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Group of Thirty plans for post-crash controls

by Richard Freeman

The Group of 30, the bankers' consulting group to the International Monetary Fund, is demanding that a new international bankers's council be created that will dictate all new credit flows to private borrowers and governments in the increasingly likely event of a world financial collapse. This council, dubbed a "Consultative Group for International Banking," would be composed of central banks, commercial banks, and the Bank for International Settlements, the Swiss-based financial command center that stands behind U.S. Federal Reserve Chairman Paul Volcker.

A G-30 report released May 3 states: "The growth of the international banking system has increased the potential range of problems created by bank failures. . . . Moreover, the transnational structure of the international banking system and the potential global spread of contagion have enormously complicated the management and resolution of bank failures and distressed bank situations."

This brings the G-30 to its central concern: who is the lender of last resort—normally a task undertaken by central banks—during a financial crisis?

"Debates about dealing with distressed banks in an international context have tended to concentrate on lender of last resort facilities," the G-30 report, entitled "Risks in International Lending," states. The G-30 proceeds to nominate its international council, which includes the central banks, as the new supranational final lender of last resort to the banking system of the West. The international council would take credit negotiations with individual banks out of the hands of sovereign underdeveloped nations, and force these nations to crawl to a private bankers' consortium to obtain essential new credit.

The international bankers council, it is also expected, would be used to enforce the demand put forward May 7 by a London merchant banker, who also heads one of England's most powerful families—that in order to receive a new credit line, an underdeveloped nation would have to put up *80 percent of that loan as security* in the form of industrial and other assets of the nation itself.

Third World nations have not had to collateralize their government loans since the period prior to World War I, when colonialism still reigned. Under the Group of Thirty's international council, the developing sector's mortgaged belongings would pass straight to financial front men for Zürich and Geneva, the retainers of the modern descendants of the oligarchical doges of Venice, and the royal household of Britain.

Who is the Group of 30?

A glance of the roster of names of the "financial experts" who comprise the Group of 30 confirms the point. The authors of "Risks In International Lending," include:

- Geoffrey Bell, director of Schroeders Bank International, the bank that financed Hitler's rise to power in the 1930s;
- Rainer Gut, speaker of the executive board for Crédit Suisse, one of Switzerland's top three banks;

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• Henry Wallich, governor of the U.S. Federal Reserve Board, whose ususry policy since 1979 has brought the United States into depression;

• Dennis Weatherstone, chairman of the executive committee of Morgan Guaranty Bank;

• John Heimann, former U.S. Controller of the Currency, and now chairman of the executive committee of Warburg, Paribas, Pincus;

• Peter Cooke, chairman of the Basel Committee on Banking Regulation and Supervisory Practice, which has proposed drastic credit contraction; and

• Edmond Safra, a Lebanese banker and chairman of the Republic National Bank of New York, who is one of the world's biggest gold dealers and dirty-money specialists.

The New York-headquartered G-30 was formed in 1979 as an advisory body to the IMF. It is chaired by former IMF managing director Johannes Witeveen. Its advisory body, which includes some but not all of the above authors of the "International Lending Risks" report, is composed of strategically picked representatives from oligarchic families and their financial powerbases around the world, including Robin Pringle, former editor of *Banker* magazine, the executive director of the G-30; Abudul Aziz Alquraishi, governor of the Saudi Arabian Monetary Agency; Roberto Campos, Brazilian Ambassador to London; Janos Fekete, deputy governor of the National Bank of Hungary, Alexandre Lamfalussy, head of the monetary and economic department of the BIS; Jacques Maisonrouge, chairman of IBM World Trade; Christopher McMahon, deputy governor of the Bank of England; Tomaso Padoa-Schioppa, director general for economic and financial affairs of the European Community, and one of the more powerful Venetian financiers; Claude Pierre-Brossolette, chairman of Crédit Lyonnais; Robert Roosa, partner of Brown Brothers Harriman and former U.S. Undersecretary of Treasury; Anthony Solomon, president of the New York Fed; and Cesar Verata, Prime Minister of the Philippines and chairman of the IMF and World Bank Development Committee.

'Too much lending'

The report begins by stressing the overexposure of all banks to international lending. "While borrowers's debt burdens have grown," it states "so have the relative magnitudes of bank's international loans in loan portfolios. Recent U.S. data highlight the growing importance of LDC borrowers: the aggregate exposure of the nine largest U.S. banks to LDC's has increased from 1½ times total capital in 1977 to more than double capital in 1980, and by the end of 1980 there were 80 instances of U.S. banks with exposure to single LDC's greater than 30 percent of capital funds."

The findings were ordered written up by former U.S. Comptroller of the Currency John Heimann and Geoffrey Bell of Schroeder's International, two leaders of the Group of 30. The writing was executed by members of the staff of Heimann's Office of Comptroller of the Currency (OCC): C.F. Mackenfuss III, former Senior Deputy Comptroller for Policy, and Steven J. Weiss and Judith Walter, the director and deputy director of the OCC's Strategic Analysis Division.

The report focuses on two essential points: 1) commercial banks in the advanced sector have lent too much both to the Third World and the lower rung of advanced sector nations; and 2) there is no way of curbing this international lending within current political geometries because banks are bent on preserving their narrow self-interests and thus by dispensing funds, inadvertently providing the finances for industrial activity to be continued.

