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Morgan breaks the rules of the game: will the game break Morgan?

by David Goldman

About the date of this writing—the morning of Jan. 7, 1983—a group of international bankers convened at the London headquarters of Morgan Guaranty Trust are tallying the results of telex messages from 1,400 banks around the world who hold greater or lesser amounts of Brazilian paper. The telexes are to inform Morgan, the lead manager of the bankers syndicate that met last Dec. 20 at New York's Plaza Hotel to confront the Brazilian debt crisis, whether they will agree to a total $23 billion refinancing package.

The reigning irony at Morgan's London headquarters is that whether or not the replies are predominantly positive, today's caucus will have marked the point that the world went out of control. Morgan, through its many channels of influence, took the opportunity of Brazil's impending bankruptcy to launch a grandiose scheme to terrorize the American Congress, seize control of the federal treasury, and bring America's allies to heel in a world monetary reorganization to be dominated by the old families of European finance. The content of the monetary reorganization, touted in various circles as a "New Bretton Woods," would be two-fold: it would dump the weight of the $1.4 trillion Eurodollar market onto the international credit standing of the United States, and it would subject the developing countries to sufficient austerity to "kill the Third World," in the phrase of an aide to Bank for International Settlements president Fritz Leutwiler.

What has come across the public stage since Dec. 20 can be summarized as follows: Morgan Guaranty, with Citibank the lead manager of the Brazilian private creditors' syndicate, staged a showdown in which the creditors were offered two alternatives, namely a one-shot 12.4 percent increase in their Brazil exposure, or a Brazilian default. Simultaneously, the U.S. administration and Congress were offered two similar choices: to turn over the keys to the Federal Reserve printing presses, as well as the taxation powers of the Treasury, to the Bank for International Settlements, or to suffer the consequences of a world financial collapse. By staging the Brazilian crisis as a last-minute theatrical gesture, Morgan hoped—as various of its leading spokesmen admitted in background discussions—to stampede the Congress and administration into approving a general bailout of the banking system. Such a bailout, with an initial $30 billion contribution by the U.S. Treasury, would merely precede a general monetary reorganization under which the Bank for International Settlements would obtain not merely U.S. membership for the first time, but dictatorial powers over the budget powers of national governments.

Watching this with sympathetic interest from the sidelines of the monetary negotiations was the Soviet Union's Yuri Andropov, whose reasoning followed the same track as banker Peter Peterson, who most recently surfaced on the front page of today's *Washington Post* as the leader of a group of former cabinet members denouncing Reagan economic policies. Peterson had begun a campaign at a London press conference in November attacking the president's military budget, on the grounds that the American budget deficit resulting therefrom threatened the world financial system; Peterson's argument boiled down to a recommendation that the Treasury turn over taxed and borrowed funds to the International Monetary Fund or Bank for International Settlements,

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EIR *reported the fact: six months ahead of* Time *magazine. Why did* Time *choose to finally, belatedly, admit the truth of our coverage?*

in lieu of debt-repayments by bankrupt developing nations.

The actions of Morgan Guaranty Trust, the only major American bank to fly the Union Jack in front of its New York headquarters, and British Defense Minister Francis Pym, are not coincidental: Pym, breaking ranks of NATO defense ministers, flew to Moscow Jan. 2 with an announcement that Britain favorably viewed Andropov's recent "peace initiatives." Andropov's view of the matter is clear: as Soviet representatives have repeatedly stressed in background discussions, Soviet policy is to build particle-beam missile defense systems as fast as possible. However, the Soviets do not want the United States to do the same, and sympathize with Western efforts to limit defense spending. It happens that banker Peterson belongs to the commission formed in 1977 by former West German Chancellor Willy Brandt. The Brandt commission leadership overlaps with the Robert McNamara-Maxwell Taylor-McGeorge Bundy "nuclear freeze" movement, which has otherwise won Andropov's sympathies.

Time magazine's "debt bomb" cover-story splash, which appeared Jan. 3, was designed by its authors—the economics department at Morgan Guaranty—to "corrupt public opinion" and terrify away congressional objections to major funding of the International Monetary Fund, according to Morgan Economist Rimmer de Vries . *Time*'s cover story, which ironically employs the term, "debt-bomb," coined last spring by *EIR* Contributing Editor Lyndon H. LaRouche, Jr., broke the rule of silence imposed by the banking elite after the Mexico crisis broke full-force in September: the back columns of the financial press might raise the danger of a world banking-system crash, but under no circumstances could this be brought to the attention of either the public or, for that matter, the developing nations themselves. The myth of U.S. economic recovery had to be preserved at all costs, in order to stall matters until the bankers could achieve some global solution.

