

'Volcker's policy is suicidal'

The following statement to an EIR correspondent was made March 2 by a senior French monetary expert long associated with the Basel, Switzerland Bank for International Settlements.

It is obvious that the financial markets are overloaded with loan demand. It started with trade deficits that kept on swelling—there was too much liberalization of trade, too much free trade. Whole sectors of industry are now being phased out for that reason. Then came the oil-price problem. Then, the financial deficits, balance of payments deficits, the huge requirements of the U.S. budget, and the financing requirements of both developed and developing countries.

Interest rates go up as a result of the fact that there is a shift from the national to the international markets. Since national markets are limited by restrictive monetary policies, people go to the international markets, which supposedly are unlimited in size. Unbalanced budget policies transfer the burden from the national to the international level.

The U.S. budget deficit is unthinkable crazy.

Excess demand for funds creates tension for interest rates. In turn, this creates defaults, for example, the East bloc, Latin America. And defaults will spread and develop further. Will there be bank failures? Right now, the authorities seem to have the situation under control. If the vast increase of interest rates does restore some balance to the markets, it is at the price of a depressive effect on investment. . . .

This creates a vicious circle. You need interest rates to be smaller than the marginal rate of productivity, short of which there is no investment. Since you cannot come back on all kinds of benefits and advantages earned by labor unions . . . less investment means more unemployment, more recession, higher interest rates. This is a cumulative process but it cannot go on indefinitely. It results in massive exacerbation of the economic crisis.

Too large a role has devolved on monetary policy. Of course, it has some anti-inflationary virtues. Look at the United Kingdom or the United States. But at an extravagant price! The point has come where people must wonder whether it is wise to pursue such policies. We have reached the limit of the efficacy of monetary policy.

And since no country can really take isolated initiatives, the key is in Washington. And there, it is the budget policy: more taxes, less borrowing.

Generally speaking, we need two things: First, we

have gone too far in the direction of free trade, with GATT and the whole post-war liberalization. I'm not referring to the European community, since most of us are in similar situations. But outside, the limits of free trade have been reached and crossed. As a result, Brussels is reviewing protectionist measures, and every country is taking protectionist measures, clandestinely.

The second thing is this: U.S. interest rates must come down. The deadlock of Volcker and Reagan, the chicken-and-egg situation of interest rates and deficits, must end. Reagan's budget proposal is extravagant.

Reagan must increase taxes. He cannot cut social spending, which he's already cut too much . . . nor the defense budget, which would be strategically dangerous. So more taxes. Of course, it could initially have deflationary effects. But in return, it would mean a lowering of the financial burden on the corporate sector.

I like Volcker personally. I think he's courageous and smart. But his policy is suicidal. It must stop.

Europeans have made it a habit of blaming Washington for whatever happens. Well, this time, they're right.

'Collapse is imminent'

From an interview with a leading Swiss bank economist, Gerard Vila, on Feb. 27:

Q: What do you expect the result of Federal Reserve monetary policy to be?

A: There is an obvious danger of soaring U.S. interest rates, which will aggravate the U.S. and the world recession. The only way to avoid that would be to increase taxes; that's the only thing that would work, but how can Reagan do that? Arithmetically, it is impossible that the Federal Reserve would respect the monetary targets that have been set, unless they accept idiotic interest rates, well upwards of 25 percent, which is impossible when unemployment is close to reaching two digits. So one link in the chain is going to have to give.

Q: What is your view on the American re-armament program?

A: The dose of de-industrialization that Volcker's policy is inflicting upon the United States is incredible, and I wonder how much longer that can go on. If you look at the defense industry, the situation is such that they will soon have to import nails and screws from Japan or Korea. Then the moment the Russians decide they've had enough, they take over Korea, and there goes the U.S. defense buildup. Now at the same time, the administration is insisting on the buildup. I agree with the

general aim of it all, that the United States should regain its military pre-eminence, but the means that are being applied are just laughable, miserable. Just think of the amazing import dependency of U.S. defense industry.

A: What will be the result, in your view?

