Swiss to preside over global financial panic

by Laurent Murawiec, European Economics Editor

As part of Her Majesty's government's campaign to break the back of recalcitrant inferior races, the favored weapon of financial warfare is being deployed from London as a principal tool of belligerence. Argentina's foreign-exchange reserves are rapidly dwindling, roll-overs are less and less frequently accepted and renewed, and no fresh money is coming in; only confirmed lines of credit generate fresh cash, which the hard-pressed Argentinians, fearful of defaulting on their foreign account, remit to their creditor banks' accounts in Zürich and the New York International Banking Facilities.

The plug has not been pulled—until now. It may be in the coming days. Not only is Argentina exposed, but the rest of Latin America has been badly affected by London's financial warfare, and the uncertainty factor created by the Malvinas crisis. Even reckoning with the obvious element of psychological warfare included in such disclosures, an article in the *Times* of London on April 27 made a point of stressing that "the crisis has served to highlight the present economic problems of the debt-ridden Latin American economies and make bankers reassess their lending policies. . . . To some extent, banks were already beginning to draw in their horns before the latest crisis erupted. . . . There are signs that the ability of . . . Latin American borrowers to raise credit has also been harmed.

"Banks . . . may precipitate the very crisis they are seeking to avoid if they cut back on lending," the London daily adds, concluding that "confidence in sovereign borrowers from the East bloc to Latin America has been badly shaken over the last year."

Argentina, indeed, *could* default. As a matter of fact, London sources confirm that a fair number of banks are not being paid by Argentina. The ties that link borrower and creditor operate both ways. Whether this will be a *de jure* default called by one or a group of banks, or the piling up of arrears which will push the banks beyond the threshold of failure, is a secondary question. "The accounts of the big American banks, end-1981, are essentially fictional," a distinguished British banker stressed in an interview, while admitting that the City of London was no less able to produce fiction than the average U.S. bank auditor.

The whole banking system is at risk. The nine largest U.S. banks' combined loans to Argentina, Brazil, and Mexico represented 127 percent of their capital one year ago, and probably upwards of 150 percent by now, without taking the short-term loans rolled over on a routine basis into account.

'Parallels with 1931'

This scenario is common currency throughout the international banking community. It has even reached the level of the daily press when London's *Daily Telegraph,* prompted by hysterically fearful comments of David Rockefeller, printed an editorial feature entitled "Why Argentina Could Bring Chaos to World Banking—Parallels with 1931." The piece, authored by Prof.

Brian Griffiths, influential private adviser to Margaret Thatcher and Geoffrey Howe, presents the chain-reaction, or domino effect, of Argentinian default: failure of the largest American and British banks, including Lloyds and Barclays, at which point 15 years of world economic crisis would come together in the day of reckoning, just as in 1931. An immense mass of financial paper, in this view, gets written off at one fell swoop. International banking authorities, the International Monetary Fund (IMF), the Bank for International Settlements (BIS), and the central banks then take over the failed banks, and, as the author told me in regretful tones, "there is no free-market solution to the crisis."

In fact, in the words of one leading European central banker, "none of the [financial] trouble-spots alone can start the disaster by itself, but all of them together will. Take the Malvinas crisis, plus a Middle East crisis, general instability—and the system goes."

What is summed up above could be called the exoteric version of the unfolding financial crisis. The more esoteric aspect was aired for a more restricted audience a few weeks ago when Swiss Central Bank head (and new chairman of the BIS) Fritz Leutwiler told a German audience that the international official institutions would have to step in to stop an international financial-monetary disaster. The *Neue Zürcher Zeitung,* house organ of the Basel-Zürich banking community, was the only daily paper in the world to report these words of warning.

In truth, the speech of Dr. Jelle Zijilstra at last autumn's Washington Per Jacobsson lecture was a writing on the wall for even the very myopic: the central bankers' coordinator warned that the anarchy in the monetary system could only be remedied by some return to gold.

"Austria, Switzerland and Luxembourg" will be the only surviving banking centers controlling the world's credit flows when the dust has settled, Professor Griffiths contends in the *Daily Telegraph*, and so do representatives of the old continental European *fondi,* the oldest and largest fortunes in the world. A leading Swiss official's view of the situation is that "there are developments that nobody can control any more, and of such magnitude that nobody can find a way out. The situation is one of chain reaction. Whatever the origin of the problems, the situation is worsening. Nothing of what is being done seems to have any effect, be it monetary, financial, or economic."

The conclusion drawn by the managers of the *fondi* was described thus: "They are hedging and super-hedging. In the general bankruptcy reorganization of the system, the slow-footed ones will be caught, while precautionary action has already been taken by those who can. The *fondi* are practicing a reasonable form of insurance, a safe nest egg in stores of value, into which a lot of money is flowing, while the Euro-markets will *evaporate.* . . . The City of London will not positively disappear—it will not suffer more than the system as a whole. After all, it is a convenient logistical and accounting center. But lots of banks will disappear."

Policy of triage

The central question being asked, discussed, and acted upon at present, is this: which countries will be written off, which banks, which currencies? Instead of everybody's paper being written off by 30 or 50 percent, the effort of the *fondi* is to force 30 or 50 percent of the world's nations, and population, to shoulder *all* of this gigantic depreciation! "It is all a question of repartition, of distribution," a top European central banker said, and added "that the international debts will *never ever* be paid back is not a hypothesis, it is a certainty." Hence the policy of triage.

