Editorial

Volcker's international fallout

On the same day that the *EIR* held its Washington conference on the U.S. economy (and how to revive it, which *EIR* founder Lyndon LaRouche delineates in our National Report), the *Washington Post* of Feb. 18 reported that industrial production had declined by 3 percent in the month of January alone. The figures—and other items like the drop in auto production from 8 million units in 1979 to an annualized rate of 3.5 million in January 1982—speak for themselves. Paul A. Volcker is a liar.

Volcker has claimed that his high-interest-rate policy will reduce inflation. It hasn't—but it was never intended to. It was intended to destroy the U.S. economy and create a controlled depression. Volcker turned monetary inflation into an economic depression. "It's like reducing the amount of money you have to spend on food by cutting off your left foot," LaRouche noted in his Washington speech Feb. 18.

This is exactly what was done in Nazi Germany, LaRouche pointed out. And Americans, outside of the Washington goldfish bowl, hate Volcker. They are asking when President Reagan will get rid of Volcker.

The parallels to the economic disaster that made Hitler's rise to power possible have not been lost in other quarters. From West Germany, America's staunchest ally Helmut Schmidt told a *New York Times* interviewer Feb. 18 that he feared "economic and social, and therefore political, unrest" as a result of the "deepest recession since the middle 1930s." And then he underlined: "The high interest rates not only harm your economy. They harm the rest of the world even more."

Only two days earlier, the European Community had reached the same conclusion and dispatched a Belgian delegation to Washington to represent Europe's views on Volcker. Mr. Reagan turned a deaf ear, and even began a nationally televised press conference with a statement of solidarity with the Federal Reserve, claiming a "30 percent reduction" in inflation had resulted from the interest-rate policy.

It doesn't take a financial genius to figure out that the high interest rates are the single major cause of the close to $200 billion federal budget deficit and the chief reason for the catastrophic flow of funds out of industry and agriculture. As *EIR*'s "debasement index," first published in our last issue, shows, a calculation of inflation rates without taking into account the collapse in production and infrastructure is meaningless. Yet it has been with this fraud of "controlling inflation" that Paul A. Volcker had Congressmen and Senators eating out of his hand.

The other theory, that Volcker's interest rates can only be lowered by slashing the federal budget, is based on the absurd premise that it is possible to further reduce "demand." There is no difference in qualitative economic terms between those who want the bite to come from social services and those who want to ax the defense budget. Do we prefer to decimate the living standards and educational potential of our workforce and children; or would we rather gut the high technology reservoir of industry that is still concentrated in the defense and aerospace sector?

The kind of international catastrophe to which Chancellor Schmidt alluded has already struck in Mexico, which earlier in the Reagan administration was the brightest hope for a U.S. foreign policy that would break free from the leftover Carter-Volcker policies. Late Wednesday evening, Feb. 17, the Bank of Mexico suspended all support operations for the peso, and the currency plunged straightway to 38 pesos to the dollar—a 30 percent drop.

According to the *Latin America Regional Report*, Mexico had recently submitted to a "gentlemen's agreement" to put a 12 percent floor under interest rates on development loans to Mexico. The U.S.-authored accord strangled in the crib several offers to sell nuclear energy equipment to Mexico at much lower rates, notably by Canada and France.

Mexico has caved into the blackmail of Paul Volcker and his Swiss banker friends, who wanted the devaluation. The result of such economic warfare could be a new "Iran" south of our border—as the think tanks have been projecting. We could prevent that, by ousting Volcker now.