A: The Americans are going to be compelled to change their policy. They will yield on monetary policy, they will slow down the defense buildup, and they will increase taxes. I'm told that there is going to be a massive wave of riots with the blacks this summer. Everything's ready for a complete collapse. There should have been at least 25 large-scale bankruptcies in the financial system already, had it not been for the fact that the Fed organizes one or two takeovers or mergers per week. This is the best recipe for the great historical type of collapse! That's exactly what was happening in Germany before 1931, before the banking crisis; they blurred the distinctions between various sectors of the financial structure, got the stronger to take over the weaker, absorb their losses—and then the whole system collapsed.

'Don't exaggerate danger'

The following interview was conducted by EIR correspondent Mark Burdman March 2. Julian Amery is a Tory member of Parliament with extensive experience in China and the Balkans. Married to the daughter of former Conservative Prime Minister Harold Macmillan, he has written for the National Review and the Heritage Foundation in the United States.

Burdman: Chancellor Schmidt, in an assessment we concur with, has argued that America's high interest rates are a crucial causal factor in the global economic decline and strategic dangers resulting. What is your assessment?

Amery: The President's budget in the United States calls for high interest rates. There doesn't appear to be a way of avoiding that dynamic. But many people I talk to think that interest rates will be coming down this year, and have the attitude of waiting and seeing a little bit. Interest rates might be coming down to 2-3 points above the rate of inflation, according to some economic people I met with yesterday. Some of the thinking involved is that the recession has hit bottom in Europe. With oil prices coming down and energy now cheaper, there is some hope for industrial recovery. There is some thinking too that the Reagan tax cut may boost investment in the States.

One must be cautious about exaggerating the importance of interest rates. Here in London, transactions are

taking place at the 13.5-to-14 percent range, which is tolerable relative to the rate of inflation. I think Schmidt is trying to explain to his domestic constituencies why there are 2 million unemployed in West Germany. There will be no avoiding some amount of high interest for a while as long as Reagan has to borrow money abroad to finance federal spending. We have to wait and see, and not exaggerate the matter.

Burdman: Concerning potential strategic crises, there is much worry over the combination of the Balkans and Cyprus. What is your view of these regions?

Amery: The Balkans are a very sensitive area. It's the gray area between NATO and the Warsaw Pact. Yugoslavia is the gray area; it belongs to no bloc, and Albania doesn't either. The Balkans game is being played by all concerned, in the sense that Moscow, for example, would very much like to see Yugoslavia brought back into the orbit of the Warsaw Pact. But I see no immediate crisis. The Kosovo affair appears to have somewhat receded into the background. Cyprus has become very worrisome with the recent efforts of the Papandreou government, but behind pushing for an international conference, what exactly can Papandreou do? He may want mediation from someone like Brandt, but these efforts don't always succeed, as can be seen from the results Olof Palme [former Socialist Prime Minister of Sweden] is having in the Gulf.

Burdman: Concerning the Gulf, what is your assessment of the Gulf states coordinating against the threat from Iran? It appears that Lord Carrington and Caspar Weinberger both think that advantage can be gained among these countries by playing them off against Iran, in terms of building some kind of new alliance among them.

Amery: The Gulf states are increasingly working together on internal security policies, and I view this as a positive, important step forward. My guess is that Weinberger's efforts are directed at supporting such trends.

'Europe needs own role'

Below are excerpts from an interview with Simon May, international affairs adviser to Edward Heath, former Conservative Prime Minister of Great Britain. Mr. Heath is Chairman of the advisory council of IRIS, the world's largest private intelligence agency, incorporated last year in Washington, D.C. and scheduled to begin operations in June. He is also a prominent member of the World Bank-sponsored Brandt Commission. EIR's Mark Burdman con-

ducted the interview with Mr. May on March 2.

Burdman: It was my impression that not much active success had been achieved in winning the Arab Gulf powers over to the Brandt Commission's perspective. Do you agree?

