

## A global credit shutoff: Project 1980s in action

by Laurent Murawiec, European Economics Editor

In 1920, at the International Finance Conference held in Brussels within the framework defined by the Versailles Treaty that also generated the depression, Hitler and World War II, an agreement was imposed by the Bank of England and its continental European allies: every country had to have a central bank. Any country that refused this arrangement would receive no financial help of any sort, said the bankers.

Now, in 1982, while the Eurocurrency markets have reached the absurd size of \$1,600 billion, it is the view of the collective central banks that the existence of lending sovereignty by banks and nations, and borrowing sovereignty by governments, has to be brought to an early and brutal halt.

The Crash of 1982 has started—and central bankers plan it for the month of September. The crash is designed to hit *selectively* among smaller banks “to provoke the necessary shocks to get changes in the institutional framework without a major banking crisis,” a senior official of a European central bank said.

And whatever the brand-name adopted by various proponents of that global reorganization—“New Bretton Woods,” “global lending agreement,” “international safety net,” or “new world central bank”—the content remains invariably the Malthusian policy choice of brutally terminating flows of credit into productive institutions and sectors, and assaulting the nations that actively foster the so-called “neo-mercantilism” so furiously denounced in the New York Council on Foreign Relations’ “Alternatives to Monetary Disorder” program, in the CFR’s *1980s Project* policy papers.

### When the dominos start falling

The UNCTAD agency reports that growth in the developing sector has come to a standstill, and that Third World

countries face “the worst crisis since the 1930s,” with raw materials prices down by one-third from their 1980 highs; latest reports available reveal a sharp slowdown in international lending in the first half of 1982, an even sharper reduction in *net* lending (Amex has even calculated that the Third World’s financial accounts reveal a *negative* flow!), and the Bank for International Settlements’ figures published in the last days reveal that net new loans to non-oil exporting developing countries fell from \$16.9 billion in the fourth quarter 1981 to \$3.1 billion in the first quarter of 1982, with some countries entirely shut out of the markets and some others compelled to pay two or three times higher margins on international loans.

**Mexico:** After Mexico imposed a two-tier market for the peso, and demonstratively failed to include repayment of principal on international debt among the priority-allocations of scarce foreign-exchange resources, the ailing Alfa group and half-a-dozen private sector corporations started negotiating with their external creditors a rescheduling of their debt. Press sources in Mexico and Switzerland report that the finance minister Jesús Silva Herzog has initiated negotiations with foreign creditors on a restructuring of Mexico’s maturing liabilities. Mexico’s total debt (including short term and unregistered debt, and supplier credits) is estimated at \$100 billion. The de facto moratorium imposed by the government on selected categories of debt has sent ripples of fear from London to Zürich. The toppling of the Mexican debt would be the toppling of many of the world’s largest banks.

**Argentina:** “It is true that we are pushing Argentina into a unilateral debt moratorium, a kind of financial Sarajevo I admit,” a big U.S. banks rebuked successive Argentine delegations

requesting fresh credits. Argentina's payments have been \$2.3 billion and seven to nine weeks in arrears. Stupid New York bankers rejected any deal on grounds that British sanctions against Buenos Aires should be lifted first—and the British won't lift sanctions until they have politically crushed Argentina, notably by means of a credit squeeze. "U.S. banks cannot write off Argentinian loans, or they're in deep trouble," the same British banker said.

Argentina must pay back a \$15 billion debt bill by the end of the year—and the liquid reserves at the central bank presently stand at \$512 million!

**Brazil:** Brazil, reports the *London Guardian*, "will soon have to seek a rescheduling of its foreign debt. There is now a public argument within Brazil about the wisdom of renegotiating the \$70 billion debt." Monetarist planning minister Delfim Netto is arguing strongly against a rescheduling, Delfim's sworn enemy Roberto Campos is explaining that a rescheduling would be wrong since "with so many countries going broke, the supply of money may increase" and Brazil could be among the chosen peoples—and nationalist military men and industrialists are arguing for an immediate debt moratorium.

"Disaster looms," a financial lead article in the *London Guardian* announced. "As more financial disaster areas lurch into the public view, the rest of the world can only hold its breath and hope that the banks . . . will keep their nerves . . . in a dismal world of mass bankruptcies and tottering banks . . . the danger remains that the sheer number of countries which cannot pay will become overwhelming. If Brazil, Mexico and Argentina were all forced to negotiate at the same time for a rescheduling . . . the banking system, trade and eventually millions of jobs would all be in jeopardy." The three countries between them have a recorded external debt of \$190 billion.

