

his Northwest Industries owns.

At this point, there can be no doubt that if the First Penn's of the U.S. banking system go belly side up, the other smaller regional banks can't be far behind. This is the intention of the giant New York banks which encouraged the passage of the Depository Institution Deregulation Act of 1980, which calls for "survival of the fittest" deregulation warfare between banks. In depression conditions, this always means that the biggest with the best connections to the City of London come out on top. In addition to the already passed banking law, therefore, Citibank's Walter Wriston, who called for "streamlining the banking system" in congressional testimony this month, has supported an emergency FDIC bill, now sponsored by House Banking Committee chairman Reuss and his Senate counterpart Proxmire, to allow interstate banking, and undo the McFadden Act which forbids such interstate banking.

The granting of interstate banking is just the clearance Citibank needs to begin its own reorganization of the U.S. banking system by gobbling up the failures produced by Volcker's depression. New York's Citibank already has banks to spring into operation: it owns a \$1 billion bank in Miami under Edge Act laws; a South Dakota Bank; an option to buy a Chicago bank; and 400 credit card offices in 40 states, which could start doing banking functions if permission were granted.

The bank reorganization has very high stakes. "The First Penn bail-out was just a test-case," said Richard Wanlin, the emergency coordinator at the Controller of the Currency office at the U.S. Treasury. Wanlin is the go-between the Controller of the Currency's office and the crisis management Federal Emergency Management Agency (FEMA), which is running a top-down reorganization of the economy. Wanlin is also connected with the Federal Financial Institutions Examination Council.

This council was set up in March 1979 deriving power from the Financial Institutions Regulatory and Interest Rate Control Act (PL 95/630) and its current chairman is Comptroller of the Currency, John Heiman, who is Wanlin's boss. "We are putting together powers that will bring the banking reform to a high point," he added. "Look at the emergency powers that we have. We can use Emergency Banking Regulation # 1, which was passed in late 1962 during the Cuban missile crisis. Let us say there was a war between Iraq and Iran or the south is bombed. Under this regulation, we can merge banks, shift funds, do whatever is necessary."

Wanlin added that he was in Alabama during the floods there last year, when FEMA was there supposedly to help flood control. "While we were there we ran simulated tests on how to run the Birmingham banks and merge them after nuclear attack." When asked whether his work on flood control was incidental, Wanlin responded quickly "of course."

Argentina's Friedmanite bank collapse

by Mark Sonnenblick

The chain-letter collapse of Argentina's financial institutions could have major ramifications for the international banking system.

On April 25, the Navy component of the Argentine military government forced the central bank to intervene in three banks which were rapidly going under. Banco de los Andes, the largest private bank in the country, was among them.

The current panic was triggered by the March 29 announcement that the central bank was liquidating Argentina's number two bank, Banco de Intercambio Regional. As it became clear that most of the banks which had engaged in a whirlwind of speculation had their portfolios filled with bad debts of clients they had helped to bankrupt, the run began. Depositors lined up for blocks to move their funds from the local banks to less vulnerable state and foreign banks. Some banks reportedly lost 75 percent of their deposit base in a month.

Pressures from military men, many of whom had substantial stakes in the crumbling banks, forced the government to scrap its doctrinaire "laissez-faire" attitude by which the "unfit" would be allowed to die. Just to try to control the pace of the banking collapse, the central bank last week gave peso depositors full FDIC-type insurance and advanced \$1 billion in emergency funds to the stricken banks. Despite the bail-out operation (which is likely to cost the austerity-ridden federal government up to \$4 billion), most Argentines and the respected IBCA Banking Analysis in London expect several dozen other institutions to fold in short order.

At least one uninsured credit union, with 35,000 wheat industry employee members, had failed to gain cash to meet withdrawal demand as a result of its funds being tied up in the liquidated B.I.R. banks and depositors whose money is locked into closed banks are dumping their holdings on the stock market at any price, resulting in stock prices plummeting 30-50 percent over the past six weeks.

