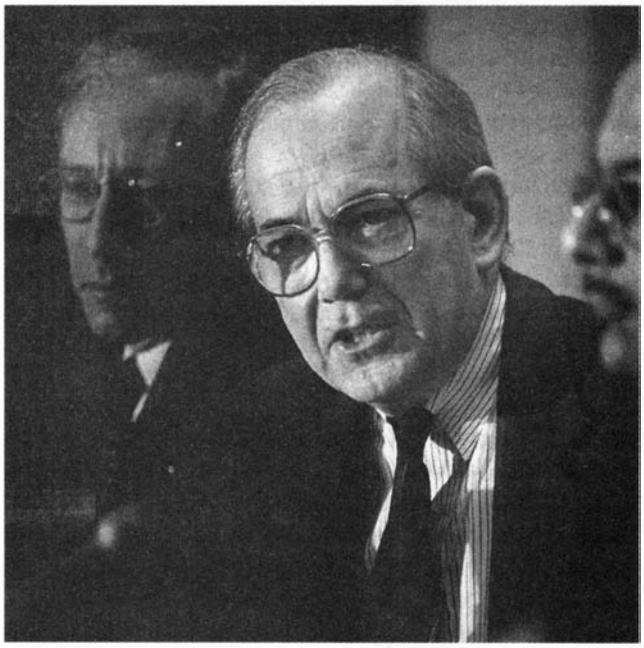
At his concluding press conference the next day, Monseigneur Le President stressed that, to confront "the risks and dangers" in the financial system today, the main solution was the doubling of the resources of the IMF. Furthermore, he said, "a study is to be completed, before the end of the year, in conjunction with the international institutions and heads of the central banks, at the initiative of the sherpas," to discuss devising "a system to provide early warning of impending crisis."

He didn't say whether King Canute would be invited, but he will certainly be there in spirit.

Documentation

At a colloquium in Lyons on June 24, IMF Managing Director Michel Camdessus claimed that recent years have provided "unprecedented opportunities for trade, investment, and growth." But, he added, "this new era is not without risk. In my view, there are already two particularly pressing ones. The first is financial. The global economy has suffered several costly financial crises over the last decade. Plunging asset prices, major bouts of exchange market volatility, a crisis in emerging markets sparked by events in Mexico, and the collapse of several major financial institutions, in the industrial and emerging market countries alike. . . .

"The second risk is that of marginalization. . . . [There is] the prospect of a widening gulf between countries that are able to take advantage of globalization and those that are left by the wayside. The world community cannot merely sit by and watch this happen, because it knows that it is now a unified whole. It knows that a financial crisis, regardless of its origin, can become worldwide in a flash. . . ."



Panicked IMF Managing Director Michel Camdessus: "A financial crisis, regardless of its origin, can become worldwide in a flash."

Camdessus: 'Tighten the screws'

The following article by Clovis Rossi was published in the Brazilian daily Folha de São Paulo *on June 28, under the headline, "Next Crisis Is in the Banks, Says IMF."*

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 (International Monetary Fund).

"The world financial system is in pieces and it is extremely urgent to tighten the screws," Camdessus said in a seminar prior to the 22nd summit meeting of the G-7, the seven richest countries in the world, opening today in Lyons, in the southeast of France.

For the first time, the IMF will participate, alongside the heads of three other international organizations (the World Trade Organization, 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.

Camdessus's warning coincides with the alarming report made public in London by Standard and Poor's, a U.S. credit-rating agency.

It says that the Brazilian banking system is the riskiest one among the large Latin American countries, according to a report published yesterday by the British daily *Financial Times.*

It also coincides with the report issued last week by the BIS (Bank for International Settlements, a kind of central bank of the central banks).

In it, the BIS warns of the need for central banks to tighten up 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.

That market is, essentially, a bet on the future behavior of certain goods or services, and levels of interest rates.

In this scenario, the idea of some kind of control over capital flows is again gaining force. France plans to place the subject on the agenda of the G-7, according to its minister of economics and finance, Jean Arthuis.

"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.

In that regard, the conservative French government agrees with the Socialist International, the grouping which brings together the social democratic parties of the world.

