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Domestic Credit by Stephen Pepper

The troika takes command

Who's behind the new Farm Credit bill fiasco? Baker, Regan, and Shultz—"enforcers" for the IMF.

The head of the Farm Credit Administration, Donald Wilkinson, went to Congress in November to plead for an emergency bailout of $10 billion to see the Farm Credit System through the worst period in its history. The largest holder of agricultural loans in the nation, the 37-member banking system was in danger of collapse because of the severe depression in the farm sector. By conservative estimate, the FCS was holding $11 billion in bad debt, of its $80 billion total in farm loans.

At first report, it appeared that the administration was finally responding to the desperation of the crisis in the farm sector. But instead of a rescue, the bill passed by the Senate is the final blow to several hundred thousand American farmers. Even the *New York Times* reported, "The legislation will give them [the system's leaders] the ability to foreclose on tens of thousands of family farms."

How could a bill meant to provide stability to the largest lender to farmers result instead in foreclosure? Simple: James Baker and the Treasury intervened. Baker, when he was first proposed to succeed Don Regan as Treasury Secretary, stated that he believed that the U.S. economy should not be exempt from surveillance by the International Monetary Fund, and, soon after his appointment, he promised the IMF's Interim Committee that he would see to it that the American domestic economy was disciplined. The Farm Credit bill is exemplary of the result.

Because of the Treasury's intervention, the legislation changes the management of the system, which is currently governed by 13 members of the Federal Farm Credit Board, who serve part-time, to no more than five full-time board members chosen by the President. The Farm Credit Administration would be transformed from its largely management role to a regulatory one, and sweeping rules changes would compel stronger banks in the system to bailout the weaker ones, resulting in higher interest rates. Finally, a new unit called the Farm Credit System Capital Corporation would be empowered to assume non-performing loans and sell them to the Treasury—at the discretion of the secretary.

Instead of assistance to credit-starved farmers, the legislation creates a tranche at the Treasury at the expense of thousands of debtors, and for the exclusive purpose of restoring faith in the financial institution on the part of the bondholders—20% of which are foreign banks. If that isn't IMF policy, then nothing is.

Baker's policy is not limited to the farm sector, although that sector, because of its weakened state, is particularly vulnerable. Baker's policy is to put the U.S. government through a forced bankruptcy and reorganization in which the "non-performing" portions of the economy would be lopped off. The non-performing portion of the economy happens to be the *productive* sector, but from Baker's point of view this is of no importance.

Banking reorganization is another area in which the policy has been put into effect. Savings and loans institutions are in a state of collapse, and changes will be brought about to drive as many as 200 "thrift" institutions to liquidate or merge.

As to the commercial banks, 105 have failed so far this year, and the total will probably rise to 130. The solution by the FDIC will be to encourage the bigger banks to swallow the smaller. A spokesman for the FDIC told this writer, "There is no question that consolidation is going on." The Federal Reserve is committed to interstate banking and actively encourages takeovers. In the case of the ongoing Maryland banking crisis, Fed chairman Paul Volcker met with Gov. Harry Hughes to approve personally Chase's takeover of three Maryland thrifts.

The consequences of these policies will be to limit the domestic credit available for the producing sector of this country.

James Baker did not invent this policy; it is the same as the IMF's policy worldwide. He could not execute it within the federal bureaucracy without the aid of White House Chief of Staff Donald Regan and Secretary of State George Shultz. These three men have constituted themselves as a "troika" to control the U.S. government.

Baker is responsible for policy direction on orders from the IMF Interim Committee. Regan sees to it that only persons loyal to this perspective are chosen for office. Shultz is an old hand at coordinating economic policy with the IMF, the World Bank, and the Bank for International Settlements (BIS). Finally there is the Frankenstein of world economics, Paul Volcker, who is the *consigliere* to the troika.

For the first time there is a coherence to U.S. economic policy—it is all bad. But there is a method to it: to dump the "non-performing" productive sector.

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