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Volcker plans to strangle American regional banks

by Kathy Wolfe

The International Monetary Fund lobby in the U.S. government, led by Budget Director David Stockman, Commerce Secretary Malcolm Baldrige, and Federal Reserve Chairman Paul Volcker, are planning to triage entire sections of the internal U.S. economy, in the interests of bailing out the international bankers.

A series of secret cabinet-level studies on the current world deflation, run by the three, propose to cut off scarce credit to U.S. farm, oil, and other basic goods producers, and to let the small and midsized banks who loan to them go under in a far-reaching banking shakeout, a source close to Baldrige said Feb. 12. The studies propose to instead channel all available financing into bailouts of the big New York banks, he stated.

One top-secret cabinet study in late 1984 concluded that a certain amount of deflation, as shown by the collapse in oil, gold, and farmers' food prices, is good, i.e., "just a little" depression helps the economy. A fall in the OPEC-benchmark Saudi light oil price to $25-26 per barrel is "acceptable," the study said, because it would only bankrupt U.S. producers and their smaller banks.

U.S. farmers and oil producers, with $215 billion and $500 billion in shaky debt, respectively, could use a good rash of bankruptcies, the study asserts. "Farm debt does not involve big money center banks," said the source. "Let the smaller [farm] banks go under. We can handle one or two more Continental Illinoises."

As Stockman told reporters Feb. 13, "There is a fundamental shakeout that is going on in the farm credit structure that is necessary because the economics are faulty," i.e., farmers produce too much. The number of farms must shrink, he said. "What is the national interest in the small farmer? What is the small farmer? That's a sociological concept," not an economic concept.

A highly placed IMF official said: "Stockman is right. There will be farm-bank bankruptcies; let them come. I wish Stockman had more power."

Lamm economics

The IMF lobby is thinking about the internal U.S. economy the way Colorado's Gov. Richard Lamm thinks about the elderly: Let them die. In fact, the very idea that credit has to be scarce, and then allocated in triage fashion, is Malthusian nonsense.

As *EIR* Founding Editor LaRouche put it recently, there are a multitude of competing "debt bombs" in the world economy right now. The IMF's question is not so much how to finance, but whom to finance, and on what terms to make them crawl? On top of the U.S. farm and oil bombs, there is the Mexican, Venezuelan, Argentine, and Brazilian debt at $250 billion, the U.S. foreign trade deficit estimated at as much as $180-$200 billion for 1985, and the nearly $200 billion budget deficit.

Volcker, Stockman, and Baldrige agree with IMF Managing Director Jacques de Larosière that there is to date a "net benefit" to the deflation initiated by the Soviet and British dumping of oil last year, the source said. The cabinet wizards also believe, sources say, that the Saudi oil price, now at about $27 per barrel, "won't fall too much below $25" and kick over the chessboard.

"On balance, cheaper oil helps most parts of the world economy," he said. "The only problem are the dry spots, the places the liquidity might not flow, where debt will get caught high and dry. These include the U.S. farm sector, the Texas and U.S. oil industry, and so on, U.S. sectors who earn less money as commodity prices fall."

Stockman is writing a "band-aid farm package," he said, but has no intention of helping the producers themselves. Stockman only cares about the banking system, he said. "The only problem is, when the dry spots appear, how do they look on the debtors' banks' books?"

"Farm debt," he said, "will be the first problem, but it's not a concern. . . . Let the smaller farm banks go under, as long as that doesn't set off a systemic crisis in the banking system as a whole." What happens if large regional banks

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like the $20 billion Continental Illinois are hit? "We can handle one or two more Continental Illinoises. They don't threaten the whole system."

Stockman himself, in a controversial Feb. 13 reporters' breakfast meeting, made clear that farmers can all go under. Many farms are about to be forced out of business and the government intends to just let it happen because "that is the way a dynamic economy works," he said. There has been "overinvestment" in agriculture; he called for several years of "disinvestment" in which acreage is scaled back, farmers cut spending on irrigation and fertilizer, and many quit farming.

Stockman asserted that in the post-industrial society brought on by Volcker's usury, we won't need farmers. "We've lost a good 30-40% of our auto-production workers—maybe 50%, I haven't checked—relative to 1978 because that industry had to adjust, slim down. . . . We have lost one-fourth of our savings-and-loan institutions over the last four years. . . . If you want an economy that maximizes growth, you've got to have adjustment. . . ."

