Banking by Kathy Burdman

The prospect of permanent inflation

NATO planners talk about using inflation as a policy tool to restructure the banking system.

Inflation is like war. It causes a tremendous amount of dislocations, but it can also be used as an *opportunity*" a top official of the Aspen Institute told an interviewer this week. "It stirs things up, it allows a shift of investment."

At the Atlantic Council, NATO's official political arm, and the Organization for Economic Cooperation and Development, NATO's economic think tank, policymakers are beginning to talk openly about the approach that has been the long-term strategy of the old families of Europe.

Inflation, they say, is now a "deliberate policy tool," as the gentleman from Aspen put it. It can strategically shift the allocation of credit through the banking system away from "loser" industries like auto and steel, and into postindustrial industries like real estate and electronics.

The Aspen Institute, until recently headed by a former U.S. Ambassador to NATO Harlan Cleveland, has been one of the key architects of this policy.

The banking system, NATO planners believe, should now be moved to a sort of "two-tier" credit system, in which interest rates remain at double-digit levels for the foreseeable future for most basic industry. The Aspen official predicted a 25 percent Federal Reserve discount rate by summer, yielding at least a 27 percent prime rate on loans to most corporations. Bank loans in the traditional sense will be stagnant at best.

The corporations favored by these proponents of the postindustrial society, however, will be able to obtain a second, cheaper tier of credit. This credit will primarily be *generated outside the traditional banking system.*

The Aspen Institute and the OECD are now promoting the moving of most auto, steel, and other heavy industrial production out of the United States and Europe, and into the so-called Newly Industrialized Countries (NICs). This is a major aspect of the Brandt Commission report, written by Aspen and published in 1980 by a team of investment bankers and social democrats led by former West German Chancellor Willy Brandt.

Inflation is the NATO planners' tool used to force world governments to shut down heavy industry in the West. "As a result of inflation," said the Aspen official, "we are going to have to make some decisions about where we want to produce cars, for one example. Many of them will have to be produced in Korea and Brazil, and not in the U.S. and Europe. In five years, there are going to be five auto companies left in the world, all producing global cars. Without inflation, people would never have accepted such a situation. It can be used as a crisis to make people do what they ordinarily wouldn't do, for example, letting certain industries go out of business.

That means letting a lot of jobs go, which can be unpleasant."

According to Frank Southard, the just-retired director of NATO's Atlantic Council, after another six months of 20 percent-plus interest rates, the economies of the West will be in such a state of collapse that central banks will begin a joint reflation program. "Unlike in 1977, however, when we reflated from an underlying inflation rate of 6 percent, we will now be reflating from an underlying 15 percent rate."

The result will be inflation rocketing above 20 percent levels, predicted Southard, rapidly leading to "Brazilian-style indexation" in the U.S. "You index interest rates, you index wages, you index prices, you keep interest rates high permanently, and let the commercial banks charge 30 to 40 percent prime rates."

At these rates, basic industry will be squeezed out of the banking system. Left as bank borrowers will be high cash-flow real estate, microchip, and service companies.

Industry's credit will come through the tax system, as described in this week's Special Report; through the planned program of tax credit "transferability," a new market in tax credits will spring up which will be used by industrial companies like the Chessie System and Chrysler to shift their industrial production mix. In large part, ailing heavy industry will sell its useless investment tax credits for cash, and use the cash to diversify out of its losing operations, auto, rail, and steel, and shift the very composition of the company into new postindustrial sectors. "It could become a whole new banking system," said an aide to Washington tax consultant Charls Walker.