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EIR Economics

Volcker triggers global interest-rate war

by Mark Tritsch

With the lifting of the U.S. discount rate to 13 percent, Volcker has opened a Pandora's box of horrors; an international chain reaction has lifted German and Swiss discount rates by 1 percent to 7 percent ad 3 percent respectively, and the German Lombard rate by 1.5 percent to 8.5 percent. Japan, after a 1 percent increase immediately following Volcker's. This expected to follow soon with a further increase, while Switzerland, whose currency draws a 6 percent interest rate on 3-month deposits in the Euromarket, is unlikely to keep any vestige of its low interest rate policy for much longer. Belgium lifted its discount rate by 1.5 percent, the Dutch are expected to follow suit, and French money market rates have risen by over half a point in the last week. The Danish, Norwegian and Italian currencies are aleady becoming targets for devaluation rumors, increasing the likelihood of interest rate rises there too.

These are only the opening shots in what is already open warfare in the international monetary system, amounting to a successful triggering of Council of Foreign Relations policies for a breakdown in international credit activity. Last year, Federal Reserve Chairman Paul Adolph Volcker fully endorsed the CFR strategic perspective for "controlled disintegration" of world markets in a lecture at a British University. According to the *London Times*, volcker's real aim was for an immediate 3 percent discount rate increase. Only the fear of handing the political initiative to the opposition grouped around Lyndon LaRouche's persidential candidacy and constituency machines such as that of Illinois State Repesentative Larry Bullock, made the Fed adopt a step by step approach. Further "steps" in U.S. interest rates are expected in the coming weeks, to be implemented under encouragement from bank newsletters like that of Manufacturers Hannover Trust.

Volcker's policy, modeled on the deflationary austerity of Nazi economics minister and Reichsbank president Hjalmar Schacht, has demonstrably cut the entire fabric of world credit loose from any connection to productive activity. As interest rates move further into double figures, credit issuance for industrial investment becomes a losing proposition: all that remains is high-profit speculative activity, reflected in the price spiral on the London-centered commodity markets, and investment in heavily government-subsidized boondoggles in the synfuel and armaments sectors-an exact replica of the conditions of the 1930s Nazi economy in Germany. At the same time, the increased costs of servicing debt on previous industrial investment get passed on as higher prices, and inflation moves ahead in a multiple proportion of the increasing cost of credit. Internationally, large capital and money movements occur only in response to speculative factors in interest rates and inflation differentials, and bear no relation to opportunities to exploit especially Third World potentials for profitable increases in industrial productivity.

There are German industrialists like one heading up a major northern heavy equipment manufacturer, who

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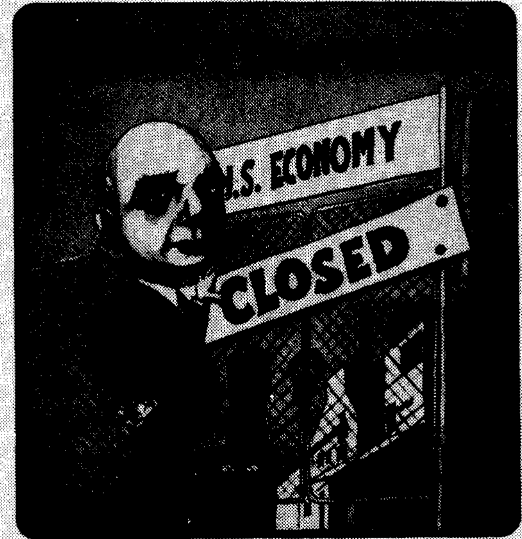
in private condemn increased expenditure on armaments as a "weakening of the West in the face of the Soviets," winding down the economy "by diverting productive capacity into producing mere scrap armaments," but do not have the political muscle to clean up the monetarist centers in Germany at the Bundesbank and the finance and economic ministries. As a result, the Bundesbank has done its dirty work for Volcker by successfully enforcing a policy of "healthy competition" in international interest rates, replacing the European Monetary Fund option promoted by Schmidt and Giscard to orgganize low interest rate redeployment of international dollar liquidity into Third World development. Business circles in Germany, unlike the increasingly enraged French, tend to accept the Bundesbank deal for the moment, on the assumption that with Germany's low base line of interest rates, so long as any increase keeps the rate within single figures, The effects will not be so disastrous as in the U.S. case. A big mistake, particularly for a country so reliant on exports to the Third World as Germany.

The first sector to totally shut down in response to the Volcker policy will be the Third World. After the U.S. discount rate rise, 3-month Eurodollar deposit rates went well over 16 percent. Every 1 percent rise in those rates means an increase in Third World debt service costs per year in the order of one billion dollars. As debt service costs skyrocket, possibilities of raising new syndicated credits to cover the repayments have been practically eliminated. Last week Venezuela, itself an oil producer, decided to pull out of an attempt to raise 500 billion dollars.

To a significant extent the entire process has gone completely out of control. Internationally, U.S. and British stonewalling has blocked international monetary reform completely. In the U.S. itself, the results of Volcker's policy in forcing inflation up to 20 percent have become so disastrous that the political preconditions for quick implementation of anything other than "more of the same" simply are not there. Even if plans for budget cutting operations, in the order of 25 billion dollars, eventually get through Congress, by that time inflation will have moved to stratospheric levels unless either the proposals of the Europeans and LaRouche are implemented or else Volcker's policy puts the world economy into a coma. At present the latter looks more likely. latest reports indicate that Alfred "Gengis" Kahn's proposal for a knock-out blow against consumer credit is gaining adherents in Washington. Of Kahn's plan—increased prepayment on credits and shorter repayment times—goes through, the U.S. will be in a good position to lead the world into the Nazi holocaust of the 1980s.



Where you read it first

In *EIR*'s Oct. 23-29, 1979 issue, the article "Volcker's depression" by Economics Editor David Goldman accurately predicted where Paul Volcker's "anti-inflation" policy would lead: to more inflation, and an international interest-rate war. We knew, because we knew that what Paul Volcker was doing was deliberate. Goldman reported: "Most financial commentaries have ignored the most essential element of the Volcker credit-squeeze package: It is aimed not only at the American banking system but at Western Europe ... The primary motive behind Volcker's decision is to abort the European initiative towards a new monetary system generating energy investment in the so-called Third World ... Volcker will impose capital flows controls of the type used by the Johnson administration to little effect. Volcker's controls will be much stricter, pushing European credit into a much tighter position than American credit. This, from Volcker's vantage point, could abort the Europeans' expanded lending plans before they took institutional form."