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Swiss cashing in as financial fears mount

by David Goldman, Economics Editor, from Wiesbaden

The Malvinas Islands crisis has already become the theater for a quiet international banking reorganization. Switzerland, whose monetary authorities point out that other banking centers have been badly compromised by politically motivated seizures of assets, is the center of behind-the-scenes preparations for scuttling the present world banking system.

The *London Observer* reported April 19 that Schroder Wagg, the British merchant bank which began as a German-Jewish trading house in Latin America, had already transferred its entire $10 million loan book for Argentina to the relative safety of Zürich on April 1, one day before Argentine troops moved into the Malvinas Islands. Other British banks have reportedly taken the same step. Schroder's canny action must be seen in the context of other developments. Switzerland has also been the principal beneficiary of the Mitterrand government's ostensible exchange controls—which resulted in the creation of 600,000 new Swiss accounts for French citizens, who are openly setting up gold accounts with the Paris branches of Swiss banks, contrary to the supposed toughness of Mitterrand's control measures.

Already last year, the top French *Banque d'Affaires,* the Banque de Paris et de Pays-Bas (Paribas), had transferred its major holdings to Geneva, through the intermediation of the Swiss-French-Canadian Pargesa group, arousing the impotent rage of the French government. Last month Pargesa also secured a controlling 30 percent share in the Belgian bank Bruxelles-Lambert, which enjoys a position in Belgium comparable to Paribas' in Paris. These events bespeak a general consolidation of financial operations through the free banking center of Switzerland. Senior Swiss bankers point out that New York lost its credibility as an international banking center, above all with Arab depositors, following the 1979 U.S. seizure of Iranian assets. Now the center par excellence of Eurodollar market business, London, with more than $200 billion of international deposits, has fallen into the same hole. This is broadly recognized in British banking circles as well. In an April 20 editorial entitled "Bankers and Realpolitik," the London *Financial Times* warned that the Malvinas crisis is probably only the first in a series of such developments, where foreign policy would supersede the ordinary rules of business.

Swiss officials claim that Swiss policy is to avoid the exploitation of others' misfortunes, but they have difficulty suppressing a degree of *Schadenfreude* (joy at others' injury) in discussing the subject. Said a senior Swiss official responsible for monetary affairs in an April 21 interview: "There is no question of Swiss participation in any retaliatory moves against Argentina or any other country, which would be against Swiss neutrality." Asked whether Switzerland might benefit from the embarrassment of New York and London, the official said, "In conformity with our policy—I am referring to all Swiss official institutions—we wish to avoid those kinds of consequences, where we would benefit from troubles elsewhere. But between the principle and application there can be considerable divergence."

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The military dangers inherent in the British blockade of the Malvinas overshadow, but do not erase, the financial background to the British seizure of Argentine assets. Whether or not the Argentines are forced into default as a military measure, the underdeveloped sector is bankrupt, and has been since the doubling of oil prices and the ensuing doubling of interest rates in 1979. The exhaustion of the oil surplus also exhausts the base of banking deposits with which the deficits of the underdeveloped countries may be financed.

The world is moving into a 1934-style system of defaults, blocked accounts, bilateral trade, and rationed credits: the "monetary protectionism and domino-style banking collapses" Schmidt warned against in an April 5 address. This much was recognized in a roundabout fashion by *Financial Times* columnist Nicholas Colchester in an April 21 analysis:

> The gross surpluses of the oil exporters were $111 billion in 1980, dropped to $75 billion in 1981, and will, according to a Bank of England estimate, be down to $20 billion in 1982 [Daiwa securities estimates a $10 to $50 billion deficit—D.G.]. . . .
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> Those oil surpluses were very large. They were equal to well over half of all current-account deficits in 1980, and their first appearance did seem to kick the whole business of international finance onto a higher plane. So their dwindling permits two hunches. The first is that overcapacity in the business of wholesale international banking will have to be shaken out. The second hunch is that consortium banks [banks owned by a combination of parent banks—D.G.] will be particularly ill-placed in this process. They rely heavily on the interbank market for their funds. The size and extraordinary growth of that interbank market partly derived from the geyser of oil deposits which arrived through too small a number of institutions to be re-lent directly to the outside world. As the geyser fails, the importance of direct access to customer deposits will re-assert itself.

Quietly, a gigantic rupture in the structure of the banking system is becoming apparent. On the one side, according to official estimates from Morgan Guaranty Trust, Chemical Bank, and the U.S. Treasury, bank lending to the LDCs is expected to fall to only $50 billion this year, from $63.4 billion in 1981. However, German banking sources say, a great deal more than this is currently being lent short-term, as banks generate deposits on the interbank market, and lend the ensuing deposits to developing-sector debtors, so that the debtors may pay their interest on previous loans. At current interest rates, the interest alone on developing-sector commercial and official debts will be more than double the $50 billion the banks say they plan to lend; and the borrowers in question cannot possibly cut imports fast enough to save funds in order to pay interest. Therefore, while the OPEC deposit base (as well as the deposit base deriving from other recession-struck commodity producers) has shrunk, the interbank market has continued to expand to fill the gap, and provide refinancing credits to this category of debtor nations.