May: Not at all. The Arab countries are very closely associated with the Brandt Commission. One Brandt Commissioner, Hammad, is a very top official in Kuwait, and one of the most influential figures in the Arab world. Also Ted Heath and I have very close relations to the Saudis. Heath is personally close to the Saudi King and to Crown Prince Fahd, while I have lots of close contacts among lower-level princes, people in Saudi Arabia who are up-and-coming and becoming increasingly important. Heath had a number of long conversations with them, including contacts with them when they came to London. There's no doubt at all in my mind that they want to move with the Brandt Commission.

But the Saudis' problem is that they never take the initiative on their own, and they see the U.S. and the British blocking everything. But take the energy affiliate of the World Bank which the Commission is pushing. The Saudis and Cancún made it very clear that they support that affiliate very strongly, but they waited for an American initiative around this. My feeling is why should we wait for the United States? Why not have Germany, France, Canada, Japan, Saudi Arabia, and Kuwait act together? Also India is very, very key, and so is Nigeria from the south. Why wait for the U.S.? The total European GNP is equal in dollar terms to that of the United States, and we have vast Eurocurrency markets. Why not move on an energy affiliate, as well as a food institution, to create international mechanisms of food security?

Here I am talking about an economic operation within the context of the world monetary situation, unlike something like changing the IMF, which would indeed require the U.S. to participate. What I want is an operation within the framework of the international economy. The Saudis, Kuwaitis, and Emirates could go along with this, although the Saudis are admittedly the most nervous about giving up on the United States. My idea is to have a conference at which you have an empty chair labeled, "United States," a U.S. ghost in effect, to give solace and comfort to the Saudis. We should try all sorts of little tricks like that to give solace to the Saudis.

Burdman: Are you saying that U.S. economic policy, including the high interest rates, create the conditions necessitating independent European "third force" economic moves?

May: Very much so. But now you're taking it a little further, not just management of the system, but changing the parameters of the system, as opposed to an operation

within the parameters of the system. It is necessary to pursue the regional approach that you are referring to. We need a more evenly spread international system, with more of the labor being shared between U.S. and Europe. We need a European currency, not necessarily a separate currency, but perhaps a parallel currency. . . .

Burdman: Overall, you see the Volcker interest rates policy as a motivating catalyst toward regionalist European moves?

May: Absolutely. The Volcker high-interest policy makes the EMS and similar moves a more plausible target for Europe in the short term.

Burdman: How are you and Mr. Heath now viewing the strategic situation in the Mediterranean, Middle East, and Gulf region? Do you see immediate potential for crisis?

May: Well, certainly, the Aegean-Cyprus situation is coming to a boil. We in our office here are saying that no alternative exists but for the EC [European Community] to take an initiative on Cyprus at this point. There must be a senior figure appointed to do some shuttling. The EC in this situation is different from the U.S. and the Soviets. It can accomplish something. And Britain is the guarantor power, a fact which Papandreou is now using to get the British to exercise their leverage to get the EC to do something.

In the Middle East as such, my view is that the EC initiative is a lot of window-dressing. We don't have leverage with both sides. But on Cyprus, by contrast, political capital can be gained by the EC. The Cyprus issue is arousing a great deal of interest. Europe has ties into both camps of an historical and related nature. Europe has an available mix of carrots and sticks to use in this situation.

Burdman: Are you thinking in terms of some "European Third Force" being active in this crisis?

May: Exactly! This is an excellent example where Europe can act as a third force between the U.S. and the Soviets. You would have the British active as the guarantor power, while there would be a very effective division of labor, a division of abilities, throughout the rest of Europe. The United States, by contrast, is unpopular with both sides, with Turkey because of the arms embargoes. This is a Catch-22 situation for the United States. If it withholds arms, it arouses Turkish anger; if it sends arms, the Greeks get angry. By contrast, it is a classical area where the European division of labor should be exploited in the EC. Besides, we all know how important Cyprus is strategically for the whole Mideast region. It was my boss, Ed Heath, remember, who denied access to Nixon for the airlift to Israel in 1973. Heath thought at the time that he could keep the Arabs in the Western

camp by doing this. It was a signal to the Arabs that he acted this way. . . .

