Newsletter 50:

A Reagan Revolution for the Money Class

Dear Reader,
I want to share this time a selection from my book The Gods of Money: Wall Street and the Death of the American Century. As we are clearly nearing a new global financial meltdown, this one very likely to be even worse than 2007-2008, I want to share a chapter from the book which describes the major financial shocks of the late 1970s and Reagan-Bush era of the 1980's. Today Washington acts as if "deficits don't matter." That dangerous idea grew out of the Reagan era. Few today recall or realize what the reality of that Reagan era was. I hope you find the selection useful.

I ask you also to consider a voluntary support for my writing via a donation to my PayPal so I am able to continue these newsletters and open website articles without charge.

My best,

William Engdahl
www.williamengdahl.com

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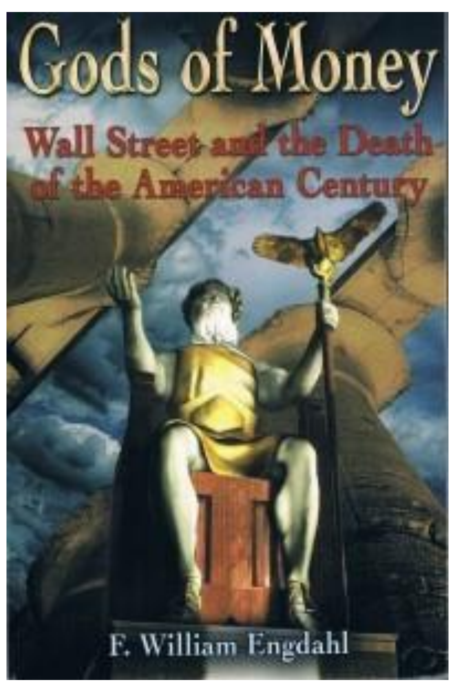

Chapter Fifteen:

A Reagan Revolution for the Money Class

'They've done more to dismantle American industry than any other group in history. And yet they go around saying everything is great. It's like the Wizard of Oz.'
--US oilman Robert O. Anderson on Volcker and Reagan[1]

Paul Volcker's monetarist coup d'etat

If the oil shocks of 1973 triggered the polarization of American society into a minority of increasingly wealthy, against a vast majority whose living standards were slowly sinking, monetary shock therapy accelerated the process to its ultimate conclusion. Initiated by Paul Volcker on October 6, 1979, it signified a coup **d'état** by the monied class in the United States.

The monetary shock therapy that Volcker imposed on the United States had been developed and already implemented several months earlier in Britain by Prime Minister Margaret Thatcher. Volcker and his close circle of Wall Street banking friends, including the Morgan Guaranty Trust Company, merely imposed Thatcher's monetary shock model onto US conditions. The goal of both was the same—to dramatically roll back the redistribution of wealth and income in their respective countries in favor of the wealthiest 5%, or even fewer.

In early May 1979 Margaret Thatcher won election in Britain by campaigning on a platform of "squeezing inflation out of the economy." Thatcher, and her inner circle of Adam Smith 'free market' ideologues, promoted a fraud, insisting that government deficit spending, and not the 140 percent increase in the price of oil since the fall of Iran's Shah, was the chief cause of Britain's 18% rate of price inflation.

According to Thatcher’s advisers, inflated prices could be lowered simply by cutting the supply of ‘surplus money,’ thereby inducing an economic recession. Since the major source of surplus money, she argued, was from chronic government budget deficits, therefore government expenditure must be savagely cut, in order to reduce ‘monetary inflation.’ The Bank of England simultaneously restricted credit to the economy by a policy of high interest rates, as their part of the remedy. It was identical in every respect to the Rockefellers’ Second American Revolution, only it was called instead, the ‘Thatcher Revolution.’

In June 1979, only one month after Thatcher took office, Thatcher's Chancellor of the Exchequer, Sir Geoffrey Howe, raised Base Rates for the banks a staggering five percentage points—from 12% up to 17%--within a matter of twelve weeks. This amounted to an unprecedented 42% increase in the cost of borrowing for both industry and homeowners. Never in modern history had a major industrialized nation undergone such a shock in such a brief period, outside the context of a wartime economic emergency.

The Bank of England simultaneously began to cut the money supply, to ensure that interest rates remained high. Unable to pay borrowing costs, businesses went bankrupt; families were unable to buy new homes; long-term investment into power plants, subways, railroads, and other infrastructure ground to a halt as a consequence of Thatcher's monetarist revolution.

Thatcher also imposed draconian labor policies, forcing militant British miners to cave in after brutal months of strike, which earned her the epithet ‘The Iron Lady.’ Unemployment in Britain doubled, rising from 1.5 million when she was elected, to a level of 3 million by the end of her first eighteen months in office. That was part of the bankers’ strategy: calculating that unemployed workers who are desperate will work for less to get any decent job. Thatcher targeted labor unions, claiming they were obstacles to the success of the monetarist ‘revolution,’ and blaming them for creating the enemy—inflation.

Meanwhile, Thatcher accommodated the big City banks by removing exchange controls, so that instead of capital being invested in rebuilding Britain's rotted aging industrial base, funds flowed out to speculative real estate in Hong Kong or lucrative loans to Latin America. [2]

Beginning in Britain, then in the United States, and from the Anglo-American world radiating outward, the shock waves from the radical monetarism of Thatcher and Rockefeller protégé Paul Volcker spread like a virulent parasite after 1979. Country after country buckled under demands to cut government spending, lower taxes, deregulate industry and break the power of organized labor. Interest rates rose around the world to levels never before imagined in peacetime.

