Leutwiler's move to cut Brazil's loans

by Renée Sigerson

Tactical disagreements have emerged again between the Swiss and British oligarchical centers of international finance on how to proceed with reorganization of the world monetary system. On the one side, the Swiss, supported by allies in the West German central bank, are calling for an immediate halt to any new emergency "bailout" credits to debtor countries like Brazil. The Swiss viewpoint is being pushed by Bank for International Settlements head Fritz Leutwiler, who is convinced that major defaults are inevitable, and that it is politically preferable to face them sooner rather than later. Leutwiler is moving to trigger a financial breakdown by no later than June, and possibly as early as the eve of the May 22 Williamsburg summit of Western heads of state.

The British, with the major U.S. commercial banks operating under their thumb, are still largely committed to postponing the debt crisis for as long as possible with financial "fire brigade" operations. British and U.S. banks are continuing to negotiate emergency lines of credit, and are still counting on a U.S. congressional bailout of the International Monetary Fund to bolster "confidence" in the accounting-book debt refinancings which have been ongoing since last August.

The substantial issue behind these differences is that depending on which course of events occurs—a financial breakdown as early as June, or a postponement of defaults until later this year—will determine which nexus of financial power centers comes out on top as the virtual controller of a reorganized world monetary system.

A third option exists: sovereign governments—including Washington and Third World countries—could take the initiative to foreclose on the old debt, and immediately gear up new credits for production and trade. Proposals are circulating in numerous capitals for moves of this type, but, as in Washington, where faith in a magical recovery is still strong, this motion is inadequate. It is precisely to take advantage of this weakness before leading governments awaken, that Leutwiler moved last month to escalate the time schedule for financial chaos.

In late April, confidential talks were held in London between Bank of England officials and Leutwiler, where the Basel BIS chief presented his arguments in behalf of a near-term shakeout. According to a leak in the London *Financial Times* April 21, Leutwiler had denounced his British hosts, as well as the U.S. Federal Reserve, for engaging in the practice of "pressuring" private commercial banks to keep extending short-term "interbank" lines of credit to debtor countries like Brazil in order to ward off defaults.

Leutwiler's attacks created quite a stir in London and Washington. By undermining already shaky confidence in international banking relations, Leutwiler had suddenly called into question a several billion dollar loan deal which had been laboriously pieced together just that week between British and Brazilian bankers. The package had been viewed as a "lifeline" which could mean the difference between Brazil being able to get through the summer still solvent. As the *Financial Times* reported, before Leutwiler opened his mouth, the Bank of England had been embarked on a "worldwide campaign" to convince private bankers to keep those short-term interbank deposits to Brazil coming.

A senior U.S. Federal Reserve official commented on Leutwiler's interference, "How in the world can the president of the Bank for International Settlements do something so irresponsible?" In the past 10 months, under the watchful eye of the Federal Reserve, U.S. banks have extended more than $40 billion in such interbank credits to Latin American debtors.

One City of London financial source summarized the response there to the Swiss attack: "The Brazilian interbank process is crucial. . . . If the interbank market was not propped up officially all the time it would collapse. The Bank of England has abandoned ideas of grandiose designs. They know there's only trouble ahead for the next two years and that the way is going to be terribly difficult."

On April 28, Leutwiler's private statements were then restated publicly by West German Bundesbank chief Karl-Otto Poehl. New credits, Poehl told reporters at a press conference, will do nothing to solve the problems of the Third World. The debtor countries must bite the bullet, exercise "economic adjustment to the limits designed to correct for past mistakes," and just sit there and wait until the industrial countries get an economic recovery going. Poehl put the onus for generating a recovery entirely on the shoulders of the United States, and added that until the United States lowers interest rates, it is unacceptable for central banks to pressure private banks as a policy solution to the debt crisis.

The British and Swiss however are at pains at this time not to allow their tactical disagreements with each other to divide them from their shared objective of foreclosing on the political power of governments to destroy the oligarchy financial power. On April 26, the *Financial Times* issued an editorial endorsement of Leutwiler's criticisms of the Bank of England, emphasizing in conclusion that one point on which the Swiss and British emphatically agree: "The guiding principle for central bank operations should surely be that the aim is not to revive the Euroloan market as we knew it, but to cut it down to size in an orderly way."