

# Volcker threatens, but Congress is stalling on the IMF bailout

by Kathy Burdman

House Speaker Tip O'Neill July 21 postponed indefinitely the House floor debate and vote on the bill to grant an \$8.4 billion U.S. bailout to the International Monetary Fund, making it "almost certain," according to top House sources, that the IMF vote will not occur until after Congress returns from its August recess in mid-September. Although U.S. Treasury Secretary Donald Regan was urging a quick vote "no matter what," O'Neill, according to House Republican leader Robert Michel (R and 70 Democrats in favor of this bill," fewer than half the 250-odd votes needed to pass it. "I can't see any sense in bringing it up to lose," O'Neill said. "It would be a waste of time."

"This is Ronald Reagan's bill, and 60 Republicans is nothing for a Republican bill," said an aide to liberal Democratic House Banking Chairman Fernand St. Germain (D-R.I.). "We intend to hang the IMF on Ronald Reagan's neck, and if they can't get the votes, by the end of August, that's it. No bill.

"By the time we come back in September," he added with a grin, "Mexico or Brazil could blow wide open, and there will be hell to pay!" If the IMF is shown "ineffective" in the current Ibero-American debt crisis, the aide continued, then Congress might reject funding for the institution entirely when it reconvenes in September.

The apparent congressional rejection of the IMF occurred despite violent threats from Federal Reserve Chairman Paul Volcker, the IMF's leading supporter in Washington, that unless Congress passed the bill immediately there would be an international financial crisis, including major collapses of U.S. commercial banks. Volcker told two hearings on July 20 and 21 in the House and Senate Banking Committees, respectively, that he has only been able to hold down U.S. interest rates recently by looting billions in flight capital from Latin America and other poor nations, to induce a "growing net capital inflow into the United States. But the sustainability of these trends can be questioned," he threatened. The pressing debt problems of much of the developing world—centered in Latin America—remain a clear threat to financial stability. Normalcy has plainly not returned.

"Failure to provide the IMF with adequate resources would deal a devastating blow to the cooperative effort" of the IMF

and BIS to run the world debt crisis, Volcker charged, "with potentially severe consequences for the U.S. financial system as well as the developing world." Failure to pass the bill would minimally mean a rise in U.S. interest rates, he said at the House hearings. "American banks owe more than \$100 billion to developing countries. If they cannot pay their debts, and the IMF is not there, there will be losses and a terrible effect on the capital of U.S. banks. . . . The situation will immediately deteriorate into a series of large-scale defaults. This will feed back into our credit markets and raise U.S. interest rates. Banks will cut back their domestic lending. This is not a risk, but a prediction.

"The breakdown of the IMF process will feed back most dangerously and stop our ability to maintain the U.S. recovery," he threatened at the Senate Banking Committee hearing.

Volcker heard pleas from St. Germain, Senate Banking Committee Chairman Garn, and other members of Congress, desperate for arguments to give to voters still hostile to the IMF legislation. "I've been for the IMF and now I'm should pass it," said Senate Banking Committee Chairman Jake Garn (R-people" how necessary the IMF is. Said House Banking Committee Chairman Fernand St. Germain: "If the IMF isn't there and the banks are hit, that will mean no loans for housing in the U.S., no mortgages, no credit for U.S. industry, no jobs!"

Following this, the Senate Banking Committee voted 16 to 2 to confirm the Volcker reappointment.

## Development or Malthusian dictatorship

The question now facing Congress and America is what alternate policy can the United States implement to deal with the Third World's \$700 billion foreign debt. The IMF's defeat reflects the national lobbying of two opposing power groups, who both propose alternatives to the crumbling 1947 IMF-centered Bretton Woods system.

The National Democratic Policy Committee of Lyndon H. LaRouche, Jr., which held a major meeting on the world debt crisis in Washington the same the IMF altogether in favor of LaRouche's plan for world development named "Operation Juárez." Under Operation Juárez, which has widespread support among trade unionists

in Ibero-America, the U.S. government would negotiate directly with its Third World allies for top-down reduction in debt payment schedules, and the establishment of a new gold-backed international rediscount facility to issue some \$200 billion annually in new trade and development credits.

Congressional mail has run overwhelmingly against the IMF legislation. Rep. Thomas Corcoran (R-III) founded a congressional group to stop the IMF bill altogether, denouncing the threats of Volcker and the large banks of financial instability as "blackmail." Corcoran's aides say the congressman decided to lead the fight when he was flooded with mail from constituents against the IMF bailout.

