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Paul Volcker's 'recovery' talk is aimed at Ibero-American debtors

by Kathy Burdman

The much-heralded U.S. "recovery," the stock market boom, and the Federal Reserve's leaks that it is lowering interest rates have an urgent foreign policy motive, *EIR* learned in late October. Federal Reserve Chairman Paul Volcker and his advisers, including Morgan Guaranty Executive Committee Chairman Dennis Weatherstone, are deliberately promoting the hoax of a U.S. recovery to con Ibero-American and other developing nations into paying their enormous debt.

It is clear even to some of the financial wizards on Wall Street and their friends in London and Switzerland that leading Third World nations know it is useless to expect credit, even if they accept the gruesome "conditionalities" demanded by the International Monetary Fund, as long as the United States is collapsing its own economy. That point was made by Mexican President López Portillo in his United Nations speech Oct. 1. It is also well known to the Third World that unless the United States and other "advanced" nations embrace the program of Lyndon LaRouche (see page 31), there will be nothing but continuing collapse.

Put bluntly, the only purpose of the U.S. "recovery" is to immobilize Brazil and other big debtor nations until resistance to debt collection can be eliminated—militarily.

Volcker and the Morgan bankers are worried that the collapse in lending to the Third World leaves developing countries with no choice but to default. "The problem is that we have already shot our one bullet," admitted Morgan chief domestic economist, Milton Hudson, to *EIR*. "The only threat we have to convince them not to default is that they will be cut off from all loans and trade. But they *are* cut off."

"The [debt] problem is unmanageable if the U.S. recession continues any longer," said Richard Dale, a Senior Fellow at Washington's Brookings Institution and former partner of London's N. M. Rothschild & Co. Dale, a British subject who is close to Morgan Guaranty, noted that Secretary of State Shultz, a former Morgan director, is advised by Morgan's Weatherstone and Morgan chief economist Rimmer de Vries.

"The Morgan people and George Shultz want those interest rates down," he stated. "Volcker is looking for an excuse to listen to Shultz, and he's extremely concerned about Latin America. The only card we have left is to convince them that it's not in their interest to default. We have to give them new credits, and we have to give them a different economy."

The hard U.S. line at the September International Monetary Fund-World Bank meeting in Toronto has been given up, says Dale, and the administration for the first time is talking directly to the banks about bailing out Brazil. They are holding trilateral talks set up in Washington by Figueiredo during his last visit, with the IMF and high-level Brazilian representatives.

'We have to give them a U.S. recovery'

Volcker himself, addressing Japanese bankers in Tokyo in mid-October, was forced to warn that "we cannot control the international debt situation. I can assure you that we can hold the line and keep U.S. corporations from failing," he said, referring to the U.S. stock market bubble and Fed lending plans. "However, internationally, I can assure you of nothing," he went on, pleading with the Japanese to "stick together" with the U.S. authorities.

But Volcker's Federal Reserve economists readily admit that they have no intention of changing "fundamental policy," and that the U.S. heavy industrial base will never be allowed to recover. A top Fed official told us flatly that "Industry will not be able to borrow to produce. We know that there will be more unemployment, not less."

Even the Fed's own industrial production figures demonstrate a collapse in U.S. industrial production at a 7.2 percent annual rate in September, and a 19.2 percent rate of fall for the month in capital goods production. This is in line with Morgan Guaranty's prediction that U.S. capital spending will fall by 5.6 percent in 1983, on top of a 4.3 percent drop in 1982.

How Brazil is being targeted

A source close to Morgan told this writer that Treasury Secretary Donald Reagan and Secretary of State George

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Shultz, both allies of Volcker, are putting together a phony "emergency bailout package for Brazil," seen as in danger of "going the way of Mexico." "If Brazil does not get more credit soon," he said, "we would have the threat of Brazil, the Andean Pact, Mexico, and Argentina all defaulting on their foreign debts. Brazil could begin a process which would wreck the international banking system." Morgan Guaranty and Volcker want the Brazil crisis to be "forestalled."

Mr. Dale said that "Brazil is down to less than $4 billion in international reserves and within weeks they will be unable to pay." The Brazil desk at the International Monetary Fund in Washington confirmed that Brazil received perhaps $700 million in new loans during September, but that is totally insufficient. If bank lending to Brazil does not restart, the IMF official said, the banks will be "forcing Brazil into a corner" and the country will run out of reserves and default.