Otherwise, the U.S. oil sector "will be the next big dry spot. Some oil patch banks in Texas are in real trouble," like Texas Commerce Bankshares, the Commerce Department source said, "the same ones that have been on the Comptroller's watch list" for some time.

More than nine major U.S. energy companies have run up losses of over $8 billion in the last four years, a *Wall Street Journal* study on the oil industry reported Feb. 14, as U.S. oil prices have fallen below world levels to an average of $26 per barrel. This drop of 28% since 1980 has ruined the book value of oil companies' reserves, their most important asset.

In the fourth quarter of 1984, Texaco and Philipp Bros. took $765 million and $307 million losses, respectively, and U.S. oil companies are closing refineries at the rate of two per month.

Exploration and production in the United States are collapsing, with drilling rigs in operation expected to be down by 30% this spring from December levels. Chevron, Texaco, and Atlantic Richfield are cutting exploration, while independents go under altogether. Over $3 billion in Alaskan oil projects are now slated to be shut down because they can't produce at a profit at $26 per barrel.

U.S. oil's bankers are already writing off the debt. Continental Illinois' writeoff of over $100 million in bad oil patch debt is well known. Manufacturers Hanover increased its fourth-quarter writeoffs of oil debt to $99 million, and InterFirst of Dallas plans to write off $50 million in U.S. oil loans in the first quarter of 1985, on top of $495 million written off in 1983-84.

Save the megabanks

The IMF lobby's strategy is to let U.S. producers go, and try to use the money the rest of the economy saves on oil to bail out the international bankers, a strategy as incompetent as it is evil.

"As long as oil stays above $25 billion, there won't be any insurmountable problems with the banking system as a whole," the source reported cabinet thinking to be. "Consumers and industry in the United States, Japan, and Europe are becoming more liquid, and depositing more deposits in the banking system. So all we need is a mechanism to *reverse the recycling* mechanism from the oil shock of 1974, that is, to recycling what used to be the OPEC surplus, back again from the consumers this time, through the banking system, to the new set of borrowers who need credit now. Now, instead of oil producers lending to the banks to lend to oil consumers, oil consumers will lend to the banks to lend" to other debtors. Federal Reserve chairman Paul Volcker is telling the government that as long as oil stays above $25 per barrel, he will urge the banks to lend bridge money to Mexico, Venezuela, and other bankrupt oil producers, to keep their large international creditors afloat.

Mexico will get money because it will cooperate with IMF austerity, he stated. Mexico cut imports of food and other necessities to the bone, and consequently, "Mexico had a $13 billion trade surplus in 1984. They used that to pay their $13 billion interest bill, and borrowed nothing. In 1985, Mexico will lose a maximum $1-2 billion on reduced oil revenues, so they are projecting a smaller $10-11 billion trade surplus. While their interest bill will still be in the $12-13 billion range, the banks will be happy to loan them a mere $1-2 billion to cover the difference in 1985. Or they can get it from the World Bank and U.S. and European Export-Import banks.

"The same is true for Venezuela, and Argentina is a wash; they neither gain nor lose on oil prices. Brazil, of course, benefits by a reduction in their import bill by $1-2 billion when oil prices drop."

As a spokesman for David Rockefeller's Council of the Americas put it Feb. 14 after a trip to Argentina, "Mexico, Venezuela, and others have institutionalized their IMF austerity programs to the point where they can automatically be made more severe when revenues from oil or other exports drop, and this is what we expect them to do. . . . For example, the drop in Venezuela's foreign-exchange earnings will force Venezuela to stop importing so much food, and raise food prices at home to encourage their own farmers to produce."

The New York Federal Reserve has also done a study to show that U.S. banks are using the "new reverse recycling" to finance the huge U.S. trade deficit, $130 billion in 1984 and secretly estimated by Volcker at $180 to $200 billion in 1985. "The banks, since they have stopped lending abroad to the Third World altogether, are now able to finance as much as half of the U.S. trade and current account deficit," he said. They financed $60 billion in 1984 and might lend $100 billion in 1985. In sum, the U.S. *private sector,* i.e., *corporate* importers, as well as the U.S. government, are going into trade debt to the big U.S. banks, the way LDCs once did, and paying the banks exorbitant rates of interest.