In the United States, Volcker's monetary shock policy by early 1980 had driven US interest rates up to an astonishing 20% nominal level. The economics of this drastic interest rate regime were soon obvious. For any industrial investment to be profitable at 20% or even 17% interest rate levels would mean that any enterprise that normally required more than four to five years to complete, was simply not possible. Interest charges on the construction alone would prohibit this.

Destroying savings banks

Volcker's shock medicine was imposed on a desperate President Carter, who in March 1980 willingly signed an extraordinary piece of legislation, the “Depository Institutions Deregulation and Monetary Control Act of 1980.”
This law was the first in a series of moves imposed by the major New York banks, led by David Rockefeller’s Chase Manhattan, on the US and world economy over the ensuing period.

The act empowered Volcker's Federal Reserve to impose reserve requirements on banks, including Savings & Loan banks, even if they were not in the Federal Reserve System, ensuring that Volcker's credit choke succeeded in cutting the flow of credit sufficiently. In addition, the new law phased out all legal ceilings on interest rates which banks could charge customers under what the Federal Reserve called ‘Regulation Q,’ as well as repealing all state laws which had set interest rate limits, the so-called anti-usury laws.[3]

Regulation Q, a part of the 1933 Glass-Steagall Banking Act, prohibited banks from paying interest on their demand deposit accounts. The rule encouraged savings banks where interest was allowed on long-term deposits. The large New York and other money center banks had long since circumvented Regulation Q by money market funds and other substitutes. The Savings & Loan banks had no such option and had strict ceilings on savings accounts, making them less attractive to customers than the rival money market funds of the big banks. Repeal of Regulation Q, while sounding logical, actually destroyed the economics of the traditional S&L banks in the United States, opening them to takeover by the large commercial banks.

The sky was to be the interest rate limit under the new dogma of what the British called ‘neoliberal monetarism.’ Money was to be King, and the world, its dutiful servants. And Wall Street bankers were to be the Gods of Money.

The global impact of the Volcker high interest rates was devastating to the industrial and developing world. By the early 1980s, worldwide spending on long-term government-funded infrastructure and capital investments -- such as railroad, highway, bridge, sewer, and electricity plant construction -- had collapsed. According to the International Iron and Steel Institute’s calculations, from the time of the first oil shock in 1975 until 1985, the total share of all government expenditure in major industrial nations devoted to construction of public infrastructure had fallen to one half its level of the mid-1970s. The world’s production of steel, shipping ton-miles, and other indicators of real physical economic flows reflected the catastrophic Anglo-American monetary shock policy. The world's steel industry was forced deeper into its worst depression since the 1930s. [4]

Paul Volcker's monetary shock and the resulting US economic downturn were the major factors – along with Republican sabotage of Carter's Iran hostage negotiations -- causing Jimmy Carter's defeat in the November 1980 election.

Imposing the monetarist medicine

An arch-conservative Republican President, former Hollywood movie actor Ronald Reagan, had no hesitation in backing the Volcker shock treatment. Reagan had been tutored while Governor of California by the guru of monetarism, University of Chicago economist, Milton Friedman. Friedman was also an adviser to Britain's Margaret Thatcher.

One of Reagan's first acts as President in early 1981—after he had magically released the US Embassy hostages from captivity in Tehran within minutes of his inauguration—was to use his powers to dissolve PATCO, the trade union of the airline traffic controllers. This served to signal other unions not to attempt to seek Government relief from the soaring interest rates. Reagan was mesmerized by the same ideological zeal to "squeeze" out inflation as was his conservative British ally, Thatcher.

Reagan kept Milton Friedman as his unofficial adviser on economic policy. His administration was filled with disciples of Friedman's radical monetarism as well as followers of Austrian free market economist Ludwig von Mises.

The powerful US banking circles of New York were determined to use the same radical measures on the US economy that had earlier been imposed by Friedman to break the back of Chile's economy under the dictatorship of Augosto Pinochet. Friedman's policies had also been implemented by the Argentinean military juntas during the late 1970s and early 80s, to break Argentina's unions and destroy the country's middle classes.

This model of 'laissez faire' was now to be introduced on the home market in the United States with disastrous consequences for the long-term economic stability of the country, although it was not immediately clear just how severe that would be.

The power of American finance was given a new lease on life with the Volcker shock therapy, just as intended. The byproduct of Volcker's soaring interest rate policy -- a policy he held firmly to until October 1982 -- was a resurgence of the US dollar as capital flowed into US bonds and other assets to earn the very high interest rate returns.

Volcker explodes the debt bomb

The Latin American debt crisis, an ominous foretaste of the 2007 US sub-prime crisis, erupted as a direct result of Volcker's interest rate shock therapy. In August 1982 Mexico announced it could no longer pay the interest on its staggering dollar debt. Mexico, along with most of the Third World from Argentina to Brazil, from Nigeria to Congo, from Poland to Yugoslavia, had fallen for the New York banks' debt trap.

The trap was as follows: huge quantities of recycled OPEC petrodollars were invested in the major New York and London banks -- the 'Eurodollar banks' -- which then lent the dollars to desperate Third World borrowers. The loans were set initially at "floating rates" or adjustable rates tied to the London LIBOR interbank interest rates. [5]

However, when LIBOR rates unexpectedly rose some 300% within months as a result of Volcker's shock therapy, those debtor countries that had borrowed dollars at floating interest rates from the international banks in New York and London were unable to continue servicing their debt. It was exactly the same scenario the same New York banks repeated in the housing finance securitization bubble after 2000, with 'teaser rates' and 'ARM' or Adjustable Rate Mortgage and other tricks.

