

World financial elites focus on systemic crisis in Davos

by William Engdahl

A most revealing indicator of how insiders view the imminence of a systemic financial crisis, is the degree with which the subject preoccupied debate at the World Economic Forum held in Davos, Switzerland. The talks, held this year on Jan. 31-Feb. 4, are organized to bring together once each year the leading figures in international banking, central banking, multinational corporations, and government, for informal high-level exchanges of views on major issues of concern.

This year's talks were in stark contrast to those of the previous several years. Debates ranged from, "Do we need to worry about financial system fragility?" to whether the Japanese banking crisis could erupt into a global crisis; the dangers in the present moves toward the European Monetary Union (EMU) amid soaring unemployment, and the danger of an outbreak of a new monetary crisis; or, whether there is risk of a breakdown in the global interbank payments system.

But what made the talks more striking, was the fact that they took place against a backdrop of alleged global economic growth, low inflation, and record highs in major stock markets around the world. The contrast between what the ordinary citizen is being told, i.e., "the economy is all rosy," with what senior financial circles at Davos expressed, could not have been more stark.

What is the World Economic Forum?

The Davos World Economic Forum was established in 1971, by a Swiss businessman, Klaus Schwab. Schwab's worldview was shaped during the 1960s as a student at the Harvard seminars of Henry Kissinger, who is also a Davos regular. Schwab's model for the Davos gathering, he acknowledges, came from attending meetings of the secretive Bilderberg Group. Schwab developed the format of a highly expensive (each delegate must pay \$16-20,000 to attend), elite meeting in the Swiss Alps, which would focus on the major concerns of the global establishment in banking, government, and business. Well more than 1,000 delegates and speakers meet over several days each year in public sessions, but more importantly, in informal private talks. Here, policy and deals with strategic importance are shaped. Who is invited and who not, is taken as a sign of political "acceptance" by this globalist establishment.

Among this year's participants were financial speculator

George Soros; heads of the largest European, Japanese, and American international banks; finance ministers from most Organization for Economic Cooperation and Development (OECD) member countries; as well as heads of central banks, senior International Monetary Fund (IMF) officials, and others. In short, the people who allegedly know the true state of world financial and monetary developments. And, they're preoccupied with the likelihood of imminent systemic crisis as never before.

A change in the bankers' mood

It is useful to reflect on the previous several Davos meetings to underscore the importance of this year's debate. During 1993-96, Davos took place amid a backdrop of the most dramatic financial crises since the Great Depression. This included the derivatives debacle at Metallgesellschaft, the Banesto bank crisis in Spain, the January 1995 Mexico peso crisis and the \$40 billion rescue package, the Japanese bank and stock market crises, the collapse of Barings Bank, Orange County, California's bankruptcy, and mass strikes in France in protest against Maastricht austerity.

Yet, in each of those past four meetings, by eyewitness accounts, the overriding focus was how to further advance the agenda of "globalization," especially in the area of world finance; how to force more deregulation and privatization of each nation's public enterprises. Each of the crises was cited by leading participants as "proof" that the system worked, not as a symptom of its imminent disintegration. Emerging markets from Russia to India to southern Africa were to be forced open to "free market" liberalization.

In the 1992 Davos meeting, precisely as the U.S., British, and Japanese banking systems and economies were struggling with the most severe bank crises and depression since the 1930s, problems directly tied to implementation of financial deregulation, Davos promoted IMF "shock therapy" guru Jeffrey Sachs as the model for eastern Europe and Russia. Davos in fact played a key role introducing Sachs to Russia. Sachs's shock therapy played a vital role in facilitating the looting of Russia's economy and raw materials by Sachs's friend Soros and others.

As well, when the Mexico peso crisis threatened to detonate a global liquidity crisis in February 1995 during the Davos meeting, conference delegates, including U.S. Treasury Undersecretary Lawrence Summers, told attendees that the crisis was under control and would not spread. Two days later, it emerged that Washington had pledged a record \$40 billion stabilization deal for Mexico. No problem. The next year, Mexico's finance minister was at Davos to deliver reassuring words.

This year, however, something had definitely changed the mood of the participants. Reality dictated that a detailed discussion of the imminent systemic financial crisis was in order. Not, it should be noted, in order to avoid such catastrophe through radically different economic and national monetary policies, as Lyndon LaRouche has urged repeatedly.

Rather, to inform the fellow members of the elite establishment what was imminent, so they might better prepare to emerge as survivors from the rubble.

The crises

Fred Bergsten, director of the Washington-based Institute for International Economics, set the tone in the first plenary address. He bluntly warned of "potential major shocks to the world economy; any of them could hit in 1997. The most immediate and urgent problem is Japan."

