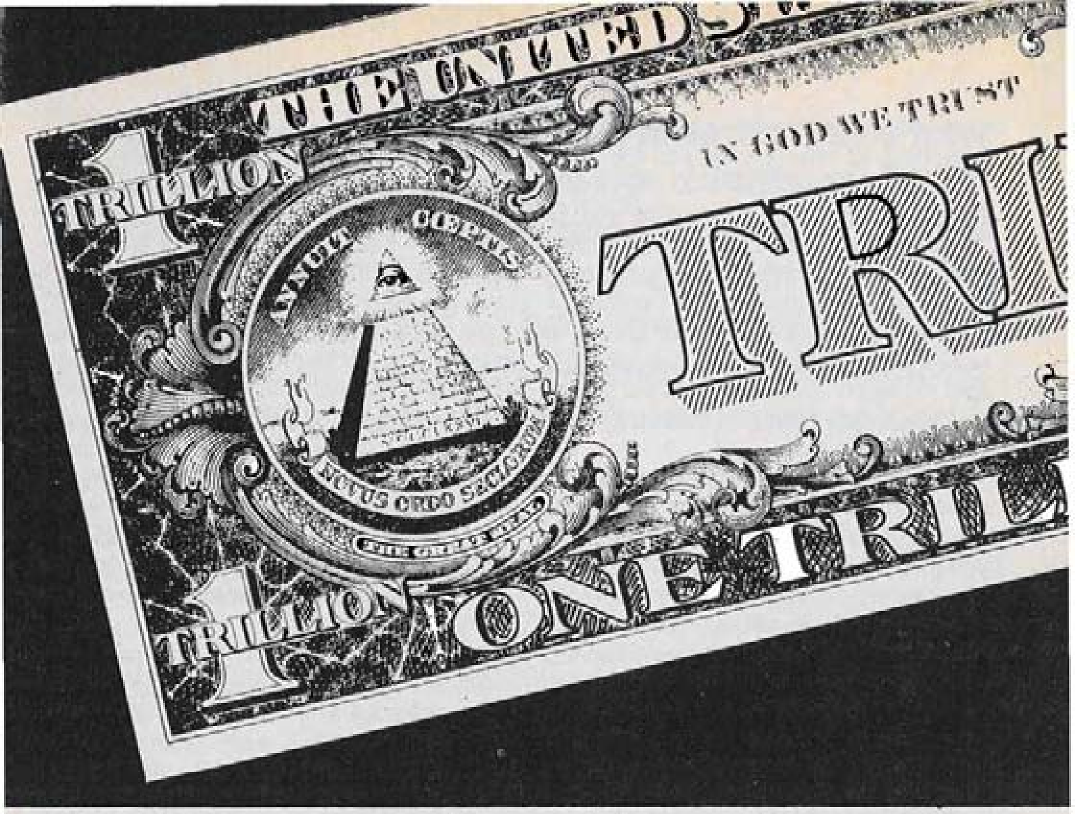

Our Economy Trembles Atop The BANKING PYRAMID

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■ ON NOVEMBER 10, 1982, the *Wall Street Journal* dropped a bombshell on readers when it carried an arresting article on its front page entitled "Script For Collapse." Offered as a fictional scenario, the piece demonstrated how a cataclysmic world banking crisis could occur over a period of only twelve days in a sequence beginning with the failure of a small lending company and a medium-sized bank in Hong Kong. This scenario, with eight hypothetical scenes, is significant because something like it could very well occur. And it is arresting because the *Wall Street Journal* considered the danger so acute that it ran the story on the front page.

Less than a month earlier, on October 15, 1982, even the prestigious and very Establishment *Economist* of London had devoted its lead editorial to forecasting a crash of the world banking system. In a piece called "The Crash Of 198?," the normally stuffy British weekly warned that one "Thursday some Soviet colony or Third World borrower" might opt to repudiate its loan payments, throwing the Western banking system into a tailspin from which it could not recover.

What do these Establishment warnings mean? To get at the answer we must first briefly review the developments which produced the current international debt crisis, and then we will examine the various mechanisms to which the bankers and the monetary authorities are likely to resort in trying to patch up, postpone, and bail out the sour debts of foreign states to banking biggies.