Breaking this rule, Morgan changed the nature of the international financial game in a fundamental and unpredictable fashion. The devil is now loose, and none of the participants in the plots and subplots hatched at 16 Wall Street have any notion of the ultimate result of their actions.

As with most protagonists in tragedy, it may not have appeared to Morgan's senior management, or such members of their international advisory group as Jean Riboud of Schlumberger or Carlo de Benedetti of Olivetti and old Venice, that there was any choice in the matter. West German and French banks, among others, began to refuse to roll over their short-term loans outstanding to Brazilian borrowers, especially the $12 to $14 billion that Brazilian private commercial banks had borrowed on international markets after syndicated money dried up earlier in the year. Mr. Delfim Netto, Brazil's economics minister, had toured the world in search of syndicated loans in October and November and come away from the European capitals with empty hands. If the trend continued, Brazil would have found means to make its payments due on syndicated loans in January and February, and then shut the window.

From the standpoint of the Morgan Bank, and their European associates like Schlumberger of Geneva and de Benedetti of Venice, the crisis had to come in January: were it

to wait until February or March, the Ibero-American nations might have time to form the weapon Morgan feared most, the "debtors cartel," and the ranks of international bankers would have been split on the most fundamental of issues: those who get paid, and those who don't.

Morgan's bull moose behavior . . . may produce not merely political but legal consequences which could make life extremely unpleasant on Wall Street. But that is the least of the ways in which Morgan has tripped over its own tail. . . . The round of debt-scare is an open invitation to the formation of a 'debtors cartel' now that the rules of the game have been broken.

Therefore Morgan, Citibank, and their principal contact inside the Brazilian government, Central Bank governor Carlos Langoni, rigged the creditors meeting as a crisis point (see article page 9). The day the creditors convened at New York's Plaza Hotel, the London *Times* ran the first of a series of articles predicting a year-end banking crisis to be triggered by the fear of debt default among developing nations, and the consequences of such a default upon the books of the major New York banks. The same day, Sen. Charles Mathias of Maryland—otherwise the senator of the "Ditchley group" of international bankers formed by Chase and Morgan last summer—issued a call for hearings on the international debt crisis. The hearings, which began Jan. 10, are "rigged to give Congressmen a look over the brink," according to Senate Foreign Relations Committee aides; the principal witnesses, including a list of former Treasury secretaries, also include Rimmer de Vries of Morgan (see article, p. 8).

Then, on Jan. 3, *Time*'s "debt bomb" cover story was rushed into a meeting room at the White House by an overwrought aide, and shown to senior Reagan officials then meeting with—Rimmer de Vries of Morgan Guaranty Trust and a handful of Hudson Institute economists, as well as General Motors' chief economist, Marina von Neumann Whitman. The aide's sudden entrance punctuated the warnings that de Vries and his fellow economists were then delivering to Reagan's representatives: accept massive American contributions or accept an uncontrollable monetary collapse. The Reagan aides who played an unwitting role in this little soap opera did not know that "all the unnamed observers quoted in the article were me," as de Vries later bragged to a journalist.

Time threw out the old rules, writing: "In their calmer moments, those involved insist that no such grim scenario [as a world banking crash] will ever come to pass, that the unthinkable will not be allowed to happen, and that the debt bomb can not explode. But it is a fact that for the past 21 months, particularly through the nerve-wracking autumn and winter, the bomb's fuse has been sputtering, forcing almost overnight major changes in international lending."

While the Mathias hearings start Jan. 10, bringing the same dog-and-pony show before the Congress, an elite cluster of international bankers will convene at 1825 I Street for a meeting of the "Ditchley group," sometimes described as a "private bankers' international monetary fund." Founded on Oct. 26, 1982, the Ditchley operation is described frankly by members as a "creditors' cartel to restrain credit" in background briefings, and as a harmless club to exchange information on debtor countries in public pronouncements. Ditchley serves the double function of super-syndicate-manager for closing of ranks among the banking community against both recalcitrant debtor countries and against straying bankers, who would rather be paid back than increase their exposure. It also is a lobby for the creation of a "super-fund" at the IMF, with tough conditionalities, to bail out bankers while putting countries through the sort of killer-squeeze that Fritz Leutwiler otherwise recommends. Ditchley's Jan. 10 meeting is devoted to both topics.