The IMF was then brought in to run things in the debtor or victim country, brought there by the major New York banks and the US Treasury. The greatest looting binge in world history to that date—misnamed the Third World Debt Crisis—was on. The scale of the big banks' looting binge during the 1980s was exceeded only by their gains from the 2000-2007 mortgage securitization swindles.

Volcker's shock policy had triggered the crisis, and the New York and London banks cleaned up on that debt crisis.

By 1986, after seven years of relentlessly high interest rates by the Volcker Fed, the internal state of the US economy was horrendous. Much of America had come to resemble a Third World country, with its sprawling slums, double-digit unemployment, rising crime rates, and endemic drug addiction. A Federal Reserve study showed that 55% of all American families were net debtors. Federal budget deficits were running at unprecedented levels of more than $200 billion annually.

In reality, Volcker, who had worked under David Rockefeller at Chase Manhattan Bank, had been sent by Rockefeller to Washington to do one thing—save the dollar from a free fall collapse that threatened the role of the US dollar as global reserve currency, and with it, to save the bond markets for the wealthy upper stratum of American elite society, the money interests. It was, in effect, the financial oligarchs' counter-revolution against the concessions they had been forced to give to the 'lower classes' during and after the Great Depression.

That role of the US dollar as world reserve currency was the hidden key to American financial power.

With US interest rates going through the roof, foreign investors flooded in to reap the gains by buying US bonds. Bonds, US Government debt, were the heart of Wall Street's control of the international financial system. Volcker's shock therapy for the economy reaped astronomical profits for the New York financial community.

Volcker succeeded all too well in his mission.

The dollar rose to all-time highs against the currencies of Germany, Japan, Canada and other countries from 1979 through the end of 1985. The over-valued US dollar made US manufactured exports prohibitively expensive on world markets, however, and led to a dramatic decline in US industrial exports.

Already high interest rates from the Volcker Fed since October 1979 had led to a major decline in domestic construction, the ultimate ruin of the US automobile industry and with it, steel, as American manufacturers moved to outsource production offshore where the cost advantages were greater.

Referring to Paul Volcker and his free-market backers inside the Reagan White House, even staunch Republican Robert O. Andersen, chairman of Atlantic Richfield Oil Co. complained, “they’ve done more to dismantle American industry than any other group in history. And yet they go around saying everything is great. It’s like the Wizard of Oz.” [6]

The IMF helps plunder the Third World

There would not have been a Third World debt crisis during the 1980s, had there not been Margaret Thatcher's and Paul Volcker's radical monetary shock policies.

Beginning in June 1979 with the shock of the Thatcher government's interest rate hike, followed in October by that of Volcker's Federal Reserve, the interest rate burdens of Third World debtor countries compounded overnight, as London’s LIBOR interest rates climbed from an average of 7 % in early 1978, to almost 20% by early 1980, the effects ricocheting across the globe.

As interest rate burdens on the Third World's foreign debt obligations soared to the stratosphere after 1980, the market for their commodity exports to the industrial countries, critical to repay those debt burdens, also collapsed, as the industrial economies were plunged into the deepest economic downturn since the world depression of the 1930s. The Thatcher-Volcker monetary shock 'cure' triggered global chain reactions.

Third World debtor countries were being squeezed in the blades of a vicious scissors of deteriorating terms of trade for their commodity exports, falling export earnings, and a soaring debt service ratio. This was what Washington and London referred to condescendingly as the "Third World debt crisis." The crisis had been made in London, New York and in Washington, not in Mexico City, Brasilia, Buenos Aires, Lagos or Warsaw.

The debtor countries paid many times over, literally with the proverbial 'pound of flesh,' to the modern-day Shylocks of New York and London, Tokyo and Frankfurt. The large Third World debtor nations had the pistol to their heads, under IMF pressure, to sign what the banks euphemistically termed 'debt work-outs' with American private banks, most often led by Citicorp or Chase Manhattan of New York.

The powerful private banking interests had banded together following a closed-door meeting in England's Ditchley Park during the fall of 1982. Their agenda was to create a creditors' cartel of leading banks, headed by the New York and London banks, called the Institute for International Finance or informally, the Ditchley Group. They imposed what one observer characterized as a "bankers' socialism," in which the private banks "socialized" (distributed) their lending risks and potential losses to the majority of the taxpaying public, while privatizing to themselves all the gains, similar to the Bush Administration's bank bailout policy in 2008.

Once the bankers and their allies inside the Reagan Administration, such as Treasury Secretary Donald Regan, sufficiently terrorized President Reagan over the situation, the

White House called on Paul Volcker, the banks, and the IMF to impose a program of strict "conditionalities" on each debtor country.

The idea to place the IMF and its strict conditionalities into the middle of the debt negotiating process was an American idea. In substance, it was almost an exact copy of what the New York bankers had done after 1919 against Germany and the rest of Europe under the ill-fated Dawes Plan, and later attempted under the Young Plan. [7]

The IMF conditionalities and a country's agreement to sign with the IMF were part of a program developed by an American official then at the IMF, Irving Friedman, who was later to be rewarded for his work with a senior post at Citibank. The IMF, as noted earlier, had originally been created in 1944 at Bretton Woods to stabilize currency and trade relations among the industrial nations. It was now turned to an entirely new task -- that of debt policeman for New York banks.

