EIR Economics

Central bankers pull the plug on Reagan

by Christopher White

Representatives of 20 central banks gathered in New York City over Sunday and Monday, May 6 and 7, for an unprecedented emergency meeting. Ostensibly called together to discuss, yet again, the so-called Third World debt crisis, the decisions reached in both informal discussions and in the more formal side of the meeting are going to have far-reaching effects that will be felt in the weeks and months immediately ahead.

The meeting was timed to coincide with a dramatic toughening of the international posture of the ruling Soviet military clique, as first the Russians brutally rejected efforts by Kissinger's leading West German stooge, Hans-Dietrich Genscher, who was trying to put himself forward as a mediator in resuming East-West dialogue, and then moved to increase dramatically the threat level against the targeted West Germany.

Two results of the meeting sent shock waves around the world. The first was the decision by U.S. commercial banks on May 8 to raise their prime rate back to 12½%. The second set of shock waves followed Thursday with the circulation of reports that one of the largest U.S. banks, Continental Illinois, is foundering.

Though important, these decisions only reflect some of the implications of what was decided in the get-together in New York on May 6 and 7. The decision was actually made to pull the plug on the weakened and vacillating President Ronald Reagan, by triggering an escalation of the crisis in the world credit system and economy. In this area, it should now be clear that those central bankers, including Paul Volcker, are working hand in glove with the clique in the Kremlin to not only destabilize the United States, but also to hand over the rest of the world, including emphatically Western Europe, to Soviet domination.

Let's look at the immediate consequences of the interest-rate hike, and then ask who benefits, under present circumstances of aggravated bankruptcy of financial institutions internationally.

Cui bono?

- In Latin America, the debt burden of the most heavily indebted nations has been increased in one fell swoop. Mexico's finance ministry counted the consequences as a $900 million dollar increase in the cost of servicing the debt. The same goes for Argentina and Brazil. Emergency consultations were at once begun among the Presidents of the most affected nations. The bubblegum agreements that have been solemnly—and ludicrously—reaffirmed every three months for the past year, have been blown apart.
- In the United States, the noose that had been placed around President Reagan's neck when he accepted the lies of the Federal Reserve's mythical recovery was yanked tight. Participants at the meeting expect U.S. rates to head back up to the 18% range over the course of this summer. The tragic Reagan now finds himself recast in the role of the Herbert Hoover of 1984, as this publication and its chief executive, presidential candidate Lyndon H. LaRouche, have warned. The decision sets the stage for a violent escalation of chaos

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within the United States through the summer and into the fall, in which the consequences of yet another of Volcker's brutal credit crunches on approximately $5 trillion worth of unbacked, and unsupportable, paper will rapidly become the leading issue in the election campaign.

- Western Europe is now in the grip of the early phases of a strike wave which economic idiocy from the United States has permitted Russian-controlled followers of the KGB's disinformation efforts to steer against the United States and the Western alliance. The new credit-tightening will immediately fuel the strike wave and fresh increases in unemployment, which in Germany, France, and Italy has reached untolerable levels and triggered harsher efforts to break trade unions. Reagan has not only cast himself as the new Herbert Hoover. He will also be the President who lost Western Europe.

None of this had to happen. Perhaps the most successful of the covert operations of the Soviet KGB's disinformation department in recent years has been the manipulation of the ignorant prejudices of swinishly immoral followers of the free-enterprise doctrines of Adam Smith, especially within the United States—those, that is, who will instinctively choose to continue their thievery when offered the choice of making an honest buck instead. The geniuses in U.S financial institutions have often admitted that the kind of credit and monetary reform proposals put forward over the years by LaRouche are sound and feasible, but have emphatically repeated that the implementation of such proposals would mean an unacceptable reduction of their political power to loot and steal. They chose to follow their self-interest, perceived in that way. Now, like Reagan, their illusions have brought them to the point that they will lose everything.

A process of self-destruction

These bankers want to be able to increase interest rates to maintain their hold on a diminishing flow of liquidity, impose a new round of genocidal austerity on the rest of the world through currency devaluations, forced by capital flight now going on in Mexico, Europe, and Japan, while at the same time attempting to insulate themselves from the consequences of their actions, by grabbing outright control of the U.S. shrinking tax base, for what they call a bailout, or a safety net.

But blinded by their greed, they have been set up in turn.

Even as the prime rate began to climb in the United States, London Eurodollar rates began to rise too. By the end of the week of May 7, the rate quoted in London had registered one of the largest increases in the history of the market. The six-month rate had remained ahead of the U.S. prime rate.

The European central banks had already come into the May 6-7 meeting with a deal concluded with the Russians in their back pockets. The meeting was convened by the U.S. side, against the opposition of Karl-Otto Pöhl the head of West Germany's Bundesbank, who was reported to have considered the meeting unnecessary. French central-banking sources were also reporting "divergences" between "European" and American points of view going into the meeting. Meanwhile, the existence of such a deal between these "Europeans" and the Russians is indicated by the conclusion of a syndicated loan of $250 million dollars, the first such since the invasion of Afghanistan in 1979.

It is an open secret in European financial circles, from Stockholm to Italy, and from London to Switzerland, that the name of the game over the past months has been to use the United States' blind euphoria over Volcker's fraudulent recovery and the vain wishes to keep that recovery going until after the elections to build up a position in which European, and Russian, financial might could be deployed to crush the international economic power of the United States. The Soviets have therefore helped promote Friedmanite budget-cutting lunacy, while simultaneously intervening on currency and related markets to weaken the United States and its institutions.

