Swiss bankers prepare to corner the U.S. and Britain in the second round

by George Gregory

The central banks of Switzerland, West Germany, and Austria are now engaged in the explosive and, as far as they are concerned, fully anticipated second round of Third World debt rescheduling. Their aim is to "start a new game, and rearrange the pieces on the chess board," a top official of the German Bundesbank in Frankfurt remarked in a background briefing. Ushered in by the obvious failure of the International Monetary Fund package for Brazil, the de facto failure of similar packages for Argentina and Mexico, and the failure to even patch together a package for Venezuela, the second round "makes the Anglo-American group bitter indeed," the official acknowledged. "But it's their own fault; they fundamentally misevaluated developments and their timing."

The rearrangement of the pieces on the chessboard starts with a thorough bashing of the United States and its banking system and follows through with a broad sweep against Britain as well. "Everyone has his damage quota," the Bundesbank insisted, "and one thing is sure: We are not going to be the ones to pay up."

The Brazilian crisis is, of course, the immediate focus of attention, but not the only one. When the Central European central banks, starting with the Swiss National Bank, refused to armtwist their banks into refilling the "Project 4" interbank credit lines for Brazil, it was a bitter pill for the Anglo-American group. But the Central Europeans had a very convincing argument: They could really not be asked to force their banks to act "imprudently" by increasing their loan exposure in Brazil beyond "responsible limits."

In a series of interviews, officials of these central banks outlined their policies for the second round crunch.

First, it is immaterial to the Swiss, Germans, or Austrians whether or not the United States government steps in for a grand-scale bail-out of the Brazilian debt, functioning as lender-of-last-resort to U.S. banks that have made interbank loans to Banco do Brasil. If the United States *does* step in for the bail-out, the ensuing dollar bubble will ruin the U.S. currency and economy. If the U.S. government bails out on a "selective basis," all the better. "We have to face the fact that some countries are such hopeless cases that it makes no sense to try to save them," remarked Dr. Baltensperger of the Swiss National bank (see *EIR*, June 14). If the United States *does not* step in, and is otherwise incapable of any alternative option, the tidal wave against U.S. banks and the economy will be more than sufficient to "rearrange the pieces on the chessboard." Latin American policy makers are scrutinizing the alternative option of joint debt renegotiation and long-term industrial development proposed by *EIR* contributing editor Lyndon LaRouche in his "Operation Juárez."

The Swiss, German, and Austrian bankers intend to force a prompt decision on the United States and, secondarily, Britain. A conceivable alternative, the bankers admit, would be to continue the "soft landing" or "stretch-out" approach via the IMF, but the Central European private and central banks will not tolerate a "softening" of IMF conditionalities to that end. The Bundesbank argues point-blank that "it is not in our interest to just let the crisis unfold the way it has up to now, because that approach would run the extreme risk of having to confront the unexpected."

There are two sets of developments which Central European central bank officials confess they do not intend to deal with if they can avoid them: 1) Operation Juárez and thus the formation of a debtors' cartel with the muscle to force through common-interest forms of negotiation with industrial countries. The IMF cannot be permitted to back down on austerity conditionalities for Brazil, because that "would produce a chain reaction leading to a full-fledged debtors' cartel," said the Bundesbank; or, as the Austrian National Bank put it, "it would lead to a crisis to end all crises." 2) "The reaction of the United States is a factor of high uncertainty," noted the Bundesbank.

Does this "uncertainty factor" signify that the Bundesbank thinks that one of the "unexpected events" might entail the United States rearranging the "pieces on the chessboard" in its own way by accepting to negotiate with a debtors' cartel in the Operation Juárez context? "That is not inconceivable," the Bundesbank admitted.

Banking 'prudence'

It has been known for some time that the Central European banks have written off a considerable share of their non-performing loans to both Eastern Europe and Latin America, and that they have set aside provisions against loan losses amounting to veritable war chests, which are the envy of U.S. and British banks. An officer of Lloyds Bank in London asserted knowingly, "The Swiss are waiting for the chicks to come home to roost, and the Germans are going along with them. Watch the Bavarian banks. They and the Swiss think they can get out of this unscathed." At Schroeder's Bank, the curses are flying: "The Swiss are nuts; they are dangerous nuts!"

As usual, the Anglo-Americans are the last to figure out the game. Swiss behavior up to now has been attributed to displeasure over "the methods applied by the Americans in certain features of the Mexico or Brazil negotiations," which is "not a unique feeling." Nor is the "Swiss sense of realism" unique.

