

Schroeder-Münchmeyer: a banking Sarajevo?

by David Goldman

West German bankers from Hamburg to Munich are protesting a bit too much that the last-minute rescue operation for the Schroeder-Münchmeyer-Hengst Bank (SMH) prevented “a crisis which would have made the 1974 collapse of the Herstatt Bank look like a Sunday picnic by comparison,” as one Frankfurt banker said. The ripples on the surface betray the undersea volcano. SMH was West Germany’s most powerful political center for Eastern and Arab connections, an alliance of some of the country’s oldest and nastiest families. Its demise, and the disgrace of its principals, have punched a hole in the side of the “de-coupling” faction in West German politics and finance. Well-placed observers in Hamburg banking circles attribute the bank’s de facto failure to the latest in a pattern of Washington-directed economic warfare operations, including the prosecution of commodities dealer Marc Rich.

SMH ran to West Germany’s central Bundesbank for help on Nov. 1 after American and British banks yanked DM 900 million (about \$330 million) out of the bank’s Luxemburg branch, opening a can of worms that horrified the West German financial world. Almost half of the bank’s DM 2.2 billion in assets had been lent out to the huge, loss-making IBH construction equipment firm, along with other dubious loans. At a much-publicized meeting lasting until 2:00 a.m. on Nov. 2, and a second, totally secret meeting on Nov. 4, the West German banks gathered at the Bundesbank’s headquarters in Frankfurt, and coughed up the DM 900 billion withdrawn by the Americans.

According to sources associated with the Munich Finance Club, a conglomerate of old oligarchic fortunes including such names as Wittelsbach, Thurn und Taxis, and Hohenlohe, everyone in West Germany knew for months that SMH and its principal customer, the IBH construction machinery firm, had been in trouble. Leading West German financiers insist that the bank’s failure was the result of the personal blunders of Ferdinand Count von Galen, the jet-set financier whose connections to the now-bankrupt IBH firm proved fatal. They cited the calming of the West German stock exchange and currency markets, where the German mark, after falling from about 2.62 to the dollar before the SMH bombshell hit, stabilized Nov. 8 at around 2.67.

Other sources suggest that the Schroeders and Muenchmeyers and other oligarchs were planning to get out of banking, by shifting deposits secretly into the U.S. and Luxembourg—much as Johann Phillip Beithmann did when he sold off his interest in his 200-year-old bank earlier this year—and planning to stick American creditors to SMH with an empty shell. Is it possible that Schroeder and Muenchmeyer had been siphoning off their deposits into Swiss and American accounts, and replacing them with American interbank loans? The German oligarchic clan of Thurn und Taxis, along with many British families, are increasingly placing their money in gold and real estate outside Europe, as well as bank accounts outside Germany.

Although SMH was in big financial trouble, Hamburg banking experts believe that the contacts of men like Alwen

Münchmayer, the banker who designed former Chancellor Willy Brandt's *Ostpolitik* ("opening to the East"), were good enough to rig a quiet bailout from other German banks, who wanted nothing less than a public confidence crisis. American banks knew for weeks that SMH was in big trouble; a month earlier, SMH had raised \$30 million in New York by liquidating its 10 percent share in U.S. Trust, an investment firm with close ties to British elite circles through the American Ditchley Foundation. Von Galen, the senior managing partner of Schroeder-Münchmayer, sat on U.S. Trust's board until the November events forced him to resign.

The total asset size of SMH is trivial relative to the weight of the West German banking system, and the direct financial side-effects were, indeed, dampened by Bundesbank action. But the SMH affair may well be remembered as the Sarajevo in a global banking war. As *EIR* warned two weeks ago, the danger of global financial crisis centers on the trillion-dollar interbank market, where literally hundreds of billions of Eurodollars change hands daily. European banks owe, net, about \$100 billion on the interbank market, where the principal net creditors are American (and also Arab) banks; although the West German banks are not as a group exposed on the interbank market, the SMH bank had nonetheless obtained almost 40 percent of its total resources there.

A wave of European bankruptcies

IBH, it should be recalled, was the world's third largest construction equipment manufacturer, after Caterpillar in the United States and Komatsu of Japan. Its bankruptcy is bigger in some respects than the collapse of West Germany's AEG or Braniff International in the United States, because although IBH was a pyramided scheme, it centered on basic industrial goods, rather than either consumer goods (half of AEG's business) or services (Braniff's business). Also in West Germany, the virtually bankrupt Arbed-Saarstahl steelmaker, which will receive a loan of DM 50 million, is extended by Bonn to meet Nov. 10 bills, and a total of DM 186 million should be made available in the next 14 months. Funds for the Thyssen-Krupp merger were withheld, however, and layoffs will result.

In France, a "surge of corporate collapses caused by shrinking demand and financial costs," as the *Financial Times* termed it, includes the bankruptcy of the bicycle manufacturer Mercier. The large conglomerate Creusot-Loire, which manufactures the Framatome nuclear power plants, has threatened to file for bankruptcy should the French government and the nationalized banks fail to improve the terms of an \$800 million rescue package negotiated over the last few months. As the package presently stands, Creusot-Loire would have to shed 4,000 of its 30,000 workforce. The company's principal shareholder, Schneider, would in turn have to sell off its highly profitable engineering, consulting, electronics, and other subsidiaries in order to participate in the Creusot-

Loire bailout. The large arms manufacturer Manurhin, located in Alsace, has also threatened to file for bankruptcy within days, if the government-owned Foreign Trade Bank does not rescind its opposition to a FF550 million rescue package. The company lost close to a billion dollars in 1982.

This is the pattern of collapse that is sweeping Western Europe as a whole.