The Lending Spree

Over the thirty-eight years since the creation of the International Monetary Fund the annual I.M.F. Monetary Conference has been the scene of luxury and high living for the world's finance ministers, central-banking potentates, and international bankers. Virtually no expense has been spared in providing the best facilities and services for these crucially influential guests, as the Wall Street bankers have vied to do business and clinch deals with indigent foreign governments.

Relieved of the checks and disciplines of a Free Market money and banking system, the lenders did not worry about where the money for these loans had come from. Nobody worried about the fate of the depositors. And certainly no one seemed concerned about the traditional virtues of thrift and conservative money management.

The recklessness of the bankers in their international lending policies accelerated dramatically during the decade of the 1970s after the dollar's last link with gold was severed. Through the fraud of fractional-reserve banking, the institutions could create huge amounts of artificial (and unsound) credit by lending out many times the sums entrusted to them by their depositors. There has been a veritable explosion of bank credit in recent years, especially in the form of loans to shaky Third World countries and Soviet Bloc regimes, most of whom have neither the intention nor capacity to pay off the loans.

A notion of the tremendous growth of lending to foreign governments over the last ten years can be grasped from the following figures. The total debt owed by non-O.P.E.C. Less Developed Countries has skyrocketed from $87 billion in 1970 to approximately $640 billion today! Over $327 billion of this is owed to commercial banks in the West, with the remainder due Western governments and international lending institutions. American banks alone have lent over $200 billion to developing nations. Soviet Bloc debt is somewhere between $80 billion and $100 billion. When the *total* debts of the developing world are added up, the red ink owed by foreign governments to Western banks and Western governments is estimated to be a staggering $850 billion deep! No one expects to see these sums repaid any more than anyone expects the National Debt to be liquidated.

So why did the bankers get involved in this gigantic lending spree with debtors unlikely to make good the loans? Financial analyst Christopher Weber, writing in the July 1982 issue of *World Market Perspective* (Box 2289, Winter Park, Florida 32790), summarized the attitude of the lenders as follows:

"There were many reasons why the

Western banks and governments have lent an estimated $850 billion to deadbeat Third World countries, while the Soviet Bloc owes more than $80 billion to the West. No one expects those loans to be repaid, but a default by only one or two of these debt-ridden nations could collapse the world's financial structure.

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banks began this reckless lending to risky foreign governments. In some cases, *e.g.* America's, laws prevented large banks from expanding domestically. Other Western nations saw overseas lending as a way of expanding influence in developing lands without attendant charges of imperialism. But most of all, banks believed that they saw virtually riskless profits in dealing with otherwise risky nations because, to keep the charade going, all that was necessary for the loans to appear good on bankers' books was for recipient nations to pay only the interest. And lurking in the back of most cautious bankers' minds was the belief that Western commercial banks were so important to the world's financial system that Western governments would necessarily have to bail them out if any large debtor nation found itself unable to pay."

So, even if the Third World deadbeats and the Soviet Reds did the unthinkable and dared to double-cross David Rockefeller and his cohorts, the American taxpayers could be counted on to pick up the tab rather than face immediate ruin.

Then there was the line, still used by some banking spokesmen to soothe critics of their lending policies, that nations can't go broke. As Lee Prussia, chairman of the board of Bank of America, has put it: "Countries are different from individuals. We can go bankrupt and disappear. Countries can't do that."

This position has become increasingly dubious, however, as the world's financial community encounters one near-default after another. What are Poland and Mexico if not bankrupt nations? True, they will always exist as geographical locations, but it does not follow that they will ever be able to climb out of the ever-deepening hole of debt in which they find themselves. Indeed they have had to borrow just to pay interest on previous debts.

Poland owes a whopping $28 billion to the West, $16 billion of that to European and American banks. It cannot pay. What can the banks do, tow away Poland's (U.S.-built) Lenin Steel Works to hold as collateral? Presidential advisor Ed Meese has admitted that the Reagan Administration decided to bail out the Polish debt situation because of fear of snowballing bank failures should the debt be formally defaulted. Realizing the West's vulnerability, Poland's dictator is now threatening formally to default if more credit is not forthcoming.

Among all the developing nations, Mexico has the largest amount of foreign indebtedness — over $85 billion. It has borrowed liberally from the international bankers in recent years, as well as from Uncle Sam, in anticipation of being able to repay the loans with revenues from its still-developing oil production. Now, however, this country south of our border is experiencing a hefty shortfall in oil revenues.

