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The U.S. Fed pursues the Brandt Report strategy

by Kathy Burdman

During the month of June, the central bankers of the Bank for International Settlements initiated one of the largest restructurings of world financial markets in this century. Most immediate was the unanimous vote June 9 of the BIS's American branch, the Federal Reserve Board, to authorize U.S. banks to set up international banking facilities (IBFs) in major U.S. cities. Beginning Dec. 3, the U.S. banking system will become thoroughly integrated with the offshore Eurodollar market, which has long been out of the control of U.S. authorities, as IBFs are authorized to take reserve-free deposits like Eurodollars without any limits to the amount of speculative credit they may create, at any interest rate. To run IBFs, banks nationwide are planning to join the New York banks' giant CHIPS computer system, creating at once a national electronic funds transfer system which will vacuum deposits from across the country into the Eurodollar whirlpool.

This is only a first step. The declared intention of the BIS central bankers, as announced by Swiss National Bank President Fritz Leutwiler in Lausanne, Switzerland last week, is to remove economic policy from the hands of sovereign nation-states. Addressing the American Bankers Association annual international monetary conference, Leutwiler welcomed the withdrawal of the U.S. government from foreign-exchange market intervention, and urged European governments to follow. The central banks, he said, will henceforth be the coordinators of international monetary policy, and will use continued high interest rates to force a "structural adjustment" of the world economy and its industrial base.

The BIS central banks are also initiating a host of new international credit mechanisms to take control over lending to the developing sector, Federal Reserve Governor Henry Wallich said this week, including a major new insurance fund for LDC loans, run by the central banks and Bank for International Settlements directly, which would enforce conditionalities on sovereign governments.

In an emergency press release from Europe, *EIR* founder Lyndon H. LaRouche, Jr. characterized the BIS announcements, especially that of Leutwiler, as "tantamount to an act of war" against the U.S., a new "Pearl Harbor." LaRouche outlined emergency measures the Reagan administration should take to re-assert its control over the monetary system, starting with immediate remonetization of U.S. gold reserves (see National).

The staid gentlemen of the BIS have also exposed the fact that they are working directly with the Brandt Commission of the Socialist International to enforce these supranational structures. Federal Reserve Governor Wallich, in an interview this week, freely stated that his insurance scheme is identical with the one in the Brandt Commission's 1979 report (see below).

The BIS, with this program, is working toward the identical goal of the rabidly environmentalist Brandt Commission—the enforced reduction of large parts of the population of the developing sector. "Banks and central banks would seek to refuse insurance to countries with too rapid population growth" under the Wallich

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plan, a Chase Manhattan spokesman said this week.

The ostensible impetus for the BIS moves is the seriously illiquid state of developing sector debt, which has become an unbearable burden to a dozen or more nations especially because of the BIS-enforced high interest-rates regime. An estimated $20 billion in debt service payments has been added to the $90-$100 billion LDC current account deficit for this year by the sheer mass of new debt service due to higher interest rates on debt being refinanced.

In a speech to the Atlantic Council board of directors this week in Washington, former Council president Frank Southard predicted some $15 billion in new loans needed by the LDCs would be unavailable from private lenders, unwilling to extend themselves further in the deteriorating interest-rate conditions.

A wide-ranging international financial restructuring will be required to deal with the debt situation, Federal Reserve Governor Henry Wallich told the Bankers Association for Foreign Trade in Boca Raton, Florida this week. "A good number of countries are borrowing amounts that cannot be continued far into the future without leading to debt burdens which appear unsustainable from historical experience," he said.

Debt trap

To create new mechanisms for credit flows without increasing bank exposure, Wallich called for a new international insurance fund. Insurance, he said, could be coupled with cofinancing by commercial banks in consortia with the IMF and World Bank, brokering of loans, and the use of pass-through techniques such as those used to market mortgages in the United States to secondary buyers.

The Eurocurrency Standing Committee of the BIS in Basel, Switzerland is now making plans for such a new insurance fund, a Federal Reserve source said this week, by which most new lending to the Third World would have to be guaranteed. The idea is to set the fund up outside the control of national governments, which means avoiding even the IMF. Instead, central banks may set up a new pool under an "independent treaty," or at the BIS.