In their rush to grab control of events, Morgan's managers overlooked one danger, which prompted nervous calls to New York bankers by Senator Mathias. By establishing a bankers' agreement to restrict credit, the Ditchley group falls under the criminal-conspiracy provisions of the Sherman and Clayton Anti-Trust Acts of 1890 and 1914. "If you banks want to restrict credit," Mathias aide Charles Yost, Jr., reportedly told one New York banker, "then you will be violating the law. Of course, we want you to restrict credit. So you bankers have to tell us what you want to do. If you do want to restrict credit, then Mathias, [Sen. Bill] Bradley (D-N.J.), and [Sen. John] Chafee (R.-R.I.) will have to go about changing the anti-trust law." Whether Mathias' role in this amounts to solicitation to criminal conspiracy is an interesting question. Other Congressmen less disposed to the bankers' plans are planning various forms of action on the potential anti-trust matter.

In this form, Morgan's bull moose behavior on Capitol

Hill and the administration may produce not merely political, but legal, consequences which could make life extremely unpleasant on Wall Street. But that is the least of the ways in which Morgan has tripped over its own tail. The factor in their scheme most likely to go haywire is the internal political position of the developing nations. American political observers fear that Langoni, the Brazilian central banker who played the lead role in the Sept. 20 installment of Morgan's little drama, may have overstepped the bounds acceptable at home, particularly since he used the opportunity to venture to replace Brazil's economic minister Delfim Netto. What worries the Federal Reserve is the encroachment of economic reality. "The going is going to get tougher," said one senior Federal Reserve international department officer. "We have not come to the hardest part of this yet. It looks like we will be able to get this package together, but that isn't the big problem. Delfim's economic program [predicting a $6 billion trade surplus for next year—D.G.]
everyone who knows anything about Brazil knows it. And changes in this projection will alter Brazil's cash-flow considerations considerably. We've got to keep it pasted together day to day, until the group running the show down there comes out with a convincing program. Otherwise nothing will work."

Morgan staged an effective round of political theater, but it turns out to be a play within a larger tragedy, in which the decisive role may likely be played by the debtor nations themselves. The round of debt-scare is an open invitation to the formation of a "debtors cartel," now that the rules of the game have been broken.

How the media are readying public opinion for a collapse

Since late November, a number of widely read newspapers and magazines in western countries have been circulating warnings—often in the form of exotic scenarios—that an international banking collapse can occur in 1983.

One of the first of such articles appeared in the January issue of *Playboy,* which began arriving on newsstands in November. The author, Paul Erdman, is known for his best-seller "The Crash of '79." According to Erdman, *Playboy* owner Hugh Hefner decided to run the article following discussions with "his good friend" Bernie Cornfeld, the Swiss-linked financial swindler who set up Investors Overseas Services.

On Dec. 20, the London *Financial Times* and *London Times* ran articles warning that a financial disaster was about to erupt. The *London Times* specified that just-released figures in the United States revealing the exposure of U.S. banks on loans to developing countries could collapse confidence in the banking system, and even trigger a banking crisis "before December 31."

Other journals which have run such items include the French daily *Le Matin*; the French weekly *L'Espansion*; and the ultraleftist, counterculture magazine from West Germany, *Tageszeitung*.

On Jan. 2 and 3, newspapers throughout Western Europe and the United States ran coverage of interviews provided by Alan Greenspan, economist and board member of Morgan Guaranty Trust Company, in which Greenspan stated that a run on the banks in the United States could not be excluded. Greenspan made similar statements on U.S. television.

Characteristic of the type of scenarios which have appeared in the international press is the following article from *Le Matin* Jan. 4.

It happened in 1983: The catastrophe scenario

"The terrible year," the "bottom of the recession": when certain Cassandras, in the fall of 1982, had made such dark predictions for 1983, politicians, trade unionists, businessmen . . . had shrugged their shoulders. As if political change in France was synonymous with progress. . . .

Well, but it happened. Everything started with an incident, a seemingly small one for the American economic giant. In the bible of business across the Atlantic; the *Wall Street Journal,* dated March 10, 1983, there was just a little box, however, well situated at the head of the second column, a place to attract the eye of the connoisseur. Eight lines explained dryly that the Daley bank (Idaho) tied to Chase Manhattan, that model of the international financial gotham, was filing bankruptcy.

But on March 13, the bomb fell. The very respectable *Financial Times,* the mouthpiece of the City and banking establishment, dropped a bomb. "Chase" . . . was going to go bust. The problems of its putative daughter, the Daley bank, victim at the same time of the massive withdrawals of its depositors and of an accumulation of "questionable paper" from its mother house, happened to prefigure the difficulties of the latter. Thunderstruck, the financial community discovered with stupor that sometimes reality is worse than fiction. Of course well informed circles already had been rumormongering for a year that the foreign holdings of the big American banks were ten times larger than their shareholder capital, that they reached "cumulatively" the astronomical sum of 205 billion dollars. . . . But the rapidity with which the Fed had come to the rescue of the establishments implicated in the bankruptcy of the Mexican States (100 billion dollars) had acted as chloroform on the American banking elite.

