

Political Economy by Dave Goldman

Rocky's Banks plan Nazi Looting To Get His Empire Through 1975

NEW YORK, Nov. 25 (IPS) — Leading New York banks are stepping up looting operations in the industrial countries and Third World, in order to prevent a general shake-out of the Rockefeller financial empire before the end of 1975. The bankers' plans, set out with astonishing frankness in discussions with IPS, make Nazi Finance Minister Hjalmar Schacht look benevolent by comparison.

With the cooperation of the U.S. Treasury and the Federal Reserve, the banks have cut off lending to productive sectors of the world economy. Instead, they are using short-term credits pumped into the banking system by the central institutions, and using these credits to refinance uncollectable debts at high interest rates. This operation enables banks to avoid writing off the roughly 40 per cent of their loan portfolios that went sour after the depression hit last year, and maintain an extremely high rate of current earnings on paper.

If this operation continues through the end of January, 1976, its immediate results will include a cliff-edge drop in productive activity and living standards in the industrial countries, and the destruction of large portions of the population of Brazil and other underdeveloped countries.

In New York, the eight top banking houses are under siege with respect to the rest of the U.S. economy, and depend for their day-to-day existence on the lifeline from Washington. Both domestic and international corporations are withdrawing large deposits from the banks. The weakest of the group, Marine Midland, has been shut off the market for Certificates of Deposit (bulk corporate lending to banks on the money market); unable to withstand the fall of one of their number, the other New York banks are sustaining Marine Midland with interbank loans.

But the Federal Reserve and Treasury combined to hype bank deposits by more than \$5 billion during the first half of November. A combination of Federal Reserve purchases of Treasury securities, which releases funds into bank checking accounts, and calculated spending by the Treasury, provided the banks with a sudden, enormous influx of "demand deposits,"

on which the banks pay no interest. Otherwise, demand deposits of industrial corporations, which reflect the volume of their activity, fell off during the last two months as industrial production began a new downturn.

In turn, these funds are being lent out en masse to re-finance about \$60 billion in Third World debt, most of which is virtually uncollectable. The Federal Reserve's money-printing operation closely resembles the Nazi Reichsbank's circulation of "Mefo-bills" following the collapse of the German banking system in 1931. The banking system internationally is sealed off hermetically from the economy at large. It is a conspiracy between counterfeiters at the Federal Reserve, swindlers at New York banking offices, and embezzlers at the national treasuries and central banks of Third World countries.

Refinancing to Loot

How is it possible to rake in high rates of profit on Third World debt that is already illiquid, even in the very short-term?

Perhaps \$7 to \$8 billion has flowed to Third World debt-refinancing in the past six months, with the largest sums during the last several weeks; Indonesia alone took in \$500 million, Turkey \$800 million, Egypt \$1.2 billion, and so on. This debt is collateralized as follows:

Brazil: Import controls imposed by the Brazilian government four months ago have reduced the real-goods volume of imports by 20 per cent, and are expected to cut imports by a further 10 per cent before the end of this year. Imported-related savings are diverted to pay the country's \$3.4 billion in debt service due this year, all of which has either been paid punctually, according to bankers, or rolled over.

Meanwhile, the entire domestic economy is on the verge of bankruptcy, as the result of a shutoff in bank loans to Brazilian companies. The government this week force-fed \$200 million in Treasury securities to the banks, in a precise copy of Nazi finance minister Schacht's "Mefo-bill" circulation. For these government notes, banks receive 41 per cent annual interest, not overly generous compared to Brazilian inflation levels.

Colombia: As of this week, banks must place every new deposit they

receive with the central bank. Most new deposits come from momentarily-high revenues of coffee exports, which are paid in foreign currency. This foreign currency, handed over to the central bank, is then used to pay debt service, or invested directly, long-term, in the leading New York banks. This represents a total shutoff of credits to the domestic economy. The one exception to the 100 per cent deposit requirement is the purchase of government debt obligations. The government's previous large issue of IOU's comes due this month, and banks had earlier snubbed government debt.

Indonesia: A banking group led by Morgan Guaranty Trust completed this week the refinancing of \$1.5 billion in short-term debt which the Indonesian national oil company, Pertamina, defaulted on earlier this year. In return, the Indonesian central bank, which assumed Pertamina's debts, will liquidate the entire range of development projects which Pertamina sponsored, in many cases with Japanese cooperation.

In each case the pattern behind the debt-refinancing is identical: destruction of not only development efforts but also essential imports; bankruptcy of the internal economy; mortgaging of all domestic assets to the central institutions which carry the burden of foreign debt.

One U.S. banker commented, "Given the domestic problems we've got here, people are looking at the profitable section of the international market with a very favorable eye. We can't even make commercial and industrial loans here if we want to, and if we do, the spreads are nothing compared to the 2 per cent (surcharge on loans) we get in Brazil!"

Short-term Swindle

This massive financing operation has been targeted with military precision. According to bankers here, the one circumstance that makes this swindle feasible is that the economies of Western Europe and Japan are so flat that they do not require imports. A high volume of imports would place demands on the Eurodollar market for trade financing, drawing the margin of credit expansion away from the debt refinancing operation. The European Economic Community, for example, has tried to raise \$3 billion on the Eurodollar market as a fund to sustain its

weaker members, principally Italy, Britain, Ireland, and Denmark. So far it has managed to obtain commitments of only \$300 million, less than Indonesia, at the brink of bankruptcy, received in a single recent loan.

There is one flaw in this operation. It demands a geometric rate of expansion of income on paper investments, while it simultaneously destroys the productive basis in commerce and industry for paying such income. U.S. commercial banks are surviving on handouts of demand deposits from the government; but in several weeks,

bank analysts warn, depositors will attempt to obtain interest on these deposits by converting them into savings deposits. At this point, the banks' income from the international swindle will be absorbed in payment for funds.

The Federal Reserve has given a second artificial boost to bank income by holding down interest rates on short-term money to 5 - 5.5 per cent for the past month, while banks hold their interest rates relatively steady. This has increased the "spread" between the interest rate banks take in and the interest rate they pay out from about

half a per cent during 1974, to 1.5 per cent last summer, to over 2 per cent now. On this basis banks can "cover" the lack of interest-payments on a large part of their assets.

At best, this swindle will endure until mid-January, at which full-scale crisis conditions will break out again. But the internal bankruptcy of a leading European country or Japan, or political action for debt moratoria by the Third World, or a New York City bankruptcy could provoke an immediate crisis, and put the banks against the wall immediately.