However, what might be called the "Swiss lobby" in Congress, including Swiss National Bank consultant Karl Brunner and Mont Pelerin Society leader Milton Friedman, used important influence at the margins of Republican support for the IMF bill to stop it. Representative Corcoran was joined in his efforts by Milton Friedman's National Taxpayers Union; and the Heritage Foundation Front "Free the Eagle," as well as a score of neo-conservative congressmen such as New York's Rep. Jack Kemp who argue the Swiss line that the IMF gives too much help to U.S. banks. U.S. banks must simply "take their losses" in Ibero-America, viewpoint made popular by Swiss National Bank President Fritz Leutwiler. Also in the Corcoran coalition were extreme left-liberal Malthusian Democrats from the Rohatyn-wing of the party. Ralph Nader appeared at the anti-IMF press conference to demand that the IMF be defeated in favor of schemes to "stretch out bank loans" through an expanded IMF facility that could be forced upon U.S. banks.

## Restructuring the U.S. Economy

St. Germain and his liberal allies plan to use what they call the "September Scare," caused by the failure of the IMF bill to pass, to put through two major programs to restructure the U.S. domestic banking and government credit system along 1930s style corporatist—fascist Malthusian—lines. The first plan, masterminded by St. Germain and the main topic at Volcker's hearings before his committee July 20, would restructure the Federal Reserve as a depression-style Reconstruction Finance Corporation, as Rohatyn previously proposed. The new Fed would give up on targeting monetary policy as impossible, and would set national goals for GNP, production, employment, and other economic standards to be run from the top on the Soviet model.

St. Germain's predecessor, Rep. Henry Reuss (D—introduced legislation—of which the Proxmire-Reuss 1980 "decontrol" legislation was the wedge—which would have put the United States under immediate direction of the Federal Reserve, rather than the Executive Branch or Congress. The model for vesting an "independent" central bank with such extraordinary economic powers, in the Reuss version, was Hjalmar Schacht's Reichsbank of the 1930s, which John Maynard Keynes also cited as the ideal vehicle for his economic theories. Reuss's effort was interrupted by the election of President Reagan; with the 1984 elections in mind, St.

Germain has picked up where Reuss left off.

In his opening remarks before the Volcker hearings, St. Germain described the result of his recent poll of 300 U.S. economists, 55 percent of whom agreed with St. Germain's assertion that the Fed, as presently constructed, can no longer define either "money" or "credit" and can control neither. St. Germain then proposed that the Fed shift, and set actual policy plans, similar to Soviet Five Year Plans, for "GNP growth, inflation, unemployment, interest rates, and/or commodity prices," to which he claims 63 percent of the economists agreed. St. Germain also proposed, and 66 percent of the currency policies to a new system of "international exchange rate" coordination to be run by—the IMF.

St. Germain told Volcker that if the Fed did not agree to go along with the new corporatist program, "the Congress will go ahead and set the policy objectives for the economy, and tell the Fed what to do."

Although the Senate Banking Committee leadership, under free market ideologue Jake Garn, is not ready to support such programs openly as yet, the Senate Volcker hearings, which centered on whether the Fed can control money and credit, raised the subject substantially. One Senate witness, Princeton economics professor Alan S. Blinder, declared that the Fed's current policy of targeting the money supply is dead, that M-1, M-2, and other aggregates are irrelevant to the economy. He called for the Fed to be made to focus on "interest rates, investment, inflation, and real GNP." World Federalist Sen. Alan Cranston (D-Calif.) plain his vote against Volcker's reappointment, added that the Fed's monetary policy has proved "successful only in blunting economic recovery," and called upon Congress to reassert and take back the "tremendous power" it has given the Fed.

A second plan for banking system was meanwhile introduced by Sen. Jake Garn for stitutions Deregulation Act of 1983," was introduced into the Senate Banking Committee on July 18. This legislation would remove most remaining federal cial system, allowing banks and brokerages to combine with insurance companies into "financial supermarkets" modeled on the old Morgan Syndicate which brought on the Great Crash of 1929-31, with its cartel-like abuses of financial powers. Under it, Regan proposes that holding companies such as Citicorp NA, which own banks such as Citibank, be also empowered to buy up smaller banks around the nation, and buy brokerages, insurance companies, real estate firms, and any other company they desire. It tices that most of federal bank regulation was established after the 1930s crash.