In addition, the Mexican economy is in a shambles. As with so many Socialist countries, Mexico has become a heavy importer of foodstuff despite its abundance of arable land and large pool of willing workers. The government there has pursued policies which discourage efficient production of anything. The economy is burdened by an incredibly corrupt government, a bloated and parasitic bureaucracy, stifling regulations, inefficient government-owned enterprises (such as PEMEX, Mexico's government petroleum company), and an assortment of ill-starred Welfare State programs and subsidies.

By August of 1982, Mexico's past-due and current interest payments exceeded all its income from oil exports. At that point, the Mexican finance minister advised foreign bank creditors that his government was on the verge of default. Had that been allowed to occur, it could have brought on a chain reaction of banking failures which would have sent the world financial community reeling from atop its paper pyramid. In early September, one hundred international bankers quickly convened a meeting in New York to prevent this. At that emergency meeting they agreed to the following bailout plan:

(1.) The bankers would postpone $10 billion in debt payments due in September 1982. (After that three-month grace period, Mexico asked for and received another 120 days to delay this same payment. The due date will probably be continually advanced into the future.)

(2.) A bailout package was put together consisting of a $1.85 billion loan arranged by the Bank for International Settlements, $924 million from the U.S. (of which $324 million came from the Federal Reserve and $600 million directly from the U.S. Treasury), and $926 million from eleven other central banks.

(3.) The U.S. Department of Agriculture's Commodity Credit Corporation made a $1 billion loan guarantee for Mexican companies to purchase U.S. agricultural products.

(4.) The U.S. Government agreed to make a $1 billion "advance payment" on future oil deliveries from Mexico to the U.S. "strategic petroleum reserve."

(5.) Another $1 billion in short-term credit from the U.S. was immediately provided to the Mexican Government.

(6.) A $4 billion loan from the U.S.-funded International Monetary Fund, spread over the next three years, was put into place.

The trouble is that none of this is enough to get Mexico out of the hole. With some fifty percent of Mexico's bank debt already past due, it has been estimated that — including refinancings — Mexico will need to borrow at least $28 billion this year to stay afloat. No way, José.

Total American bank exposure to Mexican debt is already running about $25-$30 billion, with Citibank, Bank of America, and Chase Manhattan stuck with $2.5 billion, $2.3 billion, and $1.5 billion of it respectively. These politically powerful banks do not want to see Mexico City default, leaving them holding these bags of bad debt. Of even greater concern to the megabankers, however, is that a Mexican default would spark other debtor nations to do likewise, setting off a chain reaction of banking failures that would smash the world economy as we know it.

Highly ominous is a report by Washington columnist Sarah McLendon that, according to monitored short-wave broadcasts, Latin American nations are preparing to send representatives to a meeting in Bolivia to discuss a little-known proposal of Miguel de la Madrid, the new President of Mexico, that there be a concerted default by Latin American governments on some $300 billion in total debts owed to private bankers and official world lending institutions. Such a united default or repudiation would precipitate an international banking catastrophe and collapse the whole unstable pyramid of debt already quaking on its foundation of fiat money.

If only a few of the Latin American debtors go along, it would still be traumatic. As the respected analyst Julian Snyder observes in the first issue of his new newsletter, *Bank Crisis Bulletin*: "Four countries — Brazil, Mexico, Argentina, and Venezuela — can make or break the likes of Chase, Citicorp, and BankAmerica. If, for example, Mexico were to declare a one-year moratorium on the repayment of principle and interest, over 70 percent of the profits of BankAmerica would be eradicated. An official repudiation of its debts by Brazil would drive Chase into insolvency."

A unified Latin American default, if it actually took place, would devastate not only the U.S. economy, but other countries whose banks have participated in syndicated loans to Latin America. The new director of Mexico's central bank, Marxist Carlos Tellos Macios, is reported to be aggressively pushing de la Madrid's proposition. And, even if no other governments take part, Macios is determined that Mexico should threaten to default unilaterally.

These threats of default are probably bluff, because such action would amount to a financial declaration of war on the United States. But, even if the concerted default does not materialize, the open threat of such action could panic world markets. So the bankers will do what they can to prevent it.

Meanwhile the number of potential defaults continues to grow. At latest count, some twenty-eight nations are behind in their debt payments and at least twenty-one have asked for or will ask for a "rescheduling" (postponement) of their payments of interest and principal.