The IMF prescription 'medicine,' the conditionalities, was invariably the same from one country to the next. The victim debtor country was told, if it ever wanted to see a penny of foreign bank lending again, it must slash domestic imports to the bone, cut the national budget savagely (most often targetting state subsidies for food and other necessities) and devalue the national currency in order to make its exports 'attractive' to industrial countries -- that is, to make them dirt cheap, while simultaneously making the costs of importing advanced industrial goods prohibitively expensive. All this, the officials of the IMF argued, was necessary in order to earn hard currency to service the debt. [8]

The IMF Structural Adjustment Program was only Step One to make the 'candidate' country eligible for consideration of Step Two—an agreement with its foreign creditor banks for 're-structuring' the repayment schedule of their foreign debt or a major portion of it. In this second stage, the banks won huge future rights over debtor countries, as they added defaulted interest arrears onto the face amount of total debt owed, interest capitalization as bankers termed it.

The end result of the countless debtor restructurings after 1982 was an enormous increase in the amount of debt owed to creditor banks. According to data from a leading Swiss insurance firm, Swiss Re, total foreign debt of all developing countries, long-term and short, rose steadily after 1982 from just over $839 billion to almost $1,300 billions by 1987. Virtually all of it consisted of the every-increasing burden of refinancing the unpayable old debt, added to the economic burden of the future, not new loans.

The IMF had become the global financial 'policeman,' enforcing payment of usurious debts through imposition of the most draconian austerity in history. With the crucial voting bloc of the IMF firmly controlled by an American-British axis, the IMF became the global enforcer of a *de facto* Anglo-American neo-colonial monetary and economic dictatorship, one imposed by a supranational institution immune from any democratic political controls.

The American banks, by far the largest group involved in lending to Latin America, strongarmed their bank counterparts in Western Europe and Japan that they must 'solidarize' and follow the same IMF script or face the prospect of collapse of the international banking system.

As debtor after debtor was coerced to come to terms with the IMF and the creditor banks, the result was a reversal in capital flows of titanic dimension. According to the World Bank, between 1980 and 1986, for a group of 109 debtor countries, payment of interest alone to the creditors on foreign debts totaled $326 billions. Repayment of principal on the same debts totaled another $332 billion, for a combined debt service total payment of $658 billions on what originally was a debt of $430 billions.

But despite this huge effort, those 109 countries still owed the creditors a sum of $882 billions in 1986. It was an impossible debt vortex. Thus worked the wonders of compound interest and floating LIBOR interest rates. [9]

The debtor countries had been caught in a debt trap from which the only way out, offered conveniently by the creditor banks of New York and London, was to surrender their national sovereign control over their economy, especially over valuable national resources such as oil and raw materials.

One study, by Hans K. Rasmussen of Danish UNICEF, pointed out that what had taken place since the early 1980s was a massive transfer of wealth from the capital-starved Third World, primarily into the financing of deficits in the United States. It was *de facto* imperialism or, as some called it, neo-colonialism under the disguise of IMF technocracy. [10]

Rasmussen estimated that during the 1980s, the combined nations of the developing sector transferred a total of $400 billion into the United States alone. This allowed the Reagan Administration to finance the largest peacetime deficits in world history, while falsely claiming credit for “the world's longest peacetime recovery.” [11]
With high US interest rates, a rising dollar, and the security of American government backing, 43% of the record high US budget deficits during the 1980s were financed by this looting of capital from the debtor countries of the once-developing sector. As with the Anglo-American bankers in the post World War I Versailles reparations debt process, the debt was merely a vehicle for establishing *de facto* economic control over entire sovereign countries.

Even looting the debt-burdened developing world was not enough, however. The debt strategy of the Reagan Administration, Volcker and the New York banks was also taking its toll on the domestic US economy. In May 1986, the Joint Economic Committee of the US Congress prepared a Staff Study on the “Impact of the Latin American Debt Crisis on the US Economy.” The report documented the devastating losses of US jobs and exports as IMF austerity measures forced Latin America to virtually halt industrial and other imports in order to service the debt. The report noted:

> *It is now becoming clear that Administration policies have gone above and beyond what was needed for protecting the money center banks from insolvency...the Reagan Administration's management of the debt crisis*

> *has in effect, rewarded the institutions that played a major role in precipitating the crisis and penalized those sectors of the US economy that had played no role in causing the debt crisis.*[12]

The institutions that precipitated the crisis were, of course, the Volcker Federal Reserve and the New York banks. The Congressional report was ignored in the major media and was promptly buried.

Africa fared even worse than other regions as a result of the American debt strategy. The oil shocks and the ensuing 20% interest rates and collapsing world industrial growth in the 1980s dealt the death blow to almost the entire Continent. Until the 1980s, Black Africa had been 90% self-sufficient in exporting its raw materials to finance its development. Beginning in the early 1980s, the world dollar price of such raw materials--everything from cotton to coffee to copper, iron ore and sugar -- began an almost uninterrupted freefall.

By 1987 such raw materials prices had fallen to their lowest levels since the Second World War, as low as their level in 1932, a year of deep global economic depression. The 1980s collapse, which would last almost twenty years until China's economic boom began to reverse it in the early years of the next century, was a deliberate policy of the American financial interests to fuel an economic growth based on dirt-cheap raw materials in a 'globalized' economy.

If the prices for such raw material exports had remained at merely the levels of the early1980 period, Black Africa would have earned an additional 150 billion US dollars during the 1980s. In 1982, at the beginning of the 'debt crisis,' Africa owed creditor banks in he United States, Europe and Japan, some $73 billion. By the end of the decade, this sum, through debt 'rescheduling' and various IMF interventions into their economies, had more than doubled to $160 billion, almost exactly the amount that these countries would have earned at a stable export price level.

Chickens come home to roost

The aftermath of the oil shocks and the high interest rate monetary shocks of the 1970s was all too similar to the 1920s. In place of the Versailles reparations burden on world productive investment, the world now had the IMF's Third World debt "restructuring" process. The incredible rates of inflation during the early part of the 1980s -- typically 12-17% -- dictated the conditions of investment returns.