In a seminar held prior to the G-7 meeting, also in Lyons, the Socialist International proposed 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."

The taxing of speculative capitals is a proposal that has been advocated for years by Nobel Prize economist Michael Tobin (from the United States). It is even named after him: "Tobin tax."

Meanwhile, it is unlikely that the G-7 will adopt the proposal, whether it comes from Camdessus or from France. In the final analysis, the United States opposes it and, with all its economic weight, it generally ends up dictating the tone of all the G-7 statements.

Besides that, the members of the G-7 are coming to the annual summit with different conjunctural situations. Just to focus on the four richest.

The United States is growing at a moderate rate, while Japan achieved explosive rates in the first quarter (growing by nearly 13%).

Germany's economy has been stagnant or declining for three consecutive quarters, and France has record levels of unemployment. In that framework, a coordination of policies seems out of the question.

Robert 'Hoover' Rubin: 'a chicken in every pot'

U.S. Treasury Secretary Robert Rubin praised the United States for creating 9.7 million jobs in 3.5 years, at the G-7 summit in Lyons on June 28, speaking at a press briefing. He said: "With respect to job creation, it is true; 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."

McCurry: 'a useful discussion'

White House press spokesman Michael McCurry, speaking at a press briefing in Lyons on June 29, commented on the summit: "In general, those that were in the U.S. delegation found this discussion very helpful. And it was—it is true that when you look at institutions like the IMF, the World Bank, certain aspects of the U.S., certainly as they relate to development and assistance to emerging democracies, there needs to be greater harmonization. In fact, James Wolfensohn of the World Bank, in the session this morning, actually spent some time on the issue of harmonization of international institutions, particularly the IFIs [international financial institutions]. And I think that it was certainly a useful discussion. . . .

"Certainly, the importance of the work that these international institutions do is underscored by the presence of these respective leaders of these organizations here. And certainly, the President agrees that those are subjects that ought properly be addressed by the eight leaders."

"That was a good waffle answer," McCurry added, in a moment of ironic self-reflection.

The Group of Seven

The June 27-29 meeting of the Group of Seven (United States, Canada, United Kingdom, France, Germany, Italy, Japan), was the 22nd such summit since the G-7 first met in 1975, prompted by the initial phase of unravelling of the Bretton Woods system.

The International Monetary Fund itself began operations in 1947, and the World Bank (International Bank for Reconstruction and Development) started in 1946. These were the two key financial institutions created by the United Nations Monetary and Financial Conference at Bretton Woods, New Hampshire, in 1944. During the early postwar years of fixed currency exchange rates (pegged to gold and the dollar), and the separate Marshall Fund and other aid projects, there was relatively little IMF activity. This began to change with the 1956-57 Suez Crisis, when Britain drew heavily on IMF support funds.

In 1962, there was a meeting in Paris of a group of IMF contributing countries, to create a new General Arrangements to Borrow (GAB). These countries became known as the Group of Ten (Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom, and the United States). As needed levels of national infrastructure development funding were blocked by financier interests dominating the World Bank and IMF, world currency instability increased at the end of the 1960s; and as of 1967, the G-10 finance ministers and central governors began to meet regularly on international monetary policy.

In 1967, there was a run on the pound sterling; in 1968, a run on the dollar. In August 1971, the United States suspended convertibility of the dollar and gold. By 1972, many currencies were floating. In 1975, heads of state of the G-7 began holding yearly summits. Their agenda broadened to include arms control, terrorism, etc.; but a smaller G-5 (minus Italy and Canada) met regularly on financial policy.

The 1980s summits condoned IMF policies of severe conditionalities on debtor nations in the wake of the 1970s oil price hoaxes, and mandated wider world "free trade." The December 1987 statement of the G-7, following the Oct. 19 stock market crash, merely called for "stability."

The July 1990 G-7 summit demanded more "reforms" by debtor nations, and turned down Bonn's proposed G-7 economic assistance program for the Soviet Union. Subsequent summits pledged aid, but backed IMF conditionalities policies of austerity restructuring and indebtedness.