Deregulation and bust

Argentina's banking collapse was caused by precisely the same kind of Friedmanite "deregulation" policies exemplified by Wisconsin Rep. Henry Reuss's Banking

Reform Act now pending in the U.S. House. Monetarist Finance Minister José Martínez de Hoz deregulated the banks in 1977 to permit them to borrow and to lend at whatever interest rates the "free market" would bear. De Hoz acted on the basis of classical doctrines of economic liberalism with the justification that it would bring into the country the billions of dollars needed for its "economic reconstruction" from the hyperinflationary break-out at the end of the Peron administration.

Argentina was transformed into a "banker's paradise," sucking in what First National of Boston estimates to be \$4.5 billion in "hot money" from international speculators who clear 3 percent profit per month in the "Argentine banking bubble." De Hoz generously insured the speculators from exchange risk by announcing a year in advance monthly devaluation rates less than half the country's 160-180 percent internal inflation rate.

As befitting a nation run by Friedmanite policies, interest rates became sharply positive in respect to inflation, leading the local middle class to jump on board "the Argentine bicycle." The *Times* of London reported: "With rocketing prices and land values, people are selling their houses and taxi drivers their cars to cash in."

The de Hoz tactic worked. The vaunted "savings rate" rose to a 28 percent of GNP. But only 8 percent of the GNP was invested in productive activities.

What made the orgy of usury possible was the desperation of Argentina's once-dynamic industrial sector. The de Hoz team of monetarists sought to turn the country into one big farm by instituting a "free market economy" in which manufacturing would lose its former tariff protection and subsidies and be forced to pay through the nose for energy and other government services. Such policies decapitalized industry, while the speculative credit market drained funds away from long-term investment or direct capitalization. Industrialists had to turn to the legalized usurers and pay the incredible interest rates, just to try to keep afloat.

But, after two years of banker euphoria, the high interest rates and the increasingly depressed economy made the creditors unable to shoulder their debt burden, dragging down the banks with them. The worst may still be to come. Argentina's largest corporate combine, Sasetru, though centered in agro-business, is known to be unable to repay the \$500 million it owes to the banks. With a "severe recession" begun, the pace of failures will undoubtedly escalate throughout the economy.

The crisis goes far deeper than "isolated problems due to financial mismanagement by a few unscrupulous institutions" or "a temporary effect of the rapid decrease in inflation catching a few institutions with high interest liabilities and low interest assets"—explanations offered by defenders of de Hoz.

The *New York Times* targets First National of Seattle and the very shaky First Wisconsin as being among the

foreign banks who lost an estimated \$80 million loaned to the defunct B.I.R.

A specialist who wrote a study of the Argentine banking bubble for the World Bank last August told *EIR*, "these little banks shouldn't be playing in the tropical leagues, because sooner or later you're gonna get burned." This experience could help persuade lenders already queasy about the LDCs' ability to service their debts to stop lending to the whole block of countries.

For example, foreign bank representatives in Rio told the Brazilian daily *Gazeta Mercantil* that "more than 500 banks consulted refused to participate in the \$250 million Petrobras loan syndication headed by Deutschebank and the Bank of America." Brazil, which is conservatively estimated to have to borrow \$14-16 billion to make ends meet this year, was able to float only one \$70 million bond and squeeze through the solitary \$250 million loan during the first third of the year, according to official information leaked to *O Estado*.

While the "public" line of the bankers is that they want shorter terms and a quarter percent more spread, Planning Minister Delfim Netto's trip to Europe last week showed little disagreement there with American bankers' insistence that Brazil submit to IMF conditionalities. The Brazilian daily *Folha* attributes the recent purge of the raving nationalist General Carlos de Andrade Serpa from the Army high command to his expected leadership of military opposition to an IMF-takeover of Brazil.

Can the American economy recover?

A series of seminars on the LaRouche-Riemann Economic Analysis

sponsored by
the *Executive Intelligence Review*
and the Fusion Energy Foundation.

The LaRouche-Riemann economic model is the only econometric model to forecast with accuracy the impact of the Carter administration's "anti-inflation" policies.

In New York:

Wednesday, May 28, 2:30 PM

City Squire Hotel 7th Ave. & 51st St.

Registration fee: \$50 per person

For more information contact:

Leif Johnson, *EIR*, 304 W. 58 St., New York, N.Y. 10019
or call (212) 247-8820