Bergsten outlined the Japanese financial system crisis. Despite more than \$500 billion in government economic stimulus programs to revive economic growth, with near-zero interest rates, and huge trade surpluses, the Japanese economy, Bergsten stressed, "has been the weakest in both the industrial world and East Asia for five years, despite its location in the world's most dynamic region. Something fundamental is obviously wrong. The main culprit is the weakness of the financial system, which continues to overhang the entire economy."

The current intent of the Ryutaro Hashimoto government, despite the weak economy, to ape European governments and U.S. Republicans, by imposing severe budget cuts to balance the budget, Bergsten warned, would further depress the economy in an extremely fragile moment, and could trigger a "sell Japan panic," which would drive investors out of Japan to seek gains abroad. This, in the wake of a 53% drop in the yen since April 1995, Bergsten said, could force Japanese banks and pension funds "to liquidate their still massive holdings around the world and provoke severe reactions in foreign markets as well as their own."

The present state of the EMU and the soaring unemployment in the European Union, was identified as a second possible trigger to a major global crisis.

As the text of the Maastricht Treaty on the EMU explicitly states, 1997 is the decisive year to determine whether countries meet the "convergence criteria," which mandate a maximum national budget deficit no more than 3% of GDP, and a maximum public debt no more than 60% of GDP. As of December, only Luxembourg had met both criteria for participating in the single currency two years hence. Germany's 1996 deficit was way above the 3% level, as was that of France and other EU members. Thus, in order to qualify for joining the new Euro, set to start on Jan. 1, 1999, these countries must continue savage budget austerity. For the past two years, such fiscal austerity, or deflation policies, have driven unemployment in the EU to an all-time record 20 million. Since the December 1996 Dublin EU summit, a major split between a French view of the new Euro, and the German view, began to emerge for the first time. This split was evident at Davos.

Horst Siebert, president of Germany's Kiel Institute of World Economics, stated, "The two important countries of the European Monetary Union, France and Germany, have not yet found a common philosophy on the very essence of the monetary union. According to the German understanding,

the money supply should be taken out of the hands of the politicians. . . . France has a diametrically different understanding. According to the French view, monetary matters are a political phenomenon and should not be left to 'technocrats.'" Given such a fundamental split between the two key member states, he concluded, "it is difficult to see how such a significant project can succeed."

Siebert's pessimism was underscored by remarks of one of the most influential German bankers, Ulrich Cartellieri of Deutsche Bank. Cartellieri, an aggressive advocate of the Euro project until recently, declared that he expected a major financial crisis to develop this year over the planned EMU. He added there was a real risk of a "crash of the EMU project. We need leadership and we need vision, probably this year more than ever." He added that, for example, allowing Italy in would set off a "ticking time bomb" on the whole project. Italy today has one of the highest public debt levels in the world, some 135% of GDP, more than double the Maastricht limit.

British Chancellor of the Exchequer Kenneth Clarke was the first to state that the "Emperor Euro" has no clothes. "I doubt that the EMU will start on time," he said. Soros retorted to the prospect, declaring about the EMU, "If it is delayed, it would be catastrophic."

The meeting examined possible systemic "triggers" in the global interbank payments system and hidden risks not yet seen. Andrew Crockett, general manager of the Bank for International Settlements, the Swiss-based lobby group of major world central banks, defined the risk to the global interbank payments settlement system as a major worry: "Twenty years after the Herstatt Bank crisis, little has been done," adding the alarming note, "When Drexel Burnham went under [in 1991], we were very close to a global system freeze."

Just how such a new interbank crisis could develop was suggested by Onno Ruding, vice-chairman of Citicorp. "In their crisis in 1990, U.S. banks took appropriate steps [sic]. Japanese banks and the Japanese government have yet to take such steps. There is a real danger that a bank or other failure could have a domino effect on the interbank settlement system. What happens if, say, a Japanese bank in New York or London has a liquidity crisis at a time of day when Tokyo is sleeping? Would the problem get out of control in the few hours before Tokyo opened its business day?"

Perhaps most telling of all in the debates at Davos, is that none of the leading figures of the present international financial order offered any serious remedy to a global system so obviously teetering on the brink of catastrophe. This absence of an alternative was perhaps best underscored by Howard Davies, deputy governor of the Bank of England, who proposed instituting "stress tests" on such areas as Japan banking or the EMU to determine possible systemic threats. What, then, if such a systemic threat was confirmed? The response was a deafening silence. This part of their agenda, apparently, these elites discuss only behind very tightly closed doors.