Both these domestic legislative packages will be ready for congressional legal action by September or October, a St. Germain aide boasted. They will be "sped up" quite nicely by Volcker's threatened "September Scare" international financial crisis around the IMF,

# Telegrams record Volcker opposition

*As part of his testimony on July 14 before the Senate Banking Committee against the reappointment of Paul A. Volcker as chairman of the Federal Reserve, National Democratic Policy Committee Chairman Warren Hamerman, the only representative of a national organization opposed to Volcker's policies who testified, read the following telegrams into the Congressional Record.*

## **Ibero-America**

### **Workers Confederation of the Peruvian Revolution (CTRP), and Confederation of Peruvian Workers (CTP):**

The Peruvian workers reject the policy of increasing the interest rates, the same that have sunk our industry and the rest of the capital production of our nation, stranding our people in misery and unemployment.

At the present moment you are debating the confirmation of Mr. Paul Volcker, the author of this policy, to the Federal Reserve. We confidently expect you will not reconfirm him.

Jose Zafra, general secretary CTRP; Ricardo Espinoza, general secretary, CTP.

### **The Union of Engineers of the State of Rio de Janeiro:**

At a meeting held in Brasilia in the month of April, 93 unions, representing 1.5 million workers in Brazilian State Enterprises, condemned the accord with the IMF in light of the damage that this represents for workers and for national sovereignty. At the moment when the U.S. Senate is deciding about the maintenance of Mr. Paul Volcker on the Federal Reserve Board, it is important that we register our protest against the economic directives imposed by the American government on countries such as Brazil. Jorge Bittar, president.

**Union of Workers of Bogotá and Cundinamarca (UTRABOC):** In the name of thousands of workers, we reject the policy of high interest rates which has caused poverty, misery, and unemployment. We expect the non-confirmation of Mr. Paul Volcker.

Jorge Carrillo, president; Pedro Rubio, secretary general.

## **Europe**

**General Revault D'Allonnes France, member of France and its Army Committee, Aide to Marshall Le Clerc, World War II:** I support the policy of President Reagan, in particular, for beam-weapons. I am opposed to any policy of high interest rates, blocking productive investments necessary for both civilian and military purposes, in the United States and in Europe. I oppose Mr. Volcker's renomination.

**Italian Agriculture Trade Union, Come, Italy:** There can be no farmer anywhere in the world who is not aware of the disastrous consequences of the high interest rate policies

of Paul Volcker for the agricultural production of his own country, and for world food supply. Such policies which destroy food production in a hungry world are as direct a cause of death as a bullet in the brain. . . .

Modesto Dematte, recipient of the Medal of a Knight of Honor of the Italian Republic.

**Metal Workers' Trade Union, Dortmund:** The present mass-unemployment in West Germany, in the steel industry of the Ruhr region in particular, and the associated contraction of the West German economy, is primarily due to Paul Volcker's high-interest rate policy. . . . I

relevant U.S. authorities reject Volcker's renomination.

Werner Dietrich, former first general secretary.

**IG Metall, Frankfurt:** In the name of my fellow workers, I oppose the renomination of Paul Volcker as chairman of the Federal Reserve because his interest rates policy has caused the collapse of West German export markets in the developing countries. Therefore, another four years of Volcker's policies would keep the United States from supporting the New World Economic Order that our industries need so urgently.

E. Wenzel, factory council chairman.

**Kurt Frankborn, chairman of the 500-firm industrial association Utveckla Sverige, executive director, Hoegstad Aluminum, Mjoelby, Sweden:** As a Swedish industrial entrepreneur and as representative of Swedish high-technology oriented industry, I oppose the high interest rate policy Paul Volcker stands for, a policy which has destroyed export markets for Swedish nuclear industry in countries like Mexico and Turkey. . . . The high interest rate policy of Volcker has also had a devastating effect on ship-yards, steel industry, and pulp industry. . . .

## **United States**

**United States farmers, including members of the NDPC, of the National Farmers Organization (NFO), and the Agriculture Policy Committee:** We urge you to oppose the \$8.5 billion appropriation for the IMF reappointment of Paul Volcker. . . . Senate bill #24, sponsored by Walter Huddleston (D-Ky.) points the way to the solution of the international debt crisis by declaring a moratorium on the FHA farm debt. . . . Ibero-American are forming a debtors' cartel to force the same type of moratorium on the IMF.

these moratoria and dump Volcker and the IMF.

**Members of the National Association for the Advancement of Colored People (NAACP):** Volcker, over a three and one-half year period, has instituted a policy of keeping interest rates in the 16 percent range. This has directly brought about the collapse of manufacturing and agriculture, and an increase by several millions in total unemployment. It destroyed the capability of the developing sector nations to obtain credit. . . .

We believe it urgently necessary to block Reagan's nomination of Volcker.