The credit dry-up

Now, London sources report that liquidity strapped U.S. banks are being shut out of London money markets, that London bankers are no longer willing to buy the certificates of deposit of American banks, and that there are no more willing lenders to U.S. institutions on the London inter-bank market. In other words, the sources of outside funds available to the U.S. banking system, which as a whole is as shaky as Continental Illinois is reported to be, is being forcibly dried up. And thus those London Eurodollar rates are rising faster than the New York bankers' prime rate (see Banking, p. 17).

It has been accepted wisdom around Washington for a long time that if Europe does not "like" the alliance with the United States, well, to hell with them, let them leave. Those views may have gained more credibility since the visit of the two-faced Hans-Dietrich Genscher. But what is emerging in Europe, out of the wreckage of the bankrupt dollar currency and credit system, is a new set of monetary agreements based on an agreement with the East. The escalating threat of Soviet military intervention, coupled with the spread of KGB manipulated strike ferment and terrorism, is functioning as the principal blackmail lever in bringing that new arrangement about, reinforcing the idea conveyed through the hideous idiocy of U.S. economic policy in general, that the United States will, in any case, never be prepared to defend Europe anyway.

Helmut Schmidt, the corrupt ex-chancellor of the Federal Republic of Germany and bathtub companion of Henry Kissinger, calls such an agreement "a European economic zone," and as he promotes this idea calls for U.S. troops to be withdrawn. Others, as *EIR* has reported, talk of the need for a European currency zone, based on a unit of account, such

as the ECU, which would be interfaced with Moscow's transfer ruble. The ECU had been left in the hands of private banking interests over the last months, but now it is reported that the central banks of both France and Holland have gotten into the act, viewing the ECU as a fallback option to the collapsing institutions associated with the dollar. Similarly the need to expand the ECU was recently the subject of a meeting between Margaret Thatcher and Helmut Kohl. Both their governments are involved in broader negotiations with the Soviets, typified by last month's discussions in Tashkent between West German and Russian financial officials.

It is sufficient to consider the relative economic weight of the United States, Western Europe, and the Soviet Union to figure out what all this will mean, perhaps in the very near-term future. The economic potentials of Western Europe taken as a whole are approximately equal to those of the United States. If those potentials are added to the Soviet economy, even under the kind of blackmail arrangements that would be dictated by military threat, with West German industrial capacity functioning as the centerpiece and core of such an arrangement, it does not take much imagination to conceive what kind of world we would have as a result. It would be a one superpower world, and that superpower would not be the United States.

Yet this is exactly the kind of threat that the ideological blindness, greedy thievery, and incompetence which have characterized this nation's economic policy have put on the table to be dealt with. While they claimed they were addressing the danger of the Ibero-American debt bomb, they may well have set into motion the chain of events which will lead to the explosion of the debt bomb in Europe, with all that that entails, and of the internal credit and debt bubble in the United States itself.

Documentation

Reagan backs Rockefeller Council

Reagan administration officials reaffirmed their support for the International Monetary Fund's looting of the Third World at a conference of David Rockefeller's Council of the Americas held May 8 at the U.S. State Department. Although President Reagan introduced his speech to the Council by stating that his administration's policy toward Latin America was "to encourage the development of democratic political institutions . . . see all the peoples of the Americas better their standard of living and improve the vitality of their economies . . . help our friends defend themselves from Soviet bloc and Cuban-sponsored subversion," his subsequent remarks and those of Treasury Secretary Donald Regan, Secretary of State George Shultz, and Council of Economic Advisers chairman Martin Feldstein revealed the real content of the administration's backing for the Rockefeller council.

In a sharp departure from his previous public opposition to population control, Reagan repeated the Malthusian dogma that Latin America's economic hardships are due to the fact that "a rapid increase in the population strained resources and left many in dire poverty." He concluded his remarks by telling Rockefeller's council of cutthroats, "God bless you, and carry on in what you're doing."

Shultz said that a solution to the debt problem must include the substitution of "equity" (ownership of resources by investors) for "debt."

Feldstein spelled out this debt-for-equity looting process. "For the debtor countries, this has been a period of substantial hardship. Unemployment has increased and the levels of economic activity and consumption have declined. The end of this suffering is still not in sight. . . . The time has come to shift from crisis management to a policy of promoting Latin American growth. . . . The debtor nations must transfer not just money to their creditors but real resources to buyers in the creditor nations. . . . The debtor nations must [export] raw materials, manufactured goods, and services."

Feldstein made it clear that this economic "growth" would involve no growth in living standards for inhabitants of affected nations. "If exports do not rise, it is difficult to see where the expansion of demand will come from. The depressed level of income and economic activity reduces consumption and investment." He recommended that this be accomplished through massive currency devaluations, admitting that this means "imports become more expensive." In conclusion, Feldstein recommended that indexing be applied to the outstanding debt by negotiating "multi-year" rescheduling, with terms indexed to various conditions such as global interest rates and oil prices.

Treasury Secretary Donald Regan conceded that Feldstein's proposed policies would produce communist insurgency in the region. "Standards of living, already low in comparison to the developed world, were cut back even more," he said, "And this helped foster the political and social upheavals that, to be frank, are the breeding grounds for communism.

"Let's not delude ourselves. Throughout history, Marxist and totalitarian movements have been entirely predictable. They . . . prey on the weak, the wounded. They will seek an unstable situation, and then move in to destabilize further."

EIR asked State Department spokesman John Hughes May 9 to comment on the Latin American Parliament's criticism of these policies as an attempt to "collect debt by strangling the debtor." (See article, page 7.) Hughes asked: "Are you saying U.S. policy is to strangle the debtor?" "Yes," *EIR* answered, "haven't you read the speeches given here yesterday to the Council of the Americas?" "I have," Hughes answered, "but I think that's a rather extreme statement of our position."