The IMF's 'structual adjustment' policies imposed after October 1982 to collect billions from Third World countries brought a huge windfall of financial liquidity to the American banking system. At the same time, Wall Street's and Treasury Secretary Donald Regan's zeal for lifting government 'shackles' off financial markets resulted in an extravaganza of financial excess. When the dust settled by the end of that decade, some began to realize that Reagan's free market had all but destroyed an entire national economy: the USA's.

President Ronald Reagan signed the largest tax reduction bill in postwar history in August 1981. The bill contained provisions that gave generous tax relief for certain speculative forms of real estate investment, especially commercial real estate. Government restrictions on corporate takeovers were also removed, and Washington gave the clear signal that 'anything goes, so long as it stimulated the Dow Jones Industrials stock index.

By summer 1982, as the White House secured agreement from Paul Volcker and the Federal Reserve that interest rate levels would finally begin a steady downward turn, the speculative bonanza was ready to go.

A bankruptcy of a small oil and real estate bank, Penn Square Bank, in Oklahoma that spring had combined with the Mexico debt crisis to convince Volcker that it was time to ease up on his strangulation of the money supply. A chain reaction collapse of the banking system was looming were he to continue with his high interest rates.

Between summer and December 1982, the US Federal Reserve Discount Rate was lowered seven times, to a level 4% lower than the previous August. The financial markets began to go wild with the low rates. Bonds and stocks boomed. Foreign capital flooded into New York financial markets to get in on the bonanza, pushing the dollar ever higher.

Reagan's ‘economic recovery’ did little to encourage investment in improving the technology and productivity of industry -- with the exception of a handful of military and aerospace firms that got record government defense contracts. Money went instead into speculation in real estate, into speculation in stocks, into oil wells in Texas or Colorado -- all of them ‘tax shelters.’

As Volcker's interest rates moved lower, the fever grew hotter. Debt was the new fashion. People reasoned it was ‘cheaper’ to borrow today and repay tomorrow at lower interest levels. It didn't quite work. While American cities continued their 20-year long decline, bridges fell in, roads cracked for lack of maintenance, schools went unrepaired, and new shopping centers often enclosed empty stores.

Breaking organized Labor

As a central part of Reagan’s policy, like Thatcher’s, trade unions were identified as ‘part of the problem.’ A 1920’s style class confrontation was set up between labor and management, and the result was the cracking of the organized labor movement.

Deregulation of government control over transportation was a key part of Reagan’s anti-union policy. Trucking and airline transportation were ‘set free.’ Non-union, cut-rate airlines and trucking companies proliferated, often with few or no safety standards. Accident rates climbed; wage levels of union workers plunged.

While the Reagan ‘recovery’ was turning young stock traders into multi-millionaires with a seeming push of a computer key, it was forcing the skilled blue-collar workforce into lower standards of living. No one in Washington paid much attention. The conservative

Reagan Republicans argued that trade unions were “almost like communists." A 19th century British-style cheap labor policy dominated official Washington.

The once-powerful International Brotherhood of Teamsters, the powerful transport and truckers’ union, the United Auto Workers union, Oil, Chemical and Atomic Workers union, United Mine Workers, steel unions and others gave concession after concession, in a desperate attempt to secure benefits for older workers about to be pensioned, or to hold onto existing jobs. Real living standards for the majority of Americans steadily declined, while the wealth of a tiny minority skyrocketed as never before. Society was becoming extremely polarized around income differentials.

The new dogma of ‘post-industrial society’ was being preached from Washington to New York to California. No longer was America's economic prosperity linked to investment in the most modern industrial and manufacturing capacities. Steel had been declared a ‘rust-belt’ or ‘sunset’ industry, as steel plants were allowed to rust and blast furnaces were actually dynamited. Shopping centers, McMansions, glittery new Atlantic City or Las Vegas gambling casinos, and luxury resort hotels were where the money was to be made.

During the speculative boom of most of the Reagan years, the money flowed in from abroad to finance this wild spree. By the mid-1980s the United States had passed from being the world's largest creditor, to becoming a net debtor nation for the first time since 1914. Debt was cheap and it grew exponentially. American families went into record levels of debt to buy houses, cars, appliances, and even college tuition. The Government went into debt to finance the huge loss of tax revenue and the expanded Reagan defense buildup.

By 1983, annual Government deficits began to climb to an unheard of level of $200 billion. The National Debt expanded along with the record deficits, all paying Wall Street bond dealers and their clients record sums in interest income. Interest payments on the total debt of the US Government doubled in six years, from $52 billion in 1980 to more than $142 billion by 1986, almost a 300% rise, equal to one-fifth of all government revenue. Money flowed in from Germany, from Britain, from Holland, from Japan, to take advantage of the high dollar and the speculative gains in real estate and stocks.

Washington's 'reverse' Oil Shock

Storm clouds began to gather on the US economic horizon during 1985, threatening the future presidential ambitions of Vice President George H. W. Bush. Once again, oil would come to the rescue. This time, however, the tactic of manipulating global oil prices was run very differently from the Bilderberg oil shocks of the 1970s. Washington apparently reasoned, "if we can run the price up, why can't we run it down?"

The reasons included a growing concern over the weakness of the US economy, something that would receive a calculated boost were world oil prices to fall by 30-40%, as a top secret US Treasury Department study review in October 1985 concluded. The study noted, "lower oil prices would be good for the world economy…Our policy should be…to discourage OPEC and other producers from *artificially* propping up prices…" [13] In fact, as speeches and public statements from US Energy Secretary Donald Hodel and others made clear, to the loud protest of Saudi Oil Minister Sheikh Yamani, Washington was engaged in a covert operation to bring down oil prices while publicly talking as if the opposite was their policy.

