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### ***Group-dynamic Processes in Financial Markets***

Lloyd deMause has maintained<sup>1</sup> that the study of group-fantasies shows economic growth produces fears of individuation and results in an abandonment crisis that is often felt in the financial markets. William Joseph has demonstrated that particularly during periods of peace these fears can lead to an upheaval in financial markets, such as the crash that occurred in 1987.<sup>2</sup> Fluctuations in economic activities of modern nations can be understood as defenses against these unconscious painful emotions. This paper will begin by explaining how anxieties of growth – which I will call "excess anxieties" – are created. Then I will apply the psychohistorical approach to the psychodynamic process in international financial markets.

At the bottom of the excess anxieties created by economic growth are negative pre- and perinatal experiences.<sup>3</sup> These provide unconscious connections to our earliest experiences of helplessness, emotions that are practically unbearable and that threaten the conscious self-esteem of an adult. According to Ludwig Janus, birth traumas can be healed during early childhood by sufficiently supportive parental care.<sup>4</sup> If this is true, it also means that traumas and neglect during childhood confirm fetal traumas that are still fresh in one's memory. Therefore, adults who were punitively raised in the sense that their parents regarded severe physical punishment as positive, as a toughening up, have a heightened need for defenses against inner fears.<sup>5</sup> Since these children were ignored, rejected and punished when they demanded "too much," unconscious traumatic anxieties can be activated when they perceive an increase in demands coming from others or when they themselves are "too successful."

#### *ECONOMIC SITUATION IN EUROPE IN 1994*

The economic situation in early 1994 in Europe (the American business cycle was about two years ahead of the European) showed a beginning of economic recovery paired with a high rate of unemployment. Unconsciously, economic growth signified a possible lowering of defenses against the *entrance* of traumatic anxieties, as life threatens to become less "rigorous." In conservative people – those brought up more punitively – this can lead to the activation of fear and anger, anger directed against the

object which has reactivated the memory. A paradoxical resistance against economic growth can be the result.

Interest rates had fallen the year before, and a further reduction of European rates was expected. Although the economic cycle hadn't progressed that much, nonetheless irrational inflation anxieties – markers of fears of growth and individuation – appeared in 1994 which led to a number of serious repercussions in the financial markets. These unfounded inflation anxieties can be understood as a lowering of defenses against unconscious anxieties. As a consequence, bond prices sank during the year and long-term interest rates rose. As an effort to protect nations from unconscious anxieties, the American central bank, the "Fed," raised Fed Funds rates seven times in a row. In Europe, these unfounded fears of inflation prevented central banks from allowing interest rates to fall, which predictably produced a reduction of demand for goods and services. In consequence, this irrationally tough monetary policy rendered the solving of important issues such as unemployment and the national budget deficit far more difficult.

#### *HOW ECONOMIC GROWTH CAUSES ANXIETIES*

Our fantasy analysis of media images begins with an article that appeared on April 4, 1994 in the *Neue Zürcher Zeitung*, headlined "High Exchange Rate Volatility on Wall Street. Stock Market in Shadow of Climbing Bond Yields":

On Easter Monday, American financial markets were again subject to massive fluctuation. Trade in New York Markets was active and obviously influenced by a strong tension of the investors. But there still wasn't any indication of a rising panic... The current weakness of the American stock market is directly linked to the rising interest rates. Especially the yield of the important 30-year Treasury bond rate rose strongly in the last few weeks. Last Friday it rose to 7.26% after the Department of Commerce in Washington had announced a surprisingly marked increase of employment by 460,000 people alone in March, and by this announcement had intensified the fears of overheating in the business cycle.

Often when negatives are used they can be ignored; thus, reporting *no* rising panic means unconsciously rising panic is being felt. Where does it come from? Since the "fears of overheating" are in fact excess anxieties – unemployment remained at historic highs a long way from producing any overheating of the labor market – these inflation anxieties are being fed by unconscious fears of growth.

#### THE FINANCIAL MARKET CRISIS OF JUNE 1994

The financial crisis of June of 1994 began with fantasy language that was violent and painful but without birth imagery. For instance, Hans Schmid, Professor of Economics at the University of St. Gallen and a former member of the National Council for the Swiss Social Democratic Party, stated in the *NEUE ZÜRCHER ZEITUNG* on May 31, 1994:

If the monetary expansion takes place suddenly, a short-term decrease in unemployment is possible. But through such monetary injection, the economy will be projected into a **state of intoxication** which is comparable to the one of a drug addict.... Once the economy, which has thus become **addicted**, is **put on withdrawal** by the National Banks monetary restrictions, **highly painful** but inevitable "**withdrawal symptoms**" will appear. These will take the form of disinvestments, loss of employment, bankruptcies and other crises of liquidity.

The slight economic recovery has produced a lowering of defenses and a fear of reexperiencing traumatic anxieties, leading to the wish that central banks should begin a stricter and more punishing tightening of monetary policy that will be **highly painful**, which is felt to be good.

The *second* phase of the crisis begins to use symbolic language of fantasies of excess growth and introduces the imagery of the pregnant belly. Here is an excerpt from the *NEUE ZÜRCHER ZEITUNG* for June 4/5, 1994, headlined "Higher Deficit In Spite of Higher Taxes. Things Have Gone Far Enough."