The collapse of Chase, followed in the following weeks

by the convulsions of Manufacturer Hanover, of Morgan Guaranty, and of Continental Illinois came as an icy shower. After America, the shock hit Europe and Japan. At the beginning of April, Credit Lyonnais, Dresdner Bank and the Bank of Tokyo learned in turn—and at their expense—the danger of an insufficient restructuring of the debts of Poland, Rumania, Argentina, Brazil, or Nigeria.

"I had never seen anything like this, from the memory of a stock broker," said a professional from a big English bank. "Every day the dollar lost at the opening between 10 and 15 points. But as the hours went by, this decrease of the green note became meaningless as the decline of all the great Western currencies became general."

". . .The collapse of the dollar not surprisingly led to the collapse of the big American companies dependent for up to 40 percent on Third World markets and already damaged by the failure of Reaganomics. . . . Reaganomics, after having predicted recovery all through 1982, was beating a retreat, leaving behind a desolate landscape: the leading lights of industry were on the carpet: International Harvester, Chrysler, PanAm. But also a record budget deficit of 150 billion dollars, an unprecedented commercial deficit, rampant inflation. . . . In the countries of the OECD . . . they did not all die, but all were hit."

Tageszeitung, Jan. 3, 1983
'There Once Was a Collapse.'

"The collapse of a large Brazilian company has torn U.S. banks to the depths," the article, which is purposely dated April 1983, begins. "The matrix of the Eurodollar market is pulling German banks into bankruptcy," despite efforts by the central banking authorities to save them. The article concludes by describing how dictatorships are set up all over the world, run by the International Monetary Fund, which military governments are still unable to finance the debt.

Rimmer De Vries: 'It's not really bribery, . . . we corrupt public opinion'

Time magazine adviser and Morgan Guaranty Trust chief economist Rimmer de Vries, who virtually authored Time's 'Debt Bomb' cover story, told a journalist Jan. 5 that the purpose of the cover story was to "corrupt Congress." Congressmen will complain about giving money to bail out the banks rather than to the unemployed in Michigan, de Vries said, and therefore have to be "corrupted."

A transcript of de Vries' discussion with a journalist follows:

Q: I see your analysis has been printed by *Time* magazine. Will this help the cause of the New Bretton Woods in Congress?

A: Yes. This is a public education campaign, after all. I was the source for some of the quotes, and in fact that was I who was quoted when they said "observers say . . ." I was just in Washington yesterday discussing this.

There is absolutely nothing new in the *Time* article. For an economist, there was nothing for me to learn at all. This is to educate the public. You have to understand the Congress. In the final analysis, Congress is only concerned to listen to public opinion. The Congress will have to be responsible for the IMF expansion, in the final analysis. The point is, *we have our own way of corrupting the Congress.* It's a form of corruption we use. It's not really bribery, in the form of actual money, but it is corruption all the same. Corruption by the corruption of public opinion.

Look at [House Banking Committee Chairman Fernand] St. Germain. He doesn't want to look at new money for the IMF. Too bad. His public is complaining that there is all this unemployment in Detroit. So why should the U.S. government give money to bail out Brazil? He's too worried about that. So we have to make deals. That's the game, the way Washington works is to make deals. That's what St. Germain was talking about two weeks ago, when he said that certain things have to be done on the domestic economy—he wants to make a deal.

The Senate will behave responsibly with respect to the IMF. I'm not worried about them. It's the House which is going to try to extract some concessions on the domestic side.

The point is public education. This was just the first in a series of articles. There will be a lot more good articles and papers coming out.

Q: Has all this scare around the Brazilian bankruptcy helped you?

A: Yes.

Q: What is the status of the consortium?

A: You should write that Brazil and Mexico haven't quite been put to bed yet. The consortium will be glued together at the end of this week—for the time being, that is. We'll hold it together for a while. But it's not over yet. You should write that.

De Vries told journalists last month that his principal objective was to force the United States to join the Basel-based Bank for International Settlements, the semi-private, Swiss-controlled "central bank for central banks" that is supposed to take the principal role in "managing" the world debt crisis. Since the BIS has status under Swiss, but not international law, it is far more independent of national governments than is the International Monetary Fund, its sister organization. For the same reason, American entry into the BIS would represent a breach of national sovereignty.