Former International Monetary Fund Executive Director Johannes Witteveen, addressing the Lausanne conference, also promoted the idea of an "International Credit Guarantee Fund," jointly established by central banks and commercial banks to promote "sound investments." Under the Witteveen plan, Western governments would kick in an initial fund, to be managed by the central banks, and gradually the fund would be built up by premium payments. Witteveen proposes countries be insured and pay premiums, while Wallich prefers the insurance of banks.

Either way, under the plan all new private loans to LDCs would be subject to even stricter "conditionalities" than those presently applied by the IMF.

Who runs Global 2000?

Behind the financial justifications for the BIS restructuring program lies a more fundamental economic motive. The BIS central bankers, who operate on behalf of the old European oligarchical families, have as their first motive the deliberate reduction of the populations of the Third World, and of the advanced industrial sector. Britain's Prince Philip and Prince Bernhard of the Netherlands, who head the World Wildlife Fund population-control movement, first made the decision to reduce world population. After the fact, the BIS bankers were instructed to see to it that Third World debt, which could otherwise have been dealt with through new credits and lower interest rates, was *not* refinanceable, thus calling in the new financial order to impose drastic reductions in available credit.

Already high interest rates are causing a restructuring of the Third World economies which will lead rapidly to population reduction, Dutch central bank representative to the IMF Jacques Pollak said this week. He predicted that soon countries like Mexico and Brazil, which had been growing rapidly, would be forced into large devaluations which would deliberately cut their imports of food and energy.

Mexico in particular was targeted for austerity. "There is great concern about the Mexican peso," said one central bank source this week, "because the fall in oil prices is hurting their development plan. That plus high interest rates will soon be driving their current account into deficit, and then they will be forced into devaluations and import cuts."

Even a major oil exporter like Nigeria could soon be seen as "overpopulated," said Sharif Ghaleb of Chase Manhattan Bank, once its financial resources no longer match the rate of

According to Martin Oppenheimer, financial analyst at the Futures Group which runs the State Department's RAPID population-control program, it is especially the fast-growth countries like Mexico, Nigeria, and Brazil which are about to be assessed as "high-risk" by bankers and by the proposed BIS insurance fund unless they act to cut back their populations. Oppenheimer said that these countries, which have had the fastest rate of growth until now, "could be plunged into political instability when growth rates fall from 4 percent to 1 percent per year.

For the advanced industrial countries, the BIS interest-rate policy alone is estimated by Holland's Jacques Pollak to be sufficient to force a major rationalization of heavy industry, which will be forcibly denied credit. The BIS projects that this will force Western nations into *sub-zero* population growth within a few years.

The Fed and the IMF discuss their attacks

From a mid-June interview with Federal Reserve Board Governor Henry Wallich, provided to EIR.

Q: Chancellor Schmidt of West Germany may call for rate reduction at the Ottawa summit. Then what?
A: If he brings it up, which we hope he will not, we will have to answer that there is one basic fact. Tight money is our policy, and will continue to be our policy. We are not going to change it.

Q: I understand the proposal you have publicized by the Bank for International Settlements for a new insurance fund to guarantee Third World loans is also found in the Brandt Commission's report. Is the BIS working with the Brandt Commission?
A: We have some acquaintance with them, yes. We're reading their proposals, of which, you are correct, this is one, and considering them very carefully. We're pursuing those we consider viable.

There are various proposals in the wind. Wilfred Guth of the Deutsche Bank has one for the insurance of the liquidity of banks. Former IMF director Johannes Witteveen has one for the insurance of loans to individual developing countries.

Personally, I lean in the direction of the insurance of bank lenders, rather than insuring loans to country borrowers. If countries insured, then the fund would have to be located at the IMF or the World Bank, which are in the business of evaluating individual Third World countries and their prospects, and who have the information assembled. But the IMF is not attractive to some governments at present.

Q: Do you mean that insuring banks could be done by the central banks or BIS without the IMF?
A: Possibly. What is important is that the fund must be done on an international basis. The problem is to assemble a sufficiently large initial fund so as to give credibility to such a scheme. The private banks will contribute through paying premiums, but there would have to be a fund to start off which would have initial capital. Central banks do not have capital to give. National treasuries would have to make the contributions.