Insurance companies sources reported in October that American International Group, the major export insurer, has cut off all export insurance to Brazilian importers, a measure which Mexican importers suffered months ago. AIG officials refused to comment, but the insurance sources said that "the entire industry thinks Brazil could be another Mexico."

One conclusion that is hard to escape is that Volcker, Morgan and Co. are frantically trying to counter the influence of *EIR* founder and contributing editor Lyndon H. LaRouche, Jr., who has advised Mexico, Brazil and other nations to declare debt moratoria. *EIR*'s Latin American Editor Dennis Small and Director for Economic Forecasting Uwe Parpart toured Brazil for two weeks in September. They met with Planning Minister Delfim Netto and his staff, and gave a presentation at the Superior War College in Rio de Janeiro on the LaRouche-Riemann economic model.

Parpart and Small demonstrated that the LaRouche-Riemann model results prove that the U.S. industrial base is collapsing in terms of production and investment, at a 10 percent annual rate. (For the latest quarterly forecast, see this week's Special Report.) Not only will there be no recovery as long as Volcker is mismanaging the U.S. economy, they said, but if Ibero-Americans want to create a New World Economic Order, they must wield their debt as a weapon.

Scarcely two weeks later, Morgan's Dennis Weatherstone and Latin Director of the bank, Anthony Gebauer, were touring Brazil, and were quoted widely in the Brazilian press assuring government and private business that U.S. recovery is around the corner. Gabriel Gutierriez, Latin director of Wharton Econometrics, similarly forecast a large rise in U.S. imports from Brazil for next year, during a Rio tour. George Shultz himself is reported to have told Brazilian President Figueiredo to expect a strong U.S. recovery in 1983.

'Playing the game'

What's going on, Brookings fellow Dale revealed, is a desperate effort to keep the Ibero-Americans "playing the game."

The "recovery" began when Morgan's Trust and Investment Division, with $17 billion in U.S. equities under management, began buying like mad into the stock market, Wall Street brokers told *EIR*. Morgan chief domestic economist Milton Hudson's private estimates say the U.S. economy will never get out of zero growth. But, publicly, he is advising investors that the Fed has shifted policy, and recovery is here.

Volcker might even lower interest rates a good bit more, at least to hear Morgan tell it, Richard Dale said. Weatherstone and George Shultz want the London Interbank rate at which Third World countries borrow to fall another 3 percent, to around 9 percent, and that would mean the U.S. prime rate would have to come down to 9 percent too—"and fast." It will be a short term game, if it happens. Even though a quick credit shock might provoke some consumer buying, most companies will handle this out of inventory sales; *no one* is expecting any new production or capital investment.

Slow starvation plan at Morgan

Morgan Guaranty's World Financial Markets complains in its October issue that international banks in the Bank for International Settlements Reporting Area have cut gross lending to the non-oil LDC nations from a $50 billion annual rate in the first half of 1982, to a $32 billion annual rate in the third quarter, and an apparent $15 billion annual rate in September!

But it should hardly be assumed that Morgan is promoting a boom in the Third World by turning back on the credit spigot. Morgan promotes a "best case" scenario to channel just a bit more money into key Ibero-American countries to prevent defaults, and keep nations starving slowly.

The Morgan newsletter argues that it would be "counterproductive" to allow bank lending to the Less Developed Countries (LDCs) to continue to fall or remain level during 1983. This worst-case scenario would have a "sledgehammer effect on major borrowers" by causing a sharp depression. They calculate that Gross Domestic Product growth in LDCs overall would fall by 3 percent and collapse by 5.5 percent in Latin America. Imports would be cut by $45 billion and $30 billion, respectively.

This would "jeopardize the ability of these countries to pay interest on existing loans." In short, the "debt bomb" advised by LaRouche would be dropped.

Morgan instead counsels banks to increase their rate of lending by a measly 10 percent during 1983, half the 20 percent of increase in 1981. They calculate that this would soften the "sledgehammer" blow, causing only a fall in GDP in the Third World as a whole of 1.5 percent and "only" a 3 percent fall in Ibero-America. Imports would have to be cut by a "mere" $23 billion in all LDCs, $15 million in Ibero-America.

And this recipe, at best a slower form of genocide, depends on a U.S. "recovery" which Volcker, the Morgan boys, and George Shultz know is nothing but a public-relations ploy.