Central bankers warn of financial collapse

by David Goldman and William Engdahl

Two recently retired governors of European central banks, Fritz Leutwiler of Switzerland and Guido Carli of Italy, warned at the end of June that the Mexico crisis may lead to the early collapse of the world banking system. The mood among European central and private bankers is grim: They accurately characterize American efforts to contain the Mexico crisis, and the broader crisis from which it stems, as hopelessly flawed. But they offer no means out of a disaster which a growing number of them believe to be inevitable.

Leutwiler, who served first as head of the Swiss National Bank, and then as president of the Bank for International Settlements, was interviewed on West German television June 24. He said: "The world monetary system is extremely sensitive. If some debtor country, for example Mexico, were to declare a debt moratorium—and I must say that I do not think they will—this would create tremendous problems; it would lead to a collapse. This collapse would also hit the German banks, as well as others." Leutwiler insisted on the need to maintain the International Monetary Fund's austerity conditionalities to enforce orderly debt repayment.

The European central banks, according to senior officials of the Bank for International Settlements, have already decided that Mexico is America's problem, since the overwhelming majority of Mexico's $100 billion in bank loans are owed to U.S. banks. But former Italian central bank governor Guido Carli, one of the principal architects of the monetary arrangements following the 1971 collapse of the Bretton Woods monetary system, warned a journalist June 26 that Mexico's impact would be global: "The Europeans must also come into the Mexico debt crisis situation and recognize their responsibility. We have an equal interest in preventing a major crisis at the periphery of the world financial system from spreading. Recall that it was a crisis in the periphery, at that time the collapse of Kreditanstalt in Vienna, which brought the world to collapse in 1931. Mexico today is similar in its potential.

"We are close to the edge of the second worldwide depression, and it could be worse than the first one," Carli warned in a speech on June 25 at the 20-year anniversary of the establishment of the Istituto Italo-Latino Americano in Rome.

Who picks up the bill?

A senior official of the Basel Bank for International Settlements said June 19 that the problems of Mexico's debt "are problems for Washington and the U.S. banks. The solution lies in Washington, and must be official. These are very serious problems." The spokesman added that the United States could do one of two things: directly aid Mexico, the more rational course, or directly aid its own banks.

Of course, as the Bank for International Settlements staff argues, the United States can bear alone the cost of a Mexican bailout—$10 billion up front if Washington chooses to bail out the country, or much more afterwards, if Washington has to bail out Mexico bankers. That is also the view of the major Swiss banks.

A senior official of one of the "big three" Swiss private banks told *EIR*, "Although the U.S. banks are certainly in some ways more prepared for a shock than in 1982, the difficulties, as a whole, could be far greater than in 1982. In addition to their problems in less-developed countries' debt, you now have the considerable problems of the oil lending, agriculture debts, and now increasingly real-estate debt problems. If you add to that the proliferation in the U.S. banking system of off-balance-sheet lending over the past four years, this is very serious." In event of a worst-case bank crisis breaking over Mexico, he emphasized, "It is the policy of our bank and the Swiss national bank as well, that, in such a case, this problem must be solved by the lender of last resort, the national country most concerned. The BIS would not assume this role; it is not intended to. It must be done on a national basis."

Carli justifiably fears that American capitulation to Mexican nationalism would demonstrate the bankruptcy of Washington's entire policy since 1982, when the debt crisis first broke out. A bailout from Washington would immediately put the U.S. dollar at mortal risk: America needs $150 billion from foreigners to finance its payments deficit, and the Mexico situation could provide the trigger for a general exodus of short-term foreign funds invested in the United States.

In turn, a collapse of the dollar would have a devastating impact upon the principal dollar market, the City of London. British bankers vehemently reject the notion that the Mexico crisis should be, or even can be, limited to the American banks. "Nobody discusses it, but the fact is that the overwhelming bulk of the dollars loaned to Mexico and other Latin countries during the 1970s and early 1980s was made from the offshore markets," an official of Standard & Chartered Bank in London said. "This is because of domestic restrictions limiting the loan exposure of U.S. banks. The multiplier of the unregulated Eurodollar markets, via Bahamas or other branches, were the way the banks evaded these restrictions. In 1982, this fact was largely put in the background as all banks internationally closed ranks to save the system. Today, the situation is different, and the issue of who is really 'lender of last resort' for Mexico and so forth, could be pressed. This 'lender of last resort' issue is by no means clear, even after the Banco Ambrosiano Luxembourg scandals." Swiss bank officials insist that the largest lending banks are American, and, therefore, the U.S. Federal Reserve must be the "lender of last resort," i.e., assume ultimate responsibility for a debt default crisis.

A further complication, from the British standpoint, is that the U.S. administration appears hell-bent on breaking the Mexicans' political will, at the cost of a confrontation that would devastate the banks. "There is a growing divergence in policy evident between some of the European banks and the U.S. banks on how to deal with the Mexican crisis," reported a well-informed British banker. "This policy divergence is certainly true for the Swiss, and I think also to an extent the West German banks. They feel the United States is going against its own self-interest as well as that of the international banking system by its persisting insistence that the letter of the debt agreements be observed."

But Mexico, upon which the attention of the world banking establishment now focuses, may not be the trigger for a financial panic. Some European bankers fear the political consequences of the isolation of South Africa much more. Another danger lies in the speculative financial markets themselves, whose volume of trading has doubled in each of the past three years. One City of London analyst believes, "The imminent financial 'Big Bang' in London could be the trigger for a global financial crash." The "Big Bang" comes Oct. 26, when London financial markets will become fully deregulated, on the Wall Street model.

LaRouche comments on Mexico debt bomb

The following comments are excerpted from a news release issued on June 25 by Lyndon H. LaRouche, Jr., candidate for the 1988 U.S. presidential nomination of the Democratic Party. He was the author, in 1982, of a proposal for Western Hemisphere monetary reform, known as "Operation Juárez," which has been the central issue in policy fights at the highest level of government in the United States and other republics of this hemisphere.

. . . Any discussion of the Mexico debt-crisis must take the following sort of background information into account. This past March, leading Swiss bankers announced an imminent collapse of the U.S. banking system, and emphasized measures being taken by Swiss and German banks to insulate themselves against the effect of an American banking-system collapse. At present, Oct. 25, 1986, the date of deregulation of the British stock-market, is viewed as the probable time of outbreak of the new world depression. The word among the world's top banking circles today, is "quiet panic." I predict no exact date for the financial blow-out. The new worldwide financial crash could come at almost any time. . . .

The significance of the new outbreak of the Mexico debt-crisis, coinciding with the South African situation, and the situation in Peru, Brazil, and Argentina, could be the trigger to set off a chain-reaction inside the highly unstable U.S. banking-system. This is key to understanding the outright insanity coming out of the Helms Committee hearings on Mexico and Panama. The New York bankers are demanding that all of Central and South America be crushed into submission to the desperate bankers' new round of demands from these countries. . . .

It is most interesting to witness that the same sections of the Congress and Executive Branch which are usually the loudest in defending the civil liberties of some left-wing terrorist or drug-runner, are leading the pack with Senator Helms, backing bloody measures which will take the lives of many tens of thousands or perhaps millions of persons. Those who pride themselves in abhorring the memory of the U.S. war in Indo-China, seem fully prepared to call U.S. military forces out of Europe, as part of turning perhaps all of Central and South America into a new "Vietnam war." I have no fear of exaggerating when I characterize such elements of the