Business Briefs

Domestic Credit

Fed's Wallich promises higher interest rates

Federal Reserve Board member Henry Wallich told foreign press March 16 that interest rate levels in the U.S. will remain at high levels.

Wallich, who mantains close ties to the Switzerland-based Bank for International Settlements, said that "we're going to see the policy [of tight credit] through. There should be no doubt or reservations." When asked whether the U.S. high interest rates were hurting Europe's economies, Wallich said, "the high interest rates in Europe are not exclusively the result of U.S. interest rates. Besides," he added, "the main pain is being felt in the United States."

Wallich he stated that "the Federal Reserve does not agree with Milton Friedman that monetary policy should be the main instrument of economic policy. It would be better," Wallich continued, "if there were an incomes policy, no Davis-Bacon, no farm price supports, a reduction in the budget, a $10 oil import tax." But since neither the Congress nor the President will accede to such demands, Wallich concluded, "we'll have to rely mostly on monetary policy."

News Media

Journalists discover Volcker's depression

A round of attacks on Federal Reserve Board Chairman Paul Volcker for starting a depression appeared in the nation's major liberal press over the third week in March.

The liberal *Los Angeles Times* headlined an editorial "Interest Rates: The Real Culprit" in which it said that "the grim word 'depression' is being heard. . . . The great depression didn't happen overnight, either," and went on to itemize the collapsed auto and housing sales, factory capacity utilization down to 70 percent, and asked, "Isn't that enough? Why are interest rates so high?"

Leonard Silk, in the *New York Times,* intoned that "monetarism . . . is an unmitigated failure," and cited Citibank Chairman Butcher, erstwhile Volcker defender, complaining about high interest rates. A top Wall Street economist observed that this is the "worst slump since the great depression," in a complete change of line for this self-professed conservative. "The main cause of this cumulating downturn has been the Federal Reserve's excruciatingly tight money and credit policy over the past year or so. . ." he continued.

Silk himself identified that high interest rates are a major *cause* of the budget deficits and general crisis they are ostensibly intended to correct, pointing out that they destroy productivity and capital investment and thus "induce inflation."

Industry

Auto, housing, airlines still on the skids

The announcement on March 15 that auto sales for the first 10 days of March were 30 percent below last year's depressed levels confirms that the worst is happening to the auto industry—it is continuing to collapse in 1982 following a disastrous 1981. Consumers are simply not buying: prices are higher than for comparable imports; people are worried about their jobs and don't want to be saddled with payments; banks and finance companies are withholding credit from those who still want to buy.

Housing is continuing its decline for the same reasons. Many banks that lend to homebuilders, it was reported in March 14's *Baltimore Sun,* have so many bad loans to homebuilders that they can't afford to foreclose. The Fort Worth, Texas, National Bank is offering mortgage loans to homebuyers at 12 percent, hoping to be able to sell the excess homes and bail out the homebuilders—but even at these rates, homes are not selling.

The deregulation of the airline industry continues to threaten several medium and large carriers—led by Air Florida, New York Air, World Air and Braniff—with bankruptcy. In the steel industry, Kaiser Steel of California is on the edge of bankruptcy, as a potential investor withdrew his offer to help refinance the shaky company, which led to a stock collapse on Wall Street for the company. National Steel is also in trouble, it was just announced, and will freeze all wages in anticipation of huge losses for the first quarter.

Foreign Exchange

Fight over European exchange controls

The meeting of the European Community finance ministers March 14-15 was an open confrontation between the forces of the United States, and the West German government of Chancellor Helmut Schmidt, who is determined to keep close ties to U.S. President Ronald Reagan.

As the meeting opened, former Tory Prime Minister of Britain Edward Heath took the floor of Parliament to demand that Europe immediately cut itself loose from the dollar monetary system and impose exchange controls on European currencies. "The European community must immediately set about insulating itself on capital movemments," he said, repeating his open call for controls made in a speech in Fulton, Missouri this month.

The identical demand was reportedly made by the Socialist government of François Mitterrand in France at the EEC finance ministers meeting. West German banking sources report that France has been using its critique of high U.S. interest rates as an excuse to demand full-scale European exchange controls, and attempting to give Americans the impression that West Germany has similar designs. "This is nonsense, Schmidt wants nothing to do with exchange controls," the German banker said.