In March 1985, US Secretary of State George Shultz sent a classified internal telegram to the US Embassy in London which read in part, "The Secretary is extremely interested in the Department producing quickly a study of the impact of a precipitous drop in the price of oil." [14] Saudi King Fahd had just come to Washington on February 11 to meet with President Reagan to discuss "oil and economic relations." During the trip of the Saudi King, his oil minister Yamani also met with Vice President George H.W. Bush, Treasury Secretary James Baker and Energy Secretary John Herrington, who told Yamani that "the market" should be allowed to set prices.

By September 1985 Washington pressure on Saudi Arabia to raise its production levels at a time of high stock prices began to push world oil prices down. Assistant Secretary of State Morton Abramowitz wrote in a memo to Secretary Shultz, “By raising production and offering market related pricing…the Saudis seek to reform OPEC…If a price war were to occur oil prices could well plunge to the $20 a barrel range.” They were at $35 when the action began. Abramowitz continued, “Most of the world, including the US, would benefit…” [15]

Then, Vice President George Bush traveled to Riyadh in April 1986. According to a declassified State Department account of the talks, Bush told the Saudi King that “market forces could best set oil price and production levels” -- code for having the Saudis collapse world prices by turning on the oil spigots full throttle. [16]

Significantly, in addition to a turbo boost to the US economy that would kick in conveniently in time for the anticipated Presidential campaign of George Bush in 1988, Abramowitz noted that as a result of a sharp drop in oil prices, “the Soviet Union would suffer a net unfavorable impact in the near term since it relies heavily on oil exports for hard currency earnings.” [17]

At the same time he was involved in the Saudi reverse oil price shock that impacted Soviet hard currency earnings, Abramowitz was also involved in secret negotiations to provide highly effective Stinger missiles to Afghan Mujahadeen guerillas, whose numbers included a young Saudi named Osama bin Laden.[18] Appropriately, after Abramowitz left the State Department, he became president of the Carnegie Endowment for International Peace. The Stinger missiles were credited with dealing a significant blow to Soviet air force in Afghanistan.

Washington convinced Saudi Arabia’s King Fahd, over the objections of his Oil Minister Yamani, to run the “reverse oil shock” and flood the depressed world oil market with its abundant oil.[19] The price of OPEC oil dropped like a stone, from an average of nearly $26 a barrel in the winter of 1985, to below $10 per barrel by the late spring of 1986.

Magically, Wall Street economists proclaimed the final ‘victory’ over inflation, while conveniently ignoring the role of oil in creating the inflation of the 1970s or in reducing it in the 1980s.

Saudi Oil Minister Sheikh Zaki Yamani, who had openly opposed what he called a US oil price conspiracy, was made the scapegoat for a policy authored in Washington, and was fired by King Fahd. Oil prices stabilized at a conveniently low level of around $15 per barrel by 1987, in time to ensure a nice boost to the US economy as Presidential elections neared.

This 1986 oil price collapse unleashed a stock market surge that was comparable to the 1927-29 Wall Street stock bubble. Interest rates dropped even more dramatically, as money flowed in to make a ‘killing’ on the New York stock markets. A new financial mode became fashionable on Wall Street -- the Leveraged Buy-Out.

With money costs falling and stock prices rising, and the Reagan Administration promoting the religion of the unfettered ‘free market,’ anything and everything was allowed if it made money. A sound, 100-year old industrial company that had been conservatively managed – perhaps producing tires, or machines or textiles -- became a target for the new corporate ‘raiders,’ as the Wall Street scavengers were called.

Colorful personalities such as T. Boone Pickens, Mike Milken, or Ivan Boesky became billionaires on paper, as frontmen in the Leveraged Buy-Outs. A new corporate management philosophy of ‘market efficiency’ was proclaimed from such august institutions as the Harvard Business School and the University of Pennsylvania’s Wharton School, to rationalize this madness.

Over the decade of the Reagan years, almost $1 trillion flowed into speculative real estate investment, a record sum, almost double the level of previous years. Banks, desiring to secure their balance sheets against troubles in Latin America and elsewhere, went directly into real estate lending for the first time, rather than traditional corporate lending.

The banks loot the S&Ls

Savings & Loan banks, established as separately regulated banks during the depression years to provide a secure source of long-term mortgage credit to family home buyers, were ‘deregulated’ in the early 1980s as part of Treasury Secretary Donald Regan's Wall Street ‘free market’ push. They were allowed to ‘bid’ for wholesale deposits, termed ‘brokered deposits,’ at a high cost. To facilitate this, the Reagan Administration removed all regulatory restraints in October 1982 with passage of the Garn-St. Germain Act which allowed S&L banks to invest in any scheme they desired, with US Government depositors insurance of $100,000 per account guaranteeing the risk in case of failure.

Using a Las Vegas image, President Reagan enthusiastically told an audience of invited S&L bankers, as he signed the new Garn-St. Germain Act into law, “I think we've hit the jackpot.” His jackpot was the beginning of the collapse of the $ 1.3 trillion Savings & Loan banking system, at taxpayers’ expense. Before the dust had settled, some 747 S&Ls had failed, costing US taxpayers more than $125 billion.

The new law had opened the doors of the S&Ls to wholesale financial abuses and wild speculative risks as never before. Moreover, it made S&L banks an ideal vehicle for organized crime to launder billions of dollars from the growing cocaine and narcotics business in 1980s America. Even so-called ‘reputable’ and high gloss firms joined the fray. It was Merrill Lynch, the former firm of Donald Regan, whose Lugano Switzerland office was implicated in laundering billions of dollars of heroin mafia profits in the so-called ‘Pizza Connection.’