**Comecon:** East Germany has now joined Poland on the Comecon sick list. While Sept. 10 is the deadline set within the 1981 rescheduling agreement between Poland and its bank creditors for an agreement on the 1982 maturities, there is little likelihood that such an agreement could be ironed out, leading to the renewed danger of a Polish default, and the compulsion for the banks to write off their Polish assets.

East Berlin has an estimated \$4 billion of external debt to settle before the end of the year, and is already finding closed doors with Western banks when it asks for extension of already matured credits. The East German five-year plan is already in trouble.

### **The corporate sector's death throes**

The financial cancer has infected two major victims in Europe: the AEG, West Germany's seventh largest corporation, and the Banco Ambrosiano of Italy. Their collapse threatens to entirely undo the viability of the industrial economies of West Germany and Italy.

In West Germany, the whole financial and industrial map is slated to undergo a profound transformation as a result of

the collapse of the Allgemeine Elektrizitäts-Gesellschaft (AEG). Dresdner Bank, the head of the banking consortium that had kept AEG above water for the last years, fought in vain to prevent the calling in of the receiver, and argued on behalf of further injections of credit into the ailing giant. Among the other 24 creditor banks, the *Landesbanken* (the state banks of each German federal state, which perform check-clearing as well as commercial functions) demanded the appointment of a receiver on the grounds that their highly precarious financial situation does not allow them one more deutschemark of unsecured credit to AEG.

Frankfurt sources reveal that Dresdner's humiliating failure to sway its partners was caused by the underhanded support given to the *Landesbanken* by the Deutsche Bank and the Bayerische Vereinsbank. The latter was formerly known as the Bavarian Royal Bank—and is still very much the bank of the Bavarian Royal family and its Holy Roman Empire allies. The former is the bank reflecting the views of the "technetronic" de-industrializers of the Siemens Corporation.

The Italian government, wrote Senator Cesar Merzagora, the outgoing chairman of the powerful General Insurance Company of Venice and Trieste in an editorial in *Corriere della Sera*, fell over the Banco Ambrosiano affair. Now, a chain of bankruptcies, a general cleansing of Italy's business is coming: many more corporations and banks will go. Indeed, the Milan stock exchange fell by 10 percent in days, and the liquidation of the late Roberto Calvi's bank threatens to collapse also the largest real-estate holding in the country, and a slew of companies and banks that depend on them.

The decision to liquidate the Banco Ambrosiano, taken by the Bank of Italy, is planned to bring about a restructuring broader in scope than the one that followed the 1974 Sindona bankruptcy.

### **One invariant: cut credits!**

Publicly and privately, the Malthusian vultures are flooding the market for plans, scenarios, and preparations with a multiplicity of schemes, of as many different colors as there are potential customers to be fooled. The idea is that the response to the collapse of world credit is a further cutdown in credit issuance!

Geoffrey Bell, the guru of the Schroders Bank and the pompous "Group of 30" experts, pleads for a \$20 billion "international safety net" to prop up international bank credit—in return for vastly increased control on the banks and their lending.

"A new Bretton Woods" is called for by the U.S. Overseas Development Corporation and Robert McNamara, who want to "impose the same kind of austerity on the U.S. as the IMF imposes on the developing sector . . . and eliminate the right of sovereign nations to issue credit on their own behalf . . . and have a top-down control of the world credit markets." For this, explains a spokesman of the diabolically misnamed Society for International Development, what is required is to "create a financial fireball, a real crisis, a

financial Beirut, in which people will accept a new Bretton Woods. The IMF is interested in provoking a controlled crisis," but is too discredited itself to provide the linchpin of the new arrangements.

George Shultz, reports one of his close associates, thinks in terms of rationalizing the world banking system. He wants a "global agreement under which all banks might agree to discipline their lending . . . Shultz will apply any kind of lever to get this agreement . . . for instance, let Mexico or Continental Illinois go to the brink of default and then press for worldwide financial change" in a form very much akin to McNamara's recently proposed "New World Central Bank."

