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Conference Report

# Top bankers admit: 'We are bankrupt, in fact and in policy'

by William Engdahl from Zurich

The leading unofficial economic adviser to the Reagan administration and former chairman of the Council of Economic Advisers, Dr. Alan Greenspan, said it: "There is no recovery in the United States; there is none either in Japan. And there certainly is none in Western Europe."

A few minutes later, former top Reagan economic strategist on the National Security Council, Dr. Norman Bailey, admitted, "There is an increasing disconnection between the financial economy [stock markets and commodity markets] and the real economy. The financial economy is booming. But the real economy is in recession—shipping, oil, bad Third World debts, agriculture. . . . The new tax reform law and the [Gramm-Rudman] budget reductions will hit at just the wrong time."

These unusually frank admissions of the present economic reality were made at a private, informal gathering of some 200 of the world's leading banking- and economic-policy strategists the weekend of July 5-6 in Zurich. The audience included the heads of the central banks of West Germany, France, Italy, Switzerland, Canada, and Britain. It included the powerful head of the New York Federal Reserve Bank, top people from the U.S. Treasury Department, the West German and French finance ministries, two of the "five wise men" of German economics, and top strategists from the International Monetary Fund.

It also included representatives of the world's largest and most influential private banks, including Crédit Suisse, Vienna Kreditanstalt, Citibank, Chase Manhattan, West Deutsche Landesbank, Banco di Roma, Crédit Suisse First Boston, and Goldman Sachs.

In other words, it included the top people responsible for decisions which determine the course of the world economy today.

What did these august bankers and friends come up with? They admitted, again and again, in the course of three days of discussions, that the world economy is teetering on the brink of catastrophe, and that, at present, every policy solution they propose would explode in their faces.

One of the possible triggers of a new bank crisis similar to the 1931 Vienna Kreditanstalt crisis which inaugurated the Great Depression, is the Mexico debt crisis. Though most participants scrupulously tried to keep Mexico off the formal agenda in Zurich, privately, leading people admitted to its explosiveness. John Crow, deputy director of the Bank of Canada, acknowledged that Mexico is making bankers "very, very nervous. The reason Mexico is so difficult is the fear that Brazil and Argentina will demand equal terms" regardless of how "specific" Mexico's debt problems are.

Mexico's foreign debt—largely to New York and London banks—is 70% dependent on oil export. Since December, Mexico has lost $8 billion from the oil-price fall alone. The worry of the bankers is the combined $350 billion in debt owed to the leading international banks by the Ibero-American debtor nations. Assistant U.S. Treasury Secretary for International Affairs David Mulford told a questioner, "Mexico, well, they will get $4.5 billion in a new package. But I am worried about the political situation. The PRI [governing party of Mexico] is going to lose the next elections [July 6 in the state of Chihuahua]. And, nobody knows what that is going to mean for the stability of Mexico."

Mulford's cryptic, and as it proved, wrong electoral predictions reflect a policy mafia in Washington centered around former Merrill Lynch financier Don Regan and people in the State Department who are proposing to back the narcotics-tied opposition PAN party in a bid to throw Mexico into chaos. Their objective would be to destroy national institutions which until now have resisted the foreign bankers' usurious demands to betray national resources—turning over ownership of Mexico's huge petroleum reserves, for example, as tribute to pay the debt.

### 'Who will bail out the banks now?'

The real theme underlying accepted international bankers' code language actually emerged during the conference. Ironically, it was the Hungarian National Bank's first deputy president, Janos Fekete, who crudely expressed the current bankers' panic. "You in the West," Fekete gloated, "you have collapsed your markets in Latin America. You have



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collapsed your markets in Africa, including even South Africa. Now, you have collapsed your markets in the Philippines and Asia." He drew Moscow's blunt point: "You in the West have no other choice. You cannot now afford to ignore a market—Comecon—which has 400 million people and which pays its debts. You must come to us."

Whether the assembled bankers agreed with Fekete's conclusions, it was clear that they realized they had a major global financial crisis on their hands, and that nothing the IMF and big international banks patched together in the 1982 debt crisis has produced any solutions other than huge unemployment in Europe, the United States, and Ibero-America, and the threat of a far worse financial crash today.