One shouldn't forget that in some Cantons and Counties the treasury has become "**more voracious**" too... Thus it becomes clear how the reorganization of the Federal finances should be tackled best: The main object is the earmarked subsidies stipulated by law which on the lower governmental level can only create systematic incentives to a **frivolous expense behaviour... But under the cupola of the Bundeshaus** [the seat of the Federal Government] they are content with budget-cosmetics and completely disregard the weariness of federal finances. There truly is no reason for Mr. Stich's [the minister of finance] **unbridled appetite** for additional revenues.

The fantasies of imaginary excess growth are seen in the imagery of the supposed **voracious, unbridled appetite** of the government. And the birth fantasy is symbolized by the pregnant belly, where the fetus lies **under the cupola**.

The *third* phase of the crisis shows the nation beginning to experience overpowering birth anxieties, which appear to develop a dynamic of their own. The main financial market crisis lasted from

June 7 to June 21. Here are three typical newspaper articles from this period that show memories of the early birth contractions and the fetus's birth feelings:

*NEUE ZÜRCHER ZEITUNG*, June 8, 1994: Still another **tremor shook** the Swiss capital market last week causing enormous devastation. Weakening prices of futures on the major markets **triggered** a Europe-wide **wave of sell-offs**. This wave hit the bond market in Zurich last Thursday...**How thin-skinned the actors have become...Have we reached the bottom of the valley** after this re- newed **slide of prices?**

*NEUE ZÜRCHER ZEITUNG*, June 16, 1994: **A new wave** of sell-offs. **Surge** of taxes. **View into the precipice**. **Growing tension** at bond and stock markets. The **insecurity** is tangible about the fact that in spite of the low, even sinking, rate of inflation and a restrained economic growth, the upward trend of interest rates hasn't stopped yet. This **uncertainty threatens to bring ruin** on the European markets...Swiss financial markets have also met with a small '**blood bath**'...

*Tages Anzeiger*, June 21, 1994: **Fear rules** in Wall Street... Obviously something comparable to a natural disaster is taking place. The birth contraction imagery of **tremors, waves and growing tensions** correspond to Stanislav Grof's early perinatal birth matrix.<sup>6</sup> The labor phase of birth brings a loss of intra-uterine life that was linked to nearly unbearable pain and fear of annihilation. The other slide and crash fantasies - **slide of prices, reached the bottom of the valley** and **view into the precipice** - along with the strong anger affects of the fantasy of a **blood bath** is typical to the birth anxieties being reexperienced.

The *fourth* phase of the crisis moves on Grof's middle birth matrix with its fears of being stuck forever in the no-exit birth canal:

*Neue Zürcher Zeitung*, June 20, 1994: Eurobond Market. Exaggerated expectations in German economy. The search for the reasons that led to the rejections and **congestions** in the international bond markets has begun. ...the simultaneous decline of the German Government bond market caused a **congestion which hindered the flow** of the bonds in the market. **How narrow the sales channels** have become in the target regions. ...Other loans were **constipated** around the end of last week. ..

In this middle-of-birth condition, the nourishing exchange with the placenta is impaired because of the reduction of blood flow, and pressures on the head and body have increased giving a feeling of terrible **congestion** in a **narrow channel**.

The *fifth* and final phase of the birth crisis, Grof's final matrix, is the actual breaking of the uterine waters and the movement and breakthrough of birth itself:

*Neue Zürcher Zeitung*, June 21, 1994: Another Difficult Monday:

**Breaking of the dam** in European markets. Diffused fears of interest rates and weakness of the dollar as a cause. ...**the descent** in the European capital markets has **accelerated abruptly**...

*Neue Zürcher Zeitung*, June 22, 1994: Swiss money and capital market: **New hopes after latest plunge. Optimistic** key-note in a unstable market. ...As it appears that even steadfast investors have now **cleared up** their portfolios and the **way to a new beginning now seems clear**, optimistic voices can be heard sporadically...After the **cleansing thunderstorm**...

The birth process in the final perinatal matrix ends in a feeling of relief and relaxation. Analogously, at the end of the financial market crisis, a feeling of having gone through a necessary cleansing rebirth – **cleansing thunderstorm** in which portfolios were **cleared up** – and tensions released. **The way to a new beginning now seems clear.**

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<sup>1</sup> The Journal of Psychohistory 24 (4) Spring 1997

<sup>2</sup> . William K. Joseph, "Will Peace Panic the Market?" *The Journal of Psychohistory* 16(1989): 405-410.

<sup>3</sup> Lloyd deMause, "Restaging Early Traumas in War and Social Violence." *The Journal of Psychohistory* 23(1996)

<sup>4</sup> Ludwig Janus, *Die Psychoanalyse der vorgeburtlichen Lebenszeit und der Geburt*. Pfaffenweiler, 1990, S. 97.

<sup>5</sup> Michael A. Milburn and S. D. Conrad, "The Politics of Denial." *The Journal of Psychohistory* 23(1996): 238-251.

<sup>6</sup> Stanislav Grof, *Geburt, Tod und Transzendenz*. Rororo, 1991, S. 106ff.