

Foreign Exchange by David Goldman

Swiss banker to the Treasury?

A Swiss bank's modest proposal nicely insults the U.S. government and clearly shows the dollar's weakness.

No kidding, but the Union Bank of Switzerland (UBS) solemnly proposed to become the U.S. Treasury's investment banker abroad, in return for exclusive foreign rights to market American government paper.

Offering the U.S.A. the same terms it would offer any corporate borrower or ordinary banana republic, the UBS, one of the big three Swiss "universal" banks, told Treasury Secretary Don Regan in June that it would market \$2 billion in U.S. Treasury securities abroad in return for exclusive privileges to control the issue, and a guarantee of no additional issues for two months. Thus far, the Treasury Department has refused the Swiss offer.

According to a wire service account published Aug. 23:

"Nevertheless, a UBS official says the bank was 'absolutely serious'. . . . But the UBS official concedes that subsequent disclosure of the bank's bold offer 'is embarrassing, to say the least.' What proved most embarrassing were the specific terms of the UBS proposal. Two conditions raised eyebrows among UBS's competitors. First, the bank asked that the Treasury promise not to sell any other debt securities outside the United States for 60 days. UBS also requested 'full discretion in the syndication and placement of the notes.'"

In other words, the Swiss bank demanded full control over the foreign marketing of U.S. Treasury debt. There is, of course, a context for this extraordinary insult. Because the recent repeal of withholding taxes for

foreigners who purchase Treasury bonds, as well as various measures to permit foreigners—that is, Dope, Inc.—to buy bonds anonymously, clearly indicate that the Treasury wants to suck up international flight capital to finance the budget and balance-of-payments deficits, the Swiss bank's demand is not at all surprising.

Recent commentaries in the Swiss press have derided the Treasury's plans to get funds from abroad through these devices. In effect, the Swiss are saying that the Treasury can have the money—but only if the Swiss banks take total control of the entire financing!

As the wire service account described it:

"When ordinary borrowers issue bonds, it makes sense for underwriters to ask that they avoid flooding the market with more debt, market professionals say. But the U.S. Treasury plays by the U.S. Congress, which officially decides how much money the Treasury can raise, and by market conditions.

"Bond specialists were even more flabbergasted by UBS's second condition. For an ordinary borrower, UBS would be within its rights to decide which other banks would form a syndicate to help sell the bonds. But the U.S. Treasury doesn't need a commercial bank to make such decisions for it. Already this year, it has sold more than \$85 billion of bonds, merely by offering bonds to the highest bidder."

The gnomes of the Union Bank of Switzerland must have sat up all night

thinking up this elaborately staged insult. But the point remains that the Treasury has its problems raising funds abroad. This is also indicated by the incredible decision, which is now pending approval by the U.S. Congress, to offer "bearer bonds," anonymous paper naturally preferred by tax-evaders, drug dealers, embezzlers, and other "investors" of that sort around the world.

At the beginning of August, the semi-official daily of Switzerland's banking community, the *Neue Zürcher Zeitung*, expressed mistrust of the Treasury's attempt to fund itself with dirty money. Appearing under the headline, "European Investors Hold Back from Purchases of U.S. bonds," the article reads in part:

"Careful investors are asking the question if this isn't just a brush fire burning off, and if the over-hasty rise in interest rates during the spring is not matched by an over-hasty reduction in the interest rate level. . . .

"Europeans are waiting to see whether the existing problems of identification and taxation of holders of U.S. bonds and the threatened taxation through the 'backup withholding tax' will actually be resolved, and if the Treasury will really permit the issuance of bearer bonds."

Indications are that the dollar's summer strength, tested somewhat in recent days, is not the result of any strong investment demand for the dollar, but of the chronic dollar shortage on the international markets. The big outflow of capital from West Germany, for example, DM 5 billion during June, occurred before the Treasury raised the discussion of issuing bearer bonds.

Of course, the Swiss would be delighted to help, on condition that the Treasury turn the cash register over to them.