The French demand was totally rebuffed at the meeting by the German delegation.

Banking

Congress to rescue bankrupt S&Ls

The U.S. Congress has taken steps to bail out the nation's Savings & Loan associations. House Banking Committee Chairman St. Germain (D-R.I.) announced March 10 the introduction of a formal Congressional resolution pledging the "full faith and credit of the U.S. government" behind the $13 billion combined federal insurance funds for the S&Ls and banking industry. Should the Federal Deposit Insurance Corp. (assets $5 billion) or the Federal Savings and Loan Insurance Corp. (assets $7 billion) be depleted, Congress under the resolution "will back" the funds and replenish them.

This is the first time Congress has pledged Treasury tax revenues to this end. Senator Banking Committee Chairman Jake Garn (R-Utah) has introduced a similar measure into the Senate which is being cosponsored by Senator John Heinz (R-Pa.), Senator William Proxmire (D-Wisc.), and Senator Donald Riegle (D-Mich).

Furthermore, a full "bailout of the S&Ls with Treasury cash is imminent, and will be sent through Congress by April 15," the same official predicted. St. Germain introduced HR 5568 in February, which calls for a $7.5 billion Treasury subsidy to S&Ls, Senator Alan Cranston this month began circulating similar legislation in the Senate.

"All we're fighting about is the price tags," said my source. "The White House has thrown their weight behind the moves, led by [Presidential Counselor] Ed Meese, who's being political."

Development Policy

Brandt Commission attacks Reagan

The Overseas Development Council (ODC), the official U.S. representative group for the Brandt Commission, strongly attacks President Ronald Reagan's Third World economic policy in its recently released annual report. The ODC demands that Reagan stop blocking the Brandt Commission strategy of "decoupling" the less-developed countries LDCs from the industrial West, and forcing them to stop importing Western technology.

The ODC's book-length report entitled "U.S. Foreign Policy and the Third World: Agenda 1982" is written by Roger D. Hansen, author of the Council on Foreign Relations Project 1980s study on the LDCs. It was ordered by the ODC's new chairman, Robert Strange McNamara, which claimed in an interview March 16 that all U.S. foreign policy must now be devoted to population reduction.

"Agenda 1982" opens by attacking the Reagan administration's purported view that the Third World should be seen as a battleground between the U.S. and the Soviet Union. In fact, "the South is a security issue in the traditional geopolitcal sense," writes Hansen, an area which the U.S. must see to control in-and-of itself.

This can only be done by attempting to manipulate the LDCs into cutting themselves off from both East and West, he says, and by encouraging them to *fall back on their own domestic resources,* even if in practice this means starvation.

In order to promote "self-subsisting" economies cut off from world trade, the U.S. should be even willing to consider approval of "Third World socialism" such as that set up by the Maoist Chinese in Tanzania, Hansen further writes. Such movements will keep the LDCs from asksuch brutal austerity as a "nationalist" policy.

Briefly

● **LEO TINDEMANS,** Belgian Foreign Minister, is working with the European Commission and the Reagan administration on a plan for a dollar devaluation to re-start world trade, sources at the European Commission told *EIR*. Under the Tindemans plan, the United States would loosen monetary policy, allowing the U.S. dollar to depreciate against European currencies far enough for European central banks in turn to significantly drop their interest rates. Tindemans reportedly broached the plan to President Reagan during Tindemans' March Washington trip.

● **ROBERT MCNAMARA,** just-retired head of the World Bank, will be traveling to South Africa later this year to give a very controversial speech denouncing apartheid. The speech has been arranged with the Witwatersrand University, but the South African authorities do not know the contents, McNamara confided. "If they did, they would deny me my visa," he said, noting that the speech could cause problems for South African relations with the Reagan administration.

● **WILLIAM REES MOGG,** retired editor of the London *Times,* now believes that "gold won't work in the international monetary system," he told *EIR* from London. A former avid advocate of the BIS plan for central bank gold remonetization, he said "nothing can be done to get a central bank arrangement" on gold because "the Reagan administration won't buy it."

● **ZENKO SUZUKI,** Japan's Prime Minister, said March 16 he has instructed Foreign Minister Yoshio Sakurauchi, who will leave for the United States March 20, to urge Washington to lower interest rates.