Political maneuvers

West Germany is now a battleground for the future of the Western alliance, in which the Bonn government's attack against the American move into Grenada is the principal surface manifestation. Bavarian governor Franz-Josef Strauss's public denunciations of West German Foreign Minister Genscher, who is privately supporting the idea of a neutral, "nuclear-free" Germany, are another (see Special Report). High-ranking administration sources in Washington say that the White House wants Genscher out before he permanently damages American interests in West Germany. Willy Brandt's Social-Democratic party has become Genscher's major prop in the West German Bundestag.

It may not be coincidental that Willy Brandt's principal financial adviser, Alwen Münchmayer, was brought down at the moment that the Bonn-Washington policy crisis peaked. Münchmayer, the honorary chairman of SMH, had long ago left day-to-day business to his son Hans-Hermann Münchmayer and the bank's Frankfurt chief, Ferdinand Count von Galen, but his role as chief contact-man for the bank continued. During the 1960's, Münchmayer, in his capacity as chairman of the German Bankers Association, led every major financial delegation to Moscow, and accompanied former Chancellor Willy Brandt on every key trip eastward.

Münchmayer was only one such figure in the Hamburg "Kompanei," or financial mafia; together with the aging Erich Warburg, he ran financial *Ostpolitik* under Helmut Schmidt between 1974 and 1982. Warburg's partner Christian Brinckmann, who superintended the Warburg bank in Hamburg after 1938, was the chief West German figure in relations with Iran—which Genscher has preserved under the Khomeini regime, to the point of permitting Iranian terrorist networks to operate in West Germany. Brinckmann's son is the current chief of the German-Iranian Chamber of Commerce in Hamburg.

"Now all these people are hysterical," commented West German banking analyst Paul C. Martin, "because they know that the Hamburg banking center is finished for the next 100 years." The impact on West German politics is barely imaginable to those who look only at the surface mechanisms of German parliamentary life. Tiny in terms of assets, the German *Privatbanken*, or private banks, control an untoward number of members of parliament (the Warburg bank in Hamburg, for example, has an employee too lowly even to report to the partners, who is otherwise a Bundestag member for the Free Democrats, Genscher's party).

The power of the private banks lies in the *Vermögen*, or private funds, of German oligarchic families, invested through these institutions. With DM 10 billion in such trust funds, Schroeder-Münchmayer was the most powerful of the private banks. It represented an alliance between the senior line of the Schroeder family, which kept the slush fund for Adolf Hitler's campaign in 1932, and whose English cousins founded the present Schroeder Bank of London and New York; the Münchmayer family; and the von Galen family, a power in Münster for generations. Apart from German family fortunes, SMH also invested heavily for Arabs and Iranians; its failure now threatens a delicate set of domestic and international financial relationships upon which political ties depend.

Friends of the Münchmayer family now bitterly accuse Count von Galen of having covered up his blundering financial relationship with the IBH construction firm. "Hans-Hermann Münchmayer didn't know the half of what von Galen was up to," said one leading Hamburg private banker. "Now he is broke, and his father is a broken man, after seeing everything that he had built up fall to pieces."

The principal of one of Germany's best-backed private banks, Prince Johannes von Thurn und Taxis—reportedly the banker for postwar Nazi funds—commented, "Count Galen really didn't have the means to conduct the sort of business he was doing. He had a big house in Frankfurt, and was a very social man, and had a socialite wife, and everybody went there to have dinner with him. So people gave him their money on this basis."

Financing the Soviets

The "Halloween Massacre" in Hamburg coincided with a crucial set of negotiations between West German banks and the Soviet Union, which has thus far not appeared in the daily press. A delegation of West German bankers was told in Moscow in late October that American banks were refusing to renew medium-term credit lines to the Soviets—apparently under political pres-

sure—and were restricting their Euro-dollar lending to Soviet financial institutions to extremely short-term lines. The Soviets, anticipating a credit crunch on the Eurodollar market, are anxious to rebuild their access to medium- and long-term credits, West German bankers say.

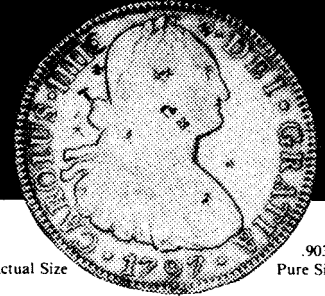
At the beginning of November, West German bankers were still considering the Soviet offer favorably, banking sources report. The country's best-known specialist on Soviet trade, Prof. Heinz Machowski of the German Institute for Economics in Berlin, argued that "the Soviets are the best debtor the German banks have; it is good business, and the banks will be happy to expand it." Other bankers were not so sure. "The saying around here," said one, "is that the Soviets will either pay, or show up in person."

The week SMH went down, the German banks decided not to extend medium-term loans to the Russians—an unreported, but important, decision. There is enormous pressure on West Germany to finance the Soviets and their satellites, especially East Germany, whose representatives are now sounding the West Germans for a new DM 1 billion loan. A similar loan granted last July by West German banks went to repay bank debt coming due. Banking sources report that exporters to East Germany are factoring their 90-day trade paper for half of its face value, setting up a gigantic payments bubble for the end of the year.

German banks' negative decision respecting new Soviet credits, occurring simultaneously with the destruction of Alwin Münchmayer, the banking figure most prominent in German financial connections to the East, may not have occurred as a matter of coincidence. Some friends of the East here are sure that the American banks' sudden move against Münchmayer was deliberate, and bitterly accuse the United States of having sabotaged their quiet game with the Soviet Union. "You cannot possibly explain this on financial grounds alone," Professor Machowski said. "This had to have a political background."

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