Neck and neck with Mexico in terms of external debt, Brazil is also on the verge of default. The Brazilian Government owes U.S. banks more than $16.8 billion and has asked the I.M.F. for a $6 billion loan to help it continue making its interest payments to creditors. The South American country has been paying out seventy percent of its income from exports to service this vast debt. And although the fall in oil prices has helped to ease its crisis, the drop in other commodity prices could make Brazil a large, off-balance, domino in the world debt structure.

Then there is Argentina, described as the "financial sick man of Latin America." No one who knows will say exactly how much it owes, but recent estimates place its external debt around $38 billion. In 1982 Argentina had to use seventy-eight percent of its earnings from exports just to keep up its payments. With an inflation rate around 200 percent following a 170 percent devaluation of its currency over two months' time, Argentina's finance minister is seeking to "rearrange" past-due increments totaling over $15 billion while he seeks further loans from American banks. Lenders of the Leftwing Peronist Party — expected to win the elections there in fifteen months — are already pressuring the government to analyze how much of its external debt is "legitimate," and demanding that the rest be repudiated.

So Argentina is another domino. It could make the first fully recognized default, setting off consequences that would make it the financial equivalent of the assassination of the Archduke Francis Ferdinand.

Other Latin American nations having debt repayment difficulties include Bolivia, Peru, Costa Rica, Venezuela, and Cuba. Indeed, Castro's Cuba has asked its Western banking creditors to reschedule $1 billion in delinquent debt payments.

On the continent of Africa, the following countries had to reschedule their loan obligations in 1981: Senegal, Liberia, Togoland, Sudan, Central African Republic, Uganda, Zaïre, and Madagascar. Malawi, Ivory Coast, and Tanzania are also in trouble. In 1978 only two African nations needed I.M.F. credits; in 1981, twenty-one of them did.

And, of course, Poland is not the only East European nation with heavy debt problems. Romania is in debt to the tune of over $10.2 billion, and has demanded that its past-due debt payments (going back to 1980) be stretched out for another 6.5 years, with no payments for the next three years! Hungary owes almost $8 billion and has asked for a massive rescheduling. Yugoslavia can't or won't pay its debt of more than $4.2 billion and is, like the others, demanding even more loans.

Creditors with the largest exposure to all this bad foreign debt are the Big Banks, especially Chase Manhattan, Citibank, Bank of America, and Continental Illinois. Among these institutions, the paper profits made on loans to the L.D.C.s alone often account for over half of each bank's net annual income. Citibank has lent to developing countries a sum representing more than two hundred percent of its loan-loss reserve and capital — enough to wipe out its shareholders' equity twice over! The other major banks are in a similar situation.

Doomsday Scenarios

On November 21, 1982, Wall Street investment banker Felix Rohatyn predicted on national television that, because of the staggering amount of bad debt, the world economy is heading toward collapse and could slip over the brink within the next two or three years. In an interview on "Face The Nation," Rohatyn stated: "We have an economic window of vulnerability in the commercial and economic sense that is probably no more than two years away — and it's shuttling fairly fast."

The vast Third World debts owed to developed nations "have caused us to become prisoners of our debtors, just as we became prisoners of O.P.E.C.," observed the international banker. Pointing out how fast the problem was growing, Rohatyn explained that if a country capitalized interest at a rate of fifteen percent per year, it was *doubling its debt every four years*. He cited Mexico as an example of what could happen. "Can you imagine Mexico with $160 billion in debt and with no growth?"

Who is Felix Rohatyn? He is a senior partner in the Rothschild-connected international banking firm of Lazard Freres. And he is the man the bankers chose to head the bailout of bankrupt New York City. He is, in short, very bright and very connected. Rohatyn's solution to the problem? To avert a world financial debacle, he maintains, there must be a Trilateralist-style "coordinated economic action with Europe and Japan to create much higher growth." He favors an international bailout operation.

When financial specialists such as Felix Rohatyn and the *Wall Street Journal* and the London *Economist* begin warning against a serious banking crisis, it raises suspicions among those of us who have been singing that tune for years. Why, after ignoring or covering up the problems that led to the current crisis, are they suddenly sounding more ominous than those of us they once derided as mongers of gloom and doom?

The possible explanations, remember, are: (1.) The banking system is truly on the brink of falling apart, and at least some bankers are so frightened that they are starting to panic; or (2.) The system is in real trouble — and the bankers and their media mouthpieces are trying to get everybody scared enough to make the I.M.F. or the Federal Reserve the international "lender of last resort" to bail out the bankers.