The wild and woolly climate of deregulation created an ambience in which normal, well-run, savings banks were surpassed by banks that catered to dubious money with no questions asked. Banks laundered funds for covert operations of the CIA, as well as covert operations of organized crime families. The son of the Vice President, Neil Bush, was a director of the Silverado Savings and Loan in Colorado, later indicted by the government for illegal practices. Son Neil had the good taste to resign the week his father received the Republican nomination for president in 1988. [20]

In order to compete with the newly deregulated banks and S&L's, the most conservative of all financial sectors, life insurance companies, also entered the speculative real estate market in a major way during the 1980s. But unlike banks and S&L's, insurance companies -- perhaps because they had been so conservative in the past -- never had been placed under national supervision or regulation. There was no national Government insurance fund to protect policyholders of insurance companies as there was for bank depositors. By 1989, insurance companies were holding an estimated $260 billion in real estate on their books, an increase from about $100 billion in 1980. But by then, real estate was collapsing in the worst depression since the 1930s, forcing failures of insurance companies for the first time in postwar history, as panicked policy-holders demanded their money.

The ultimate cost of the 1980s S&L debacle came to more than $160 billion. Some calculated that real costs to the economy ran as high as $900 billion. Between 1986 and 1991, the number of new homes constructed dropped from 1.8 million to 1 million, the lowest rate since World War II.

The simple reality was that New York financial power had so overwhelmed all other national interests since the oil shocks of the 1970s, that almost no other voice was heard in Washington thereafter. Debt grew by astonishing amounts. When Reagan won the 1980 election, total private and public debt of the United States stood at $3,873 billion. By the end of the decade, it touched $10 trillion, or $10,000 billion. This meant a staggering increased in debt of more than $6,000 billion during this brief span.[21]

With the debt burden carried by the productive economy rising, and US industrial plant and labor force deteriorating, the cumulative effects of two decades of neglect began to manifest in wholesale collapse of vital public infrastructure of the United States. Highways cracked for lack of regular maintenance; bridges became structurally unsound and in many cases collapsed; urban water systems were allowed to become contaminated in depressed areas; hospitals and schools in major cities fell into disrepair; housing stock for the less wealthy decayed dramatically. By 1989 the association for the construction industry, Associated General Contractors of America, estimated that a net investment of $3.3 trillion was urgently needed merely to rebuild America's crumbling public infrastructure up to modern standards. No one in Washington listened.

The Bush Administration proposed ‘free market’ private initiative to solve the problem. Washington was in a budget crisis by 1990. The unequal distribution of the benefits from the Reagan recovery was indicated by US Government figures on the number of Americans living below the poverty level.

In 1979 when Paul Volcker began his monetary shock in the midst of the second oil crisis, the Government recorded 24 million Americans below the poverty level, defined as an income of less than $6,000 per year. By 1988, the figure had expanded by more than 30%, to 32 million Americans. Reagan-Bush tax policies had concentrated wealth into a tiny elite, as never before in US history. Since 1980, according to a study carried out by the US House Ways and Means Committee of Congress, real income for the top 20% increased a full 32%. That wealth gap was to explode when Bush’s son, George W. Bush took office and pushed through the most radical tax cuts in American history. He was following the script written by the Money Trust back in 1973.

Costs of American health care, meanwhile, a reflection of the strange combination of privatization, free enterprise and government subsidy, rose to the highest levels ever; as a share of GNP, it was double that of the UK. Yet, 37 million Americans had no health insurance whatever – a number that surpassed 50 million in 2009. Health levels in large American cities, with impoverished ghettoes of black and Hispanic unemployed, resembled those of a Third World country, not what was supposed to be the world's most advanced industrial nation.

Japan comes to Bush's rescue

On October 19, 1987 the stock bubble burst. On that day the prices on the Dow Jones Index traded at the New York Stock Exchange collapsed more than in any single day in history, by 508 points. The bottom had fallen out of the Reagan 'recovery.'

But the bottom had most assuredly not fallen out of the strategy of the Bush and Rockefeller wing of the American establishment. They were determined to ensure that sufficient funds were invested to keep their hot air balloon aloft until the new President, George Herbert Walker Bush, could impose the Money Trust's grand strategy for the century's end.

The October 1987 stock crash signaled the beginning of the end of the deregulated financial speculation that had kept the American Century afloat since the early 1970s.

George Bush, anticipating election to the presidency the following November 1988, enlisted the efforts of his former campaign manager and close friend, Treasury Secretary James Baker, along with a powerful faction of the American establishment, to guarantee that despite the implications of the October 1987 crash, foreign capital would continue to flow into US bond and stock markets to sustain the illusion of a Reagan-Bush economic 'recovery' in the minds of voters.

Washington appealed to the Japanese government of Prime Minister Nakasone, arguing that a Democratic Party president would damage Japanese trade with the US. Nakasone pressed the Bank of Japan and the Ministry of Finance to be accommodating. Japanese interest rates after October 1987 went lower and lower, making US stocks and bonds as well as real estate appear cheap by comparison.

Billions of dollars streamed out of Tokyo into the United States. During 1988 the dollar remained strong and Bush was able to secure election against his Democratic opponent. To secure this support, Bush gave private assurances to senior Japanese figures that a

Bush presidency would ‘improve’ US-Japanese relations. The result of various Japanese financial concessions was the creation of the greatest world speculative bubble since the 1920s in Japanese stocks and real estate.

When it all came crashing down in 1990, as a worried Bank of Japan -- fearful of losing economic control -- began to raise interest rates, Japan was plunged into a decade-long depression and deflation from which it never fully recovered.

