International Credit by Renée Sigerson

BIS joins Wharton on crisis debate

Manipulating banking opinion, not resolving the Euromarket squeeze, is the purpose.

Peter Cooke, former Bank of England governor and chairman of an influential subgroup at the Bank for International Settlements (BIS), recently stopped over in Washington, D.C. for an informal session with top-level U.S. regulatory officials. Among the issues he reportedly discussed was the response of U.S. business and government circles to a recently released report by the Wharton School econometric institute that warns of a global banking collapse.

Cooke chairs the "Group of Ten Committee on Banking Regulations and Supervisory Practice" formed in the autumn of 1974. Since then, he has been the leading spokesman at the BIS for pushing the argument that solvency on the Euromarkets can be enhanced if Western governments merely adopt more stringent regulatory practices to gain "oversight" over the banks. This argument has been used to armtwist Western governments into "hocking" domestic banking assets on a vast scale into "bailout" mechanisms for the bankrupt $1 trillion international gambling casino known as the Euromarkets.

For example, it was on the basis of some seemingly innocuous recommendations from the Cooke Committee that in 1979 both the United States and Britain introduced "consolidated banking sheets," making the U.S. banking system accountable for any bankruptcy of a Euromarket subsidiary of a U.S. money-center bank.

In February, Wharton School economists Jack Guttentag and Richard Herring began limited releases of a draft paper, "Financial Disorder and International Banking." The paper discusses in detail—as did Guttentag in an April 27 interview with *EIR*—what might happen when some off-shore banking branch made the discovery that a major default on nonpaying loans had wiped out its capital.

Guttentag reported that he had met with Cooke during his recent stopover. Other sources report that when the first draft of the Wharton study had been completed in February, it was also reviewed by the New York Council on Foreign Relations (CFR). It was only after the CFR's top banking circles had a chance to approve the report that its contents were leaked to the financial press.

The careful high-level attention accorded the Wharton study, alongside Guttentag's own remarks, has led *EIR* to the following conclusion: the BIS, Cooke's regulatory network, and the CFR are currently more concerned with exercising control over public debate about a possible collapse of the Euromarkets than they are with designing any sensible solution to the crisis they appear to be debating.

For example, Guttentag told *EIR:* "You have to define your scenario. The difficult problem that arises is if you have a solvency problem, where the bank's capital is wiped out because major countries have defaulted on their loans. Do you keep [the bank] going by having the government invest money into it? Do you phase it out by merging it into another bank? That could still cost the government a lot of money. Do you liquidate it? . . . If it's a big bank, you probably can't do that because it would have tremendous impact on countries. So the result would probably be a massive infusion of federal funds into these banks to prop them up, to keep them from going under."

It is as a result of the imposition of Cooke's "consolidated banking sheet" hoax in 1974, which incorporates all U.S. money-center "offshore" lending into the parent company balance statement, that Guttentag can assume that the resources of the U.S. economy would be thrown behind any bankrupt Euromarket branch. Cooke and Guttentag describe this relationship as "lender of last resort." In our discussion, Guttentag insisted that the U.S. government ensure this bailout service to Euromarket branches.

It is an added tipoff to the BIS/CFR intentions to engineer a "controlled debate" that the Wharton paper never discusses *why* the Euromarkets are bankrupt. As *EIR* emphasized last week in our own analysis of world debt, the short-term, high-interest lending policies of money-center foreign subsidiaries condemned the Euromarkets to bankruptcy. The weakness of Eurolending operations was critically worsened when U.S. interest rates rose in 1979—condemning borrowing countries to low levels of real productivity, making it impossible for them to repay their debts.

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