The big question is simply this: Who will be sacrificed in the Great Debt Liquidation — the irresponsible bankers or the American Middle Class?

Banking Bust Or Inflation?

Because they are backed up by the Federal Reserve, the federal government, and the Monetary Control Act of 1980, the banks no longer have to worry about the threat of conventional bank runs. That check on their fractional-reserve lending operations has been removed by government intervention. This is one reason why they have not been very careful with their investments of Other People's Money — and why they have been so loose with their loans. Especially loans to risky East Bloc and Third World governments. Billions upon billions of bad loans have been made, yet the depositors have not rebelled. After all, their accounts are insured up to $100,000 by an agency of the U.S. Government.

By securing banks against the threat of conventional runs, the government has put a penny in the fuse box while the amount of electricity continues to rise. More and more desperate borrowers have plugged into the system, making increasing demands on it for liquidity. Never before in history have so many loans been advanced to so many unworthy debtors. Indeed today's bank runs are not stampedes to the teller's window; they are rushes to the *lending* window.

The banks are in the position of desperately trying to perpetuate the illusion that their bad loans to the L.D.C.s are really worth what their book value claims they are worth as bank assets. The bankers dare not admit that the loans they have on their books as assets are in fact virtually worthless. If they did that, they would have to admit insolvency and go out of business — bankrupt is the word. Aiding and abetting this conspiracy of creative accounting, the government permits the big banks to carry these nonperforming loans on their books at full face value, as if they were really going to be repaid by the deadbeat Third World governments. As we pointed out in "Troubled Bankers" in the October American Opinion, all the big banks would be insolvent and out of business if they had to mark down their book assets to the current market value of the loans they are carrying.

Ultimately, the only way that the illusion of the book value of these loans can be maintained is by a massive infusion of artificial liquidity into the international monetary system. The "solution" is thus to crank out enormous quantities of fiat money to bail out the situation for both the bankers and the sovereign debtors. Eventually, as Dr. Gary

As the world debt pyramid totters on its foundation of fiat money, the authorities are preparing to create hundreds of billions of paper dollars to bail out the banks. Financial *Insiders* have already agreed to hike the lending powers of the I.M.F. by a full fifty percent to prevent a wave of Third World defaults.

North points out, this means the purchasing power of the dollar will be depreciated down to the level of the real market value of all those bad debts — which is virtually zilch. Those Americans who are enmeshed in the dollar economy — that is, the vast majority of us — will have our savings, pension plans, and other dollar-denominated assets wiped out. Instead of the banks going bust, the dollar will go bust!

Remember that in any inflation those who get the new money *first* — when it's still worth something — benefit at the expense of everyone else who gets the money *later*, after prices have been bid up by the additional money. As new money is created for a bailout, the banks and their long-term debtors get it first, before its purchasing power depreciates. Everyone else in the money economy loses because his purchasing power is reduced. Thus, for many years, large amounts of wealth have been transferred by this process from hard-working Americans to a politically privileged banking elite and its friends. It looks as if, in a few months, that process will again be put in high gear. The 1980s will be known as the Decade of the Great Inflation — the consequence of no-fault banking. Congressman Ron Paul (R.-Texas) sums up the reason for this:

"Under current law the recently purchased Mexican pesos could be used to 'back' the printing of more Federal Reserve notes. The fact that the debt structure is so large and that the banks holding that debt are so influential causes me to predict that government will do a lot more inflating to 'bail out' the private holders of foreign debt through this mechanism. We sent money to Poland when they were unable to meet their interest payments to the large banks; we did it with Mexico; and there is no reason we should not expect it to be done for Brazil, Argentina, Zaïre, or any other country. The banks will get their payments, the socialist dictators will get our dollars, and the American middle class will get the bill. The bill will not be paid by raising taxes further — there is a limit to how high taxes can be pushed — it will be paid through inflation and dollar depreciation."*

Yes, the world debt pyramid is weak and getting weaker. And the monetary authorities (*i.e.*, the International Monetary Fund, the World Bank, the U.S. Federal Reserve, and the other central banks) are bracing to create *out of nothing* hundreds of bil-

*Ron Paul's *Freedom Report*, September 1982, "At the Brink," Box 1776, Lake Jackson, Texas 77566.

lions of dollars in artificial