Burdman: Would you see Willy Brandt as the appropriate person to do the mediation?

May: I met Brandt in Kuwait after his year-end trip. I think there is a possibility of Brandt being brought in. There are also people in France who could be used. . . .

Burdman: Are there other conflicts that concern you in the area, say from Iran and the Gulf to Northern Africa?

May: I personally am very concerned with the Sahara question. I paid a visit there in 1981 at the behest of Polisario, and I met with the organization's president. The Moroccans have an enemy that is absolutely formidable, and I wasn't brainwashed to say that. I was terribly impressed by the Saharouis or whatever they call themselves. They have immense mastery of the whole area, they've been there for centuries, they have a great knowledge of the desert terrain. . . .

Burdman: Who is aiding them from the outside?

May: . . . Algeria supports them massively, and the whole Algerian people supports this policy. There is some talk of Libya, too, supporting the Polisario, but I have no proof of this.

Burdman: What about the Socialist International?

May: Oh, yes, them too. The Soviets may be supplying them with arms, likely through Libya or Algeria. From the Socialist International standpoint, the French are most active in support of Polisario. . . . In London, they don't have much governmental support, no foreign office person has met them, and we boycott them, which I think is quite wrong. They are a serious political force.

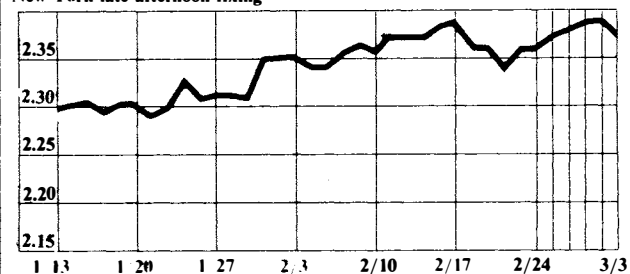
Because of the Polisario fighting, it has become difficult for the Moroccans to back down now, and it will become more difficult as time goes on. Twenty percent or more of the Moroccan budget is tied to the armed conflict, and hundreds of thousands of lives have been lost. Almost every Moroccan family has somebody who has died in the war. There is enormous scar-tissue throughout Morocco on this, and if Hassan backs down, people will start asking what was it all for, what have we done? So Hassan must go on fighting, he has no choice. Then, if a serious threat develops to his regime, there will be an internationalization of the crisis. The U.S. will come rushing in behind him. There are already signs that the U.S. is getting very worried, and so the trend toward internationalization is developing. . . . So, Cyprus and the Spanish Sahara are the two areas where Europe can play a third force role.

I'm cynical about such a possibility in the Middle East, where we have nothing to give the Arabs and no leverage with Israel.

Currency Rates

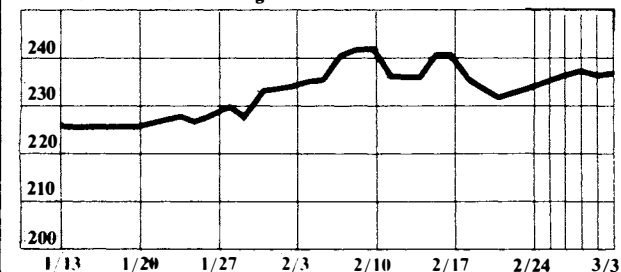
The dollar in deutschemarks

New York late afternoon fixing



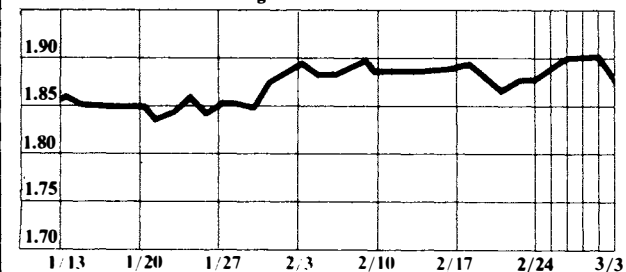
The dollar in yen

New York late afternoon fixing



The dollar in Swiss francs

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The British pound in dollars

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