The actual plan of the new Bush Administration was to direct pressures on select US allies, especially Germany and Japan, for increased ‘burden sharing’ to manage the gigantic US debt burdens. Bush argued that Germany, Japan and other major economic and military allies of America should increase their financial support to maintain the American Superpower. It was a thinly veiled threat.

Despite the extraordinary measures taken by Wall Street and their friends in Washington during the 1980s, by the end of that decade the prospects for American superpower dominance looked worse than ever. Its domestic economy had essentially been relegated to Third World status after two decades of neglect, after Volcker’s interest rate shock therapy, and as a result of America’s corporate elite outsourcing jobs to lower wage countries from Mexico to Asia.

The large New York money center banks were in bad shape by 1989. That year, Senator Robert Dole called an emergency closed-door meeting in the White House to discuss a confidential Senate report showing that eleven of America’s largest banks were technically insolvent. The largest, Citibank, was described as ‘brain dead’ by one Wall Street bank analyst. The Money Trust needed to take drastic measures. Alan Greenspan, who was named to replace Volcker as head of the Federal Reserve, would prove amenable to almost any wish of his old Wall Street friends.

Endnotes:

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[1] Robert O. Anderson, cited in William Greider, *Secrets of the Temple: How the Federal Reserve runs the country* (New York: Simon & Schuster, 1987), p. 648.
[2] Sam Aaronovitch, *The Road From Thatcherism* (London: Lawrence & Wishart, 1981).
[3] William Greider, op. cit., p 156.
[4] International Iron and Steel Institute. *Infrastructure: Problems and Prospects for Steel*. Brussels. 1985.
[5] The LIBOR or London Interbank Offered Rate is the rate at which banks lend to one another in the major international wholesale money market in London. It is a standard financial index used in US and international capital markets. When this index goes up, interest rates on any loans tied to it also go up.
[6] Robert O. Anderson, op. cit.
[7] Following the defeat of Germany in World War I and several years of German hyperinflation lasting until 1923, the House of Morgan stepped in to take control of the German war reparations repayments. In effect J.P. Morgan took the German economy and its finances into its receivership. Morgan, acting through the US Government, named an Agent-general for Reparations, S. Parker Gilbert, a J.P. Morgan partner, installed in Berlin to collect the repayments for the Allies. Gilbert had power to impose new taxes, take control over the German central bank and insure that Britain, France and Italy got their reparations paid. That in turn allowed Morgan to be repaid for its war loans to the British, French and Italian governments which, conveniently, more or less exactly equaled the sum set by the Allied Powers for German War Reparations. The issue of Versailles reparations created a deep bitter resentment among the German elites and the population, a resentment that later the NSDAP party of Hitler exploited. See F. William Engdahl, *A Century of War: Anglo-American Oil Politics and the New World Order*, Chapter 6, pp.68-71. When reparations finally broke down in 1929, another Morgan scheme, the Young Plan, was proposed which called for establishing a supranational institution, the Bank for International Settlements situated just across the German boorder in Basle Switzerland to do the job.
[8] One of the most damaging consequences of IMF conditions imposed on debtor countries was the forced removal of state food subsidies and the forced opening of developing debtor countries to US Department of Agriculture subsidized agriculture products. Third World countries were flooded with mass produced food from US agribusiness – bananas, melons, chickens, rice, onions, whatever had previously been produced by local farmers. The US food industry always undercut the local prices and drove the farmers out of business.This made the local population import-dependant in food where they had been self-sustaining. The case of Jamaica was exemplified in the documentary video, *Life and Debt in Jamaica*, www.livevideo.com.
[9] Ibid. 1987.
[10] Hans Kornoe Rasmussen, *The Forgotten Generation: a debate book concerning children and the debt crisis*, (Copenhagen: Danish UNICEF Committee, 1987).
[11] Ibid. Also useful for background, see Marko Milivojevic, *The Debt Rescheduling Process* (New York: St. Martin's Press, 1985). See also, the annual United Nations reports, *Economic Survey of Latin America,* for useful data.
[12] US Congress, Joint Economic Committee, Staff Study, *Impact of the Latin American Debt Crisis on the US Economy*, May 1986, Washington DC.
[13] Richard T. McCormack, *Information Memorandum on Oil Prices to Secretary of State George Shultz*, October 25, 1984, Washington DC, document S001, declassified.
[14] George Shultz, Telegram, March 1985, # 081715, declassified.
[15] Morton I. Abramowitz, Assistant Secretary for Intelligence, *Implications of the Saudi Oil Price Cut*, September 19, 1985, US Department of State, Washington DC, declassified 6/4/1992.
[16] Edwin S. Rothschild, *The Reagan-Bush Administration's Role in the 1986 Oil Price Crash*, memorandum provided to the author in 1991.
[17] Ibid.
[18] Diana Johnstone, *Fool's Crusade* (London: Pluto Press, 2002), p. 9.

[19] Edwin S. Rothschild, *An Oil Card Up his Sleeve? How the Saudis could give Bush a $30 billion tax cut*, The Washington Post, November 24, 1991. Rothschild wrote, "in 1986 the Reagan-Bush Administration persuaded Fahd to open Saudi oil spigots to reduce world oil prices from $29 to $18 a barrel. Together with the devaluation of the US dollar engineered by then-Secretary of the Treasury James Baker, the oil price boosted US economic growth."

[20] Stephen Pizzo, *Inside Job: The looting of America's Savings & Loans* (New York: McGraw-Hill, 1989).

[21] US Congress Joint Economic Committee, *Economic Indicators,* Washington, 1990.