The Commonwealth Secretariat (dark skins, British minds) in London explains how the Commonwealth finance ministers will manipulate the Group of 77: "We have all kinds of buttons to push, you see. We will convince people that the crisis is here. To convince them fully may require perhaps that Citibank goes under, in order to prove the reality of the crisis. At any rate, you just *must* control international lending. Isn't it great that McNamara launched the debate?"

### **'Damned if we do, damned if we don't'**

A New York banker was recently heard complaining that "the central banks are playing set-piece warfare—they can deal with one Drysdale, one Penn Square, one AEG at a time, but not if they multiply. They are not equipped to."

One must agree with the statement. The central bankers, centered around their collective mother-institution, the Bank for International Settlements, are, in the words of one of them, "in a contingency planning mode." They are "watching them markets like hawks."

very moment, is drawing up the lists of which institutions it will bail out and which not. "The bank is very unwilling to have to rescue anyone at all," a source close to it revealed: "it does not want to repeat the experience of the 'lifeboat' of the 1970s, when it had to bail out every bank that threatened to go under. The bank cannot say that it will only support the big clearing banks and a few more, for it would provoke an instant panic, and it cannot say it will support everybody, and it cannot remain silent either. Of course, they may well decide to send a signal and let one small bank collapse . . . but they're in a quandary. I met Peter Cooke [of the BIS 'Cooke Committee' on Euromarket supervision] in the corridors of the Bank of England, and he looked very gloomy."

Central European central banks are no less explicit. Said a senior central-bank official: "All central banks face the same problem: what is it that can be done? Monitor the situation and be prepared . . . It's impossible to deal with a banking crisis as though it were a laboratory experiment—you cannot stop it if and when you decide to! But I argue that it would be beneficial in the longer run if some banks, not many banks, no major banks, but some small banks, went under. It would provide the necessary shocks to get changes in the institutional framework—without a major banking

crisis."

In short, the central bankers want a "secondary banking crisis" that mops up political sovereignty over credit on the part of nation-states and banks, and places total surveillance powers in the hands of the network of the BIS members. The assistant to Edward Heath, former British Prime Minister and an important mouthpiece for the Foreign Office establishment put it: "The IMF lends too much, it's become a lending institution, not a surveillance institution, its functions have to be transferred to the BIS. It is ridiculous that international banks be allowed to make crazy loans, to countries like Poland, Zaire. Lending must be coordinated internationally. There must be tighter surveillance and control.

Since much of the planning has been completed, why do the conspirators not move ahead with their plotted crash right now? As the review with which this article begins ought to demonstrate, they are moving ahead. But there are two problems that tend to bog down the doomsday machine.

First, as a leading Geneva financier pointed out, "The Swiss and the British want the Americans and the Germans to foot the bill. They'll cream these two big moneybags for the bailout—there's \$100 to \$150 billion of holes to plug in the Euromarkets, and that's where they want it from." Political conditions to effect just that must be fulfilled in both these countries, and oppositions eliminated.

Second, as the more astute of the Malthusian oligarchs point out, *there is no guarantee that the collapse could really be effectively controlled*. "I cannot see how a fairly major bank collapse in the U.S.A. could be avoided," said Mr. Heath's aide. "Confidence is a fragile and irrational thing. There could be an uncontrolled run on deposits."

A Belgian financier said, "the central bankers are a bunch of cretins: they're letting blood pressure go up to take over the whole system. But it's extraordinarily dangerous to wait until *after* a big collapse has begun. Because any arrangement at all might well collapse in front of the collapse itself!" member of the Accepting Houses Committee of London said "The central bankers come either too early or too late, their timing is dead wrong. They want to inoculate the patient, with a mild contraction of the disease: the patient is so weak that they'll kill it. It's a blood transfusion that's needed."

What ought to be striking in all this is the extraordinary incompetence and imbecility of those—official central bankers as well as merchant and commercial bankers—who have held the reins of the system for the past decadess. They have organized chaos after the collapse of the Bretton Woods system, and are at present plotting to force the industrial economy to pay for the blank checks they drew on financial accounts: they gambled away the health and fortune of the world economy, by decoupling currencies from both a hard-commodity content and its reflection in gold—and they are now planning to eliminate whole chunks of the world economy to "rationalize" the casino into which they have turned the world financial system. The likeliest result of their dirty, incompetent game will be profound chaos.