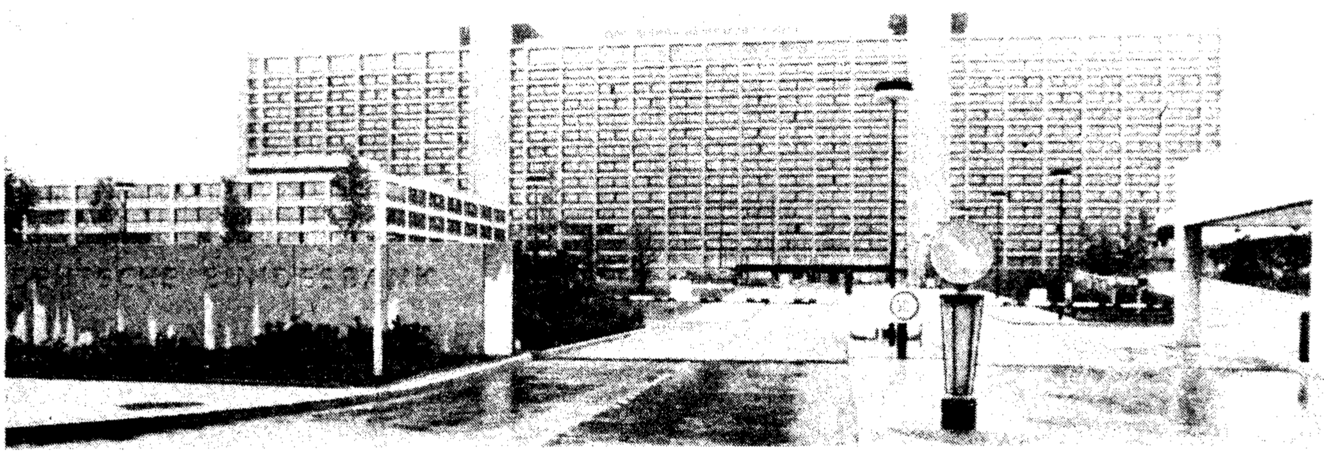
The Central European central bankers are now perfectly willing to declare what their evaluation has been all along: that the debt crisis that was triggered in 1979 by U.S. Federal Reserve Chairman Volcker's high-interest-rate-policy signaled the terminal phase of the United States' decline as a political and economic power. To Central European bankers, who pride themselves on lineages that have survived the rise and fall of empires, having to wait for a mere four years for the final "financial touché" is a minor problem. In London, it is being recalled nowadays that the Swiss proved astute in the art of moving Nazi gold and other assets around the world during and after the war, without requiring the apparatus the world later came to believe in as the "international financial system." In Vienna, too, the truth about the debt crisis is being discussed openly. "We knew from the beginning that the IMF packages would not work," one Austrian National Bank official said. "We made our point about prudent banking step-by-step; but fundamentally even the original Mexico rescue operation was imprudent banking." He continued: "Under the Bretton Woods system, if one country got in trouble, the IMF could and would step in to help. We had a number of such cases. But the community as a whole was sound. Then it made sense to recommend that a country cut imports and increase exports to improve its debt-service ratio. But, when you have 40 to 50 countries in trouble, and you apply the same approach of recommending fewer imports and higher exports, it is rather obvious that these 40 to 50 countries account for about 25 to 30 percent of world trade; so the arithmetic just cannot add up."

That is the sort of logic that should have been obvious to anyone who observed the accelerating deterioration of industrial countries' internal debt-service ratios and those of developing countries over a period longer than the last four or five years. "Of course, now we are at the point where it is less important that the crisis is accelerating and more important that people's awareness is accelerating, and they are having to face the facts. We never trusted the rescheduling game," said the Austrian banker.

Politically and strategically, it is significant that the Central Europeans intend to dump that game now. The Austrian National Bank, like the German Bundesbank and the Swiss National Bank, argued that "it would be extremely dangerous at this point to just let things go on. The crisis is not in control. There is big opposition to IMF austerity in Latin America, and a high probability of populist governments emerging with alternative options of their own. It is rather comical to see de Larosière [IMF chairman] running through Europe trying to collect $4 billion from central banks, but this is no time to soften IMF conditionalities."

And what political conclusions do they draw from this? "The key parameter is the debt-service ratio in relationship to the real economy. We see no improvement in the debt-service ratio for the forseeable future, certainly not within the next five years." The Swiss are saying that if a country has a leadership they trust, it will get funds, within limits and for purposes that have nothing to do with industrial development. If not, let the country collapse, and wait until a more amenable leadership comes in.

Is there any objection to this view within the Central European combination? "Well, that is a typically Swiss way of formulating the issue," said one member of the coalition.



The Bundesbank in Frankfurt, part of the Swiss orbit in the current policy split.