With a $1.7 trillion Eurocurrency market, which has lost any reasonable correspondence with either its own deposit base or the wealth produced in the world economy to substantiate such a mass of paper, the 'triage' needs indeed to be gigantic. Whole institutions which have been functioning in part as the instruments of the oligarchy's *fondi,* are now collapsing, starting with the Euromarkets, and including the City of London, the IMF, the New York banks, and the confetti-money banks known as "offshore" centers.

While tears could be spared for these, the problem is that they threaten to bring down world trade in their own fall. The very fabric of world trade has been unraveling for some years now, under the combined effects of markets, trade embargos, and other Malthusian policies. Shocks have rammed into the structure of world trade and shattered it: Latin America today, shortly after the East bloc, and the Middle East tomorrow, each "geopolitical" shock provoking yet another contraction.

At present, world trade stands on the edge of something infinitely worse: the currencies in which it is conducted, the banks which fund it, are on the verge of disintegration.

The *fondi,* which have bought extensive land holdings, gold stocks, and highly diversified (geographically as well as economically) assets, from South America to virgin lands in Canada or Australia, hope that they have this process of disintegration under control, and that the financial centers under their control—those of what they consider is the undying Holy Roman Empire, whose continuity has not been broken in their eyes—Geneva, Zürich, Basel, Luxembourg, Brussels, and Vienna, will rule the waves once the rest has sunk. The finger on the nuclear button, they explain that once the chain reaction has started, they'll bunch the neutrons together as they please.

Fed describes the Swiss plan

Excerpts from an April 26 EIR *interview with an official of the New York Federal Reserve:*

Q: What will happen if banks go under?
A: There are a lot of people around in very high places who are very worried, I can tell you that. There are a lot of places in the world which are very unsafe to lend to. If you were a banker with surplus funds, where in the world would you go today? Why, even major U.S. corporations are going under one by one. You can yell and scream about problems abroad, but there are some pretty big ones here too, major bankruptcies.

This is serious. You know, two weeks ago I told you there'd be shooting and the Argentines believed otherwise. Who knows how far their stupidity will lead?

It doesn't surprise me that high U.S. and British bankers are going to the press and saying "Gee, this is really serious." It *is* really serious. Nobody knows what the consequences of this [the Malvinas crisis] are yet. Nobody knows exactly what to do.

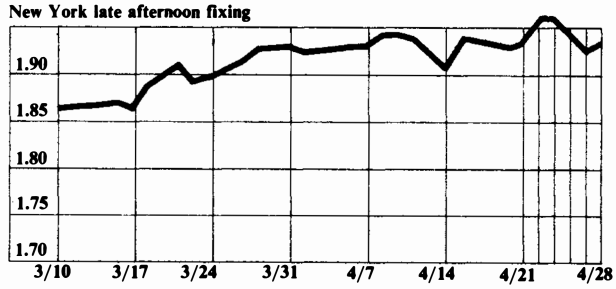
The problem is that the commercial bankers are aware that their own action can precipitate exactly what they fear. They are cautious, which means not opening any new commitments with suspect countries, although trying to roll over everything coming due, including from suspect countries. But if they create this atmosphere of fear, and cut lending too much, they might create a situation where their own fears become real, where a number of countries could be forced to the edge. The problem is that commercials' tendency is not to make the hard decisions until they have to be made, and that time may be approaching. They've made all those loans, and a lot of them were bankrupt, but no banker ever called default. . . . The idea of calling Argentina or Poland into default might not be as disturbing to a central bank.

A national monetary authority could decide to do that on a regulatory basis. There are central banks now which are very conservative, who have been warning for some time now that international lending has ballooned too far, and banks are overextended, that countries cannot pay their debts and are borrowing too fast, and these conservative central banks would like to put some rules in place and clamp down on international lending.

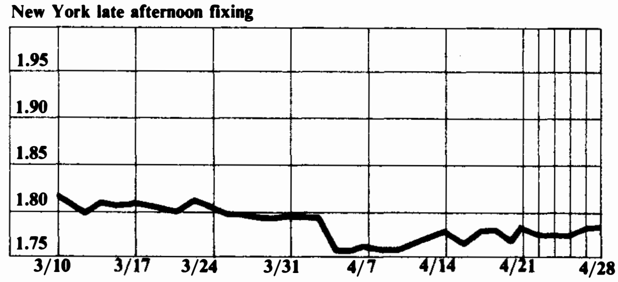
Q: You mean the Swiss National Bank? Or Henry Wallich?
A: No names. Figure it out. But there are conservative central bankers who feel that they have lost control over bank lending and want to exert control over the banking system to reduce world lending. . . .

Currency Rates

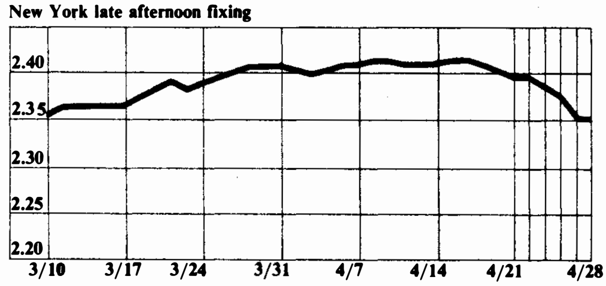
The dollar in Swiss francs
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing



The dollar in deutschemarks
New York late afternoon fixing



The dollar in yen
New York late afternoon fixing