"Despite the disappearance of OPEC deposits," said a well-informed Frankfurt financier, "there is still money in the Eurodollar market. But none of it is real." As fast as the banks are refinancing bad old loans with bad new deposits, however, they are scrambling to segregate their good deposits—deposits of corporate customers and creditworthy nations—and their good loans. In effect, they are doing business with two sets of books, one of which may be sacrificed if major defaults occur, leading to the sort of "domino-style banking crisis" Helmut Schmidt warned of. As *EIR* has noted for some time, the creation of the international banking facilities (IBFs) represented such a second set of books, a fallback option in case of major defaults—the American banks have attempted, insofar as possible, to finance bad loans to underdeveloped nations through fictitious deposits, in such centers as London or the Cayman Islands. If such loans are defaulted upon, the banks would, at least theoretically, have the option of abandoning those offshore subsidiaries, declaring them banks of British or Caymans Islands nationality, and writing off only the negligible equity value held by the mother bank. At the same time the cast-off subsidiary would default on its deposit obligations to the interbank market—producing a chain reaction collapse.

This scenario is very much on the minds of European bankers, who watched with alarm as the New York banks brought $100 billion of deposits into their IBFs in New York. "A major purpose of the IBFs was to create a fallback option in the event of a crisis, we have known all along," said a senior West German commercial banker. "Our only fallback position would be to withdraw into Germany, and then finance our trade in German marks."

The Swiss have already taken a big step toward a 1934-type banking system, in which banking would retreat behind national barriers, through new measures to make the Swiss franc more attractive as an international lending currency. In an extraordinary development on April 17, the Swiss central bank permitted the World Bank to issue a dollar bond in Switzerland, with interest and principal payments indexed to the dollar-franc exchange rate. As the *Neue Zürcher Zeitung* pointed out April 20, the Bank of England has taken a remarkable step toward promoting the pound sterling into expanded international status, by permitting the new London gold futures exchange to denominate gold contracts in sterling. Previously, all gold trading, in-

cluding that in Switzerland and West Germany, had been conducted in dollars.

Reorganizations

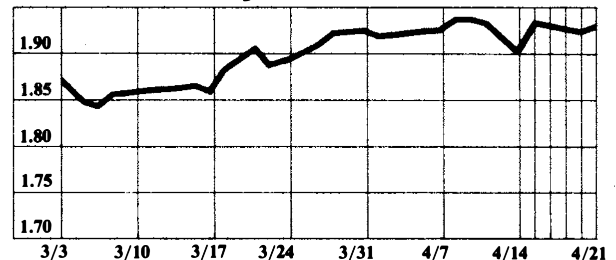
The proponents par excellence of currency blocs, the present French government, intended to use the Versailles summit the second week in June as a forum to demand that the dollar find a band of stability against the European national currencies—something the present U.S. Treasury would never accept—with the threat that Europe would create an anti-dollar bloc in case of American refusal. Bonn still vehemently opposes such anti-Americanism, but the issue is not really what currency arrangements governments might come up with: it is how the world banking system will be reorganized under conditions of de facto bankruptcy. The re-positioning of major commercial banks under these circumstances, might override all such reasonable objections to currency blocs.

It is also not to be left out of account that the banking developments summarized above have a disturbing parallel in strategic affairs, namely, that the collapse of the U.S.-dominated Eurodollar market would be accompanied by a strategic humiliation of the United States. Some well-informed observers of Swiss affairs believe that an American failure to stand by Argentina would force Argentina into a higher level of economic deals with the Soviet Union as a matter of survival, a question intensified by the early April meeting of the joint Argentine-Soviet economic commission. According to these observers, the Swiss-Italian Freemasonic banking group associated with the 'Propaganda-2' lodge exposed last year by the Italian government are backing the Argentine side (despite the fact that Britain's Duke of Kent heads the lodge) in order to position themselves to mediate such a Soviet-Argentine economic deal.

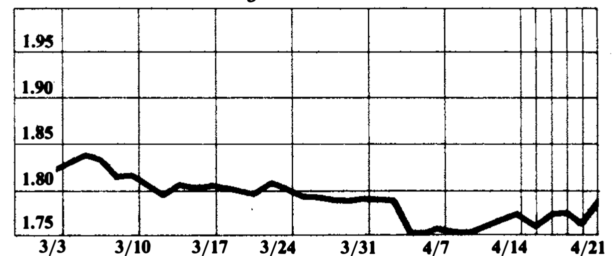
The Soviets, who must protect their trade channel with Argentina merely in order to ensure grain supplies, cannot afford to look the other way in the event of a British blockade. Certain illusions in Washington are not helping the American position. The *Neue Zürcher Zeitung* noted April 20 that the resumption of American-Soviet grain negotiations May 21-22 in Paris, announced by farm-state Sens. Robert Dole and Roger Jepson, has a good deal to do with the Argentine crisis: Agriculture Secretary John Block believes, according to the Swiss newspaper, that the Soviets must negotiate on American terms now that Britain threatens to blockade Argentina's grain ports. One can imagine how the Kremlin would react to such an American negotiating posture. Again, Switzerland, the perpetual "neutral," hopes to use its connection into Argentina, which centers on the old Perón forces, to become the indispensable middleman in the whole affair.

Currency Rates

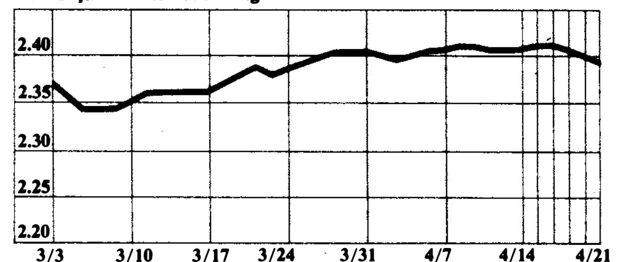
The dollar in Swiss francs
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing



The dollar in deutschemarks
New York late afternoon fixing



The dollar in yen
New York late afternoon fixing