Senator Bill Bradley (D-N.J.) bluntly told the group, "Debt management is killing growth worldwide. It is strangling the economies of the Third World and it is killing employment in the United States and other industrial countries. Since 1982, one million Americans lost work because of the collapse of exports to Latin America."

Speaking accurately for a change, Bradley pointed to the gimmick used by the bankers in 1982 to bail out their system, at the expense of their own and the world's long-term real economy. "To pay the debt," Bradley continued, "we told Latin American and other debtors to slash imports and subsidize 'desperation exports' to the United States to pay the banks their debt." The result has crippled growth, created austerity, and fueled massive flight-capital outflows, Bradley added.

His solution, given the scale of the problem, was pathetic: Bradley suggested reducing interest rates by 3% over three years to the Latin debtors.

But the significant point is the admission of how the crisis had been postponed for the past four years by the banks and Washington. Now, that patchwork is threatening has come loose, and the consequences threaten to be far worse than 1982 or even 1931.

## Will Germany and Japan bail out the banks?

The issue of forced exports to pay the debt by Brazil, Mexico, Argentina, et al. was at the heart of the battles among the bankers. The spokesmen for the U.S. Federal Reserve and private banks ganged up on their West German and Japanese colleagues. Their mugging exercise had one simple objective—Germany and Japan must turn on the spigot and flood their economies with deutschmarks and yen. Why?

Two days after Zurich, the *Wall Street Journal* admitted the game: The United States is demanding that Germany, as Europe's largest economy, begin to swallow Brazilian, Argentine, and Mexican "desperation exports" which have brought the domestic U.S. economy to the brink of ruin since 1982. Germany is, in effect, being asked to import Brazilian steel, Argentine agriculture products, and so forth. The recent "trade war" tensions between Washington and especially Germany on steel were a result of Washington's unwillingness to curtail the desperation imports into the United States of steel from debtor countries such as Brazil, for fear of the consequences to U.S. banks.

At Zurich, Bundesbank head Otto Pöhl and various representatives of Japanese banking indicated that they were not about to buy the new Washington "proposal." The problem is that Pöhl and Germany's Trilateral Commission Finance Minister Gerhard Stoltenberg have imposed policies which have driven German unemployment to postwar record highs already.

This is the dilemma. To bail out the bankers for their inability to successfully spur anything other than greater economic chaos, will trigger a major new collapse of employment worldwide—a classic depression crisis as in the 1930s. Italian Labor Minister Gianni de Michelis and parliamentary participants from the United States and Europe warned that more of the bankers' "recovery medicine" of 1982 vintage will produce social explosions.

## 'Give us more casino economies'

The answer of the private bankers was clear: We don't care what the consequences are socially, allow us to beg, borrow, or steal worldwide to keep our banking game afloat. One private banker from First Boston admitted that the private bankers' policy is to export from the United States what he termed a "casino economy" of wild, unregulated, and often fraudulent stock-market manipulations. One of the world's leading private-bank operators, John Hennessy of Crédit Suisse First Boston, said defensively, "You cannot blame globalization of securities trading as the problem. It's like blaming the bartender when the alcoholic gets drunk. Liberalization of international financial markets is good."

It's a bit like giving Meyer Lansky the keys to the Bundesbank for safe keeping.

Even the chairman of the powerful New York Federal Reserve Bank, Gerald Corrigan, was forced to admit to a dichotomy between the real economy and the paper debt pyramid, as two distinct processes. Corrigan admitted, "We have seen a spectacular rise of liquidity in world equity markets. Theoretically, this should stimulate the world ecomomy. But this stimulation is not evident." Corrigan feebly admitted he had no idea what to do about this major problem: The "upswing" in world stock-market shares in New York, Frankfurt, Milan, Paris, and London in recent months has nothing to do with real industrial recovery. In fact, it is a symptom of a speculative orgy precisely like that which brought the world into depression in 1929-31.

Thus, the world's august bankers gathered in the secluded Swiss mountain retreat, at least among what they considered a friendly audience, remarkably admitted: "We are bankrupt, in fact and in policy."