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The U. S. is unprepared for monetary crisis

by David Goldman

The atmosphere of end-of-year self-congratulation prevailing among leading U.S. monetary officials may well compare, if future annals of intelligence failure are kept, with the state of alert prevailing at Pearl Harbor on Dec. 7, 1941. From the round of financiers' conferences and press commentaries, it would seem that the developing-sector debt crisis has been defused with the most recent Brazilian refinancing and the election of the new Argentine government, and that the only danger looming to the American economy, and world economy is the unconscionably large U.S. budget deficit.

Senior U.S. government officials warn that the patch job conducted to prevent a general banking crisis on Dec. 31 (when several billion dollars of Brazilian debt threatened to exceed 90 days' arrears, forcing banks to begin writing off their gigantic Brazilian portfolios) merely tracks the crisis to March. Although the Brazilians will have managed to avoid the Dec. 31 disaster, through disbursement on Dec. 12 of $528 million of bank loans promised earlier, the supposed $6.5 billion rescue operation is fraudulent, a confidential U.S. government study shows. Many of the banks who committed money to the project (still incomplete with only $6.2 billion available) did so with no intent of ever disbursing that money, since the Brazilians' clear inability to meet IMF economic targets under the IMF's present "stabilization" program for Brazil gives them an escape clause.

The $6.5 billion loan cannot go through unless all banks participate, which is not yet clear, and unless governments come up with $2.5 billion in export credits for Brazil, which now appears dubious, but even if these conditions are met, the government study concluded, the loan package will fall apart as regional, European, and Arab banks exercise their right to fink on the managing consortium.

In the meantime, monetary crisis could erupt from the current political destabilization of Kuwait; the Hongkong property-market mess; failures of additional European banks; or a straightforward, cold-blooded Soviet decision to pull deposits out of the interbank market, as discussed elsewhere in this issue. However, March is an appropriate point of reference for the unravelling of the various patches on the banking system.

Volcker's legacy

The reality is that the means by which the banking creditors' cartel, the International Monetary Fund, and the central banks of the major industrial nations have employed to "contain" the developing-sector debt crisis have merely extended the bankruptcy of the developing sector to most of Europe, and sections of the Persian Gulf and Asia. The content of these measures was inadequately, but poignantly described in the Dec. 4 editorial of the London *Financial Times:*

"The most dramatic change which has affected the currency markets in recent years has been the disappearance of the once huge surplus of the OPEC group of countries, and the appearance of the OPEC deficit. It was the OPEC surplus which financed the explosive growth of the Eurodollar market, which made dollars so easily available to those in deficit. This had the same effect on the dollar as runaway monetary growth in the U.S.A. would have had. . . . In this period inflation was high, the dollar weak, and real interest rates

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were negative.

"The great change in U.S. monetary policy in 1979 changed all that, and deflated not only the U.S. economy, but the oil market, too, and the OPEC surplus disappeared . . . there has been a dollar shortage ever since. A weak oil price [note the developments at the OPEC summit, which suggest a further-softening oil price, and related Soviet oil market activity—D.G.] adds to that shortage, as OPEC countries have to run down their offshore deposits to pay for their imports. The dollar has been persistently strong, and real interest rates punishingly high.

"These changes also have their effect on long-term portfolio decisions. *Dollar debts run up in the easy days now look burdensome, and debtors are struggling, largely unsuccessfully, to pay them off out of current earnings.*"

When Paul Volcker flew home from the October 1979 Belgrade IMF annual meeting in the midst of a crisis that reduced the dollar's parity to DM 1.78, he "saved" the dollar by imposing a regime of flight capital that brought in $100 billion from Ibero-America by 1982—bankrupting the continent in the process. With a trade deficit at over $100 billion p.a., and a current account deficit at almost $50 billion p.a., the Volcker policy now requires the exhaustion of Europe's capital resources (see Foreign Exchange, page 12) to finance the external deficits.

The overhead cost to the world financial structure of the Volcker regime was captured in an IMF estimate last June, which noted that the "global asymmetry in balance of payments," i.e., the illegal transfer of funds which governments can no longer count, had risen to about a fifth of the value of world trade.

Europe is particularly on the line because Ibero-America has been bled dry, and because the OPEC surplus, with some help from Soviet oil-dumping in Europe, has turned into a $30 to $40 billion per year deficit. That is, the flood of monetary resources available to the United States as of 1980, when the OPEC surplus totaled $110 billion per year and the then-prosperous nations of Ibero-America were capable of exporting up to $40 billion of flight capital per year, is virtually exhausted. The only surprising thing about high (and now rising) dollar interest rates is that anyone finds the fact surprising.

The result of the process is that, despite the phony claims of recovery in America, supported only by fraudulent statistics offered by the Federal Reserve, world trade continued to decline throughout 1983.

As we have reported, this monetary circumstance has turned into a pre-arranged, theatrical confrontation between "European leaders" and the United States, i.e., between the faction of Lord Carrington and the administration of President Reagan, over the future existence of the Atlantic Alliance.

The conclusion: The actual flows of wealth, in the form of the OPEC surplus, or the looting of Ibero-American resources (through export of capital, currency devaluations, lowered terms of trade, rock-bottom commodity prices, and so forth) which supported Paul Volcker's world regime of usury have, inevitably, been consumed. Most of Ibero-America's debt accumulation since 1979, in particular the spectacular rise of interbank borrowings (to a total of $40 billion) during 1982, represented financing of flight capital and other forms of looting.

Western Europe, with "sovereign" external debts of over $300 billion and short-term bank external debts of over $100 billion, virtually declared its bankruptcy at the disastrous Athens summit of the European Community earlier this month. The weakness of the European banking structure came to light with the November failure of one of West Germany's most prestigious banking houses, Schroeder-Münchmayer-Hengst; although the SMH story has darker political undertones, the lesson of the affair was "to show the Europeans that their internal debt situation was just as dangerous as the Brazil problem everyone was talking about," as a senior Swiss central banker warned.

In effect, nothing is left topside to finance the deficits of the United States, the developing world, most Western European countries, or OPEC except the overstretched, de facto insolvent international banking system.

The state of the administration

Although a handful of officials in the U.S. government (see Banking, page 13) are working on means to contain the debt crisis similar to those Nazi Economics Minister Hjalmar Schacht applied (with temporary success) to Eastern Europe during the 1930s, the tendency in the U.S. administration which argued for contingency planning in the face of a global debt crisis lost out decisively. Brazil's capitulation to the International Monetary Fund in November appeared to support the Treasury arguments that sufficient revenues could be squeezed out of the big debtor countries to support their external debt values.

Treasury Secretary Donald Regan, well-placed administration sources report, "would change his opinion on any given matter Wednesday, if Walter Wriston had changed his opinion on Tuesday." Under protest from the Defense Department, the National Security Council, and other agencies concerned with the national defense implications of the debt crisis, Regan and his banking backers forced through administration support of the creditors' squeeze against Ibero-America. In effect, the bankers have been taking a pint of blood per day from their victim, murmuring, "So far, so good," each time.

The contempt with which this program's chances for success are viewed by the European banking community, for example, was measured in the confidential administration study reported earlier. The quiet dissolution of creditors' solidarity coincides with the first open threats of currency war against the United States by Western European leaders since the much-ignored outbursts of former British Prime Minister Edward Heath a year ago. The United States is closer to the disastrous financial war with Europe we warned of for months (see *EIR* Nov. 9, 1983), and a sitting duck for financial bombardment by the Soviet Union.