

Editorial

The scandal behind Volcker's return

As we go to press, *EIR* has received reports that America's nine leading money center banks forced Paul Volcker's renomination to the Federal Reserve chairmanship in return for a guaranteed bailout of banks' bad assets in developing countries.

The Federal Reserve chairman believes that the international debt crisis has become "unmanageable" and that existing mechanisms for rescheduling through the Paris Club of creditors as well as IMF "adjustment" programs have become "counterproductive," according to sources conversant with Volcker's planning.

In a recent secret study, the Federal Reserve Board of Governors concluded that the chances for the emergence of a generalized banking crisis were greater than 25 percent. The Federal Reserve's contingency plans to counter the threatened collapse of the U.S. banking system are restricted to "defending the liquidity of the banking system." In practice this means that the Federal Reserve would purchase at or near par the worthless Third World debt paper held by major banks, creating a flood of new liquidity in the tens of billions of dollars or more. By such action, the Federal Reserve would become the principal creditor of Ibero-American and other borrowing countries.

According to one administration intelligence estimate, the apparent collapse of negotiations between Brazil and the IMF raises the probability of a Brazilian debt moratorium during the month of June to over 80 percent. Such action by Brazil, which owes \$100 billion to private banks, most of them American, would probably trigger the Volcker bailout scheme.

Since the Federal Reserve's assets are currently less than \$50 billion, against American commercial bank direct and indirect Third World exposure of several hundred billion dollars, the effect of such a bailout would be to destroy the foundation of the U.S. currency and the U.S. government debt markets, detonating a financial crisis with grave national security implications. One economist with access to the Federal Reserve's plans commented, "Volcker has already created a wave of liquidity, which is crazy enough; but at least

this is backed by the U.S. taxpayer. What would back up this second wave of liquidity?"—liquidity which in no way would provide the debtors with new credit for recovery, either.

Meanwhile, the Caracas meeting of the heads of state of the Andean Pact nations—Bolivia, Ecuador, Colombia, Peru, and Venezuela—on the 200th anniversary of the birth of Simón Bolívar, July 24, is being built into a strategic meeting of Ibero-American leaders from which action on the debt question is expected to emerge. Several other big debtor nations in Ibero-America have privately asked to send representatives to the July 24 discussions; King Juan Carlos of Spain will attend as well. Spanish Prime Minister Felipe González just toured several Ibero-American nations, meeting with President Reagan after his tour in Washington.

There are unpostponable questions facing institutions around the world. The governments of debtor nations: do they expect to withstand the credit cutoff which the Bank for International Settlements plans to impose on a disunited Third World after the debt pyramid comes tumbling down? Western leaders: do they wish to see the wave of mass misery and Cuban-style revolutions in Ibero-America that would put the Soviets' thumb on the continent and make the current wars in Central America look like a ballet dance? U.S. congressmen who have supported America's space program and the President's new initiative for directed energy-beam antiballistic missile buildup: do they consider that military and scientific strength can be resecured while the U.S. Treasury is handing billions of dollars to the International Monetary Fund?

And those bankers who realize that expanding the IMF's liquidity will not avert a financial blowout: do they prefer to watch Mr. Volcker's bailout program invite default by those countries upon obligations which Volcker will have de facto declared worthless? Or are they prepared to help the White House negotiate with debtors to restructure the debt on the basis of generating the high levels of tangible wealth required to make old and new credits good once more?