Q: But would the governments administer the fund?
A: It is more likely that the central banks would have to administer the fund, and that they would set up a new agency to manage it.

Q: What would be the criterion of insurance?
A: Banks, private banks, do not now induce conditionalities and that is one of the problems. We could tie conditions to the insurance which would limit the lending they could do to certain countries unless the countries were meeting conditions.

It is not necessary that countries make net debt repayments, but they must reduce borrowing, reduce imports, and export more. This can be induced if banks are cautious in their lending and encouraged by the regulatory authorities to ask these countries to make structural changes.

The model could be something like the World Bank's new "structural adjustment loan," which is earmarked specifically to be used to stimulate the substitution of new domestic industries for imports. For example, domestic energy such as coal or other local energy can be developed, and oil imports cut.

In general, oil and food imports must be reduced, and domestic subsidies to their prices must be removed. And certain countries will have to allow their exchange rates to depreciate.

From a recent interview, provided to EIR, *with Jacques Pollak, Dutch central bank representative to the International Monetary Fund.*

Q: Swiss central bank chief Fritz Leutwiler made a forceful case this week for central bank control over international monetary policy. Why did he back Chairman Volcker so strongly?
A: Central banks have to stick together against governments. They know Volcker is beleaguered in Washington by the Reagan administration, and central bankers will always support their own policy first. Governments may complain about high interest rates, but they will get little result. . . . West German Chancellor Schmidt is trying to have interest rates discussed at Ottawa, and the Bank of England doesn't think they should be. [Bank of England Governor Gordon] Richardson has stated that Schmidt should not complain at the Ottawa Summit, and if he does, he won't get anywhere.

The central banks agree that the economies all have to be cooled off. They want inflation knocked down as a first priority, that's their foremost worry.

They want a structural adjustment of industry. High rates will help force countries to give up on industries

which cannot prosper in the long run in high-wage economies, such as textile, auto, and steel. These are better produced in the developing countries. Central bankers want to see a shrinkage in auto and other similar areas, and a reduction of production.

They also want a reduction of wages in the U.S. and Germany. Interest rates will force wages down by cutting consumption, which reduces market size for older industries. Then the U.S. and Germany must choose between protectionism, and allowing cheaper goods produced in countries with cheaper wages to come in.

Q: Federal Reserve Governor Henry Wallich has proposed a new international insurance fund to allow Third World debt to be refinanced. Would the central banks like to see this done for the Third World?
A: Yes, but Governor Wallich's proposal is not doing well. Governments would have to put the money into the new scheme, and this they are very reluctant to do.

Q: What does the central bank intention to continue high interest rates mean for the developing sector?
A: First of all, the new mood of free-market economics means that international agencies will be doing less financing for the LDCs, as governments led by the U.S. pull back on support for them. This means the LDCs will be forced more into the private markets, but there, high interest rates will force more pressure for them to make economic adjustments reducing consumption patterns.

For example, increasingly these countries will have to undergo currency devaluations, because high interest rates are forcing their balance of payments out of line. It costs more to borrow and more to import. Many of these countries are sitting around with currencies valued at 10 pesos to the dollar which should be at 20 pesos to the dollar, and increasingly private bankers are going to realize that the continuation of high interest rates means that these countries' conditions will deteriorate. So the bank will begin to ask them to devalue if they want new loans.

This will help cut down their oil consumption, because the dollar price of oil will rise. But more is needed. Increasingly private bankers and central bankers will be asking these countries to stop their subsidies, which are very expensive, to their domestic markets to keep oil prices cheap inside the country. Many of these countries are still charging half the world price level and should double their oil prices.

Q: You mean a great deal of adjustment is being forced by high rates, even without any new insurance conditions?
A: Yes. The central banks intend to keep insurance rates high, and as long as they do this, the market by itself will do a good deal of the work for us.

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- James Hudson, Supervisor, Rockwell Industries; Space Shuttle Program, Johnson Space Center

The citizen in space: a scientific and industrial revolution
7:30 p.m.

Speakers
- Carol White, Fusion Energy Foundation
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