The report concludes, often explicitly, that this lending must be slashed and then policed by a body that transcends national borders and interests. One is reminded of the writings of Thomas Hobbes, who recommended the dictatorial oversight of a "Leviathan" to regulate the over-competing war of all against all. In this case, the BIS and central banks will regulate the banking system "for its own good."

With regard to the banks' propensity to lend too much, even for such things as raw materials and natural development, the G-30 report warns with consternation that, "there are past instances, for example, of banks' enthusiasm for lending being based on a country's natural endowment with a concomitant realistic appraisal of the country's ability to *manage* its natural resources [emphasis in original]."

Second, the G-30 study complains, banks constantly disregard country risk danger signals and do not listen to guidance from above. "In the end," the report states, "even very sophisticated country-risk assessments may be overridden by other considerations. . . . There is still a tendency for individual banks to pull in different directions. Divisions among banks during a time of crisis tend to be along national lines. The divergence may have any number of roots, including . . . political pressure from home governments."

Third, the commercial banks are often powerless to act against a developing-sector borrower. Official LDC debt reschedulings, according to the G-30 report, have been conducted by the Paris Club, a grouping of government representatives of lender nations. But, reports the G-30, meetings of the Paris Club have broken down recently, because the commercial banks are becoming more involved in Third World lending, and are not represented at the Club. "In the case of Peru [in 1976]," the report states, "the banks discovered that they alone did not have the sanctions to impose conditions for economic adjustment"—that is, the ability to

impose austerity conditionalities on the debtor nations, as does the International Monetary Fund.

The Group of 30 therefore demands that its proposed council of commercial banks, central banks, and the Bank for International Settlements, assume the following prerogatives:

- Setting "sovereign risk": The international council would determine which countries have debt loads that will not be refinanced. The council's standards will be much tougher, the report makes clear.
- Rescheduling: Commercial banks would be forced, according to a plan devised by Swiss henchman Henry Wallich, to set aside loan loss reserves; and write off certain Third World loans.
- "Co-financing" with the International Monetary Fund: The IMF would become the enforcer on loans. The G-30 also specifies a plan whereby debtor governments would be required to kick in a certain amount of tax money as insurance for the private banks on their loans.
- Dictating lending terms, including interest rate levels, maturity terms, and roll-over agreements.

But even these powers are not enough, as a member of the British nobility, whose ancestor was the financier behind the Stuart restoration in 1603, indicated in discussing his demand that debtor nations put up physical collateral on 80 percent of their loans.

"The old families of Europe are meeting and deciding where to put their money when the financial crash occurs," this merchant banker explained. "In fact, I just had dinner the other night where we discussed this subject. Many are putting their money into either cash, property, or the favorite government stock of their choice.

"We know that the Third World, particularly Latin America, is making approaches to central banks and commercial banks to get confirmed credit lines. The banks want a safety net for their lending, and the Swiss are planning to ask that 80 percent of the loans they make be secured."

What this arrangement means, particularly with the investment trusts of the oligarchy (the *fondi*) buying up their "favorite government stock," is that once the debtor governments are thrown into default, the wealth of a nation, its national patrimony, will be turned over to the *fondi*.

This is the system that permitted the British to take over and loot Egypt in the 19th century. Increasing percentages of the Egyptian cotton crop and government assets were mortgaged to Baring's Bank and other British banks, and when after a succession of usurious "refinancings" the Egyptians were no longer able to pay, the British military was sent in to enforce "orderly" debt collection arrangements and to assume political power in Egypt.

Congress to force a debt default crisis?

by Richard Freeman

The offices of Sens. Daniel Moynihan (D-N.Y.) and Robert Kasten (R-Wisc.) reported May 11 that the Senators will introduce an amendment this month declaring in default the nearly $1 billion debt of Poland to the U.S. government and its guarantee agencies. Jerry Lewis (R-Calif.) reported May 12 that he will introduce a similarly worded amendment into the House at the first opportunity. The purposes of the amendment, according to its sponsors, is to "curb the money available for the Soviet military build-up," and to demonstrate that "détente now is over." In fact, the amendment, as its sponsors are well aware, may be the trigger for a generalized 1931-style banking collapse.

Poland has $25 billion in total outstanding foreign debt. Written into its loan agreements is what is called a "cross-default clause," which says that if any one creditor of Poland declares the country in default, all other creditors must do likewise. The government and banking system of West Germany alone have $6 billion in loans to Poland. Although the total U.S. public and private bank lending to Poland is not thought to exceed $3 billion, as one group of commercial bankers told Senator Kasten's office April 19, "if Poland is declared in default, there could soon be other East bloc defaults."

"Moreover," the bankers continued, "a European country damaged by the Polish default could then declare a Latin American nation's debt to be in default if a Latin American country didn't meet its payment schedule. U.S. banks hold over $109 billion in loans to Latin America. The United States couldn't protest, because our having declared Poland in default would have hurt the Europeans," the bankers said. That is, in a Polish-triggered debt-default, the U.S. banking system would be the biggest loser.

Yet both Kasten's and Moynihan's offices have dismissed that reality. Representative Lewis of California, the House sponsor of the amendment, told a reporter May 12, "a banking collapse is a possibility," but the risks justify taking that chance. The crew of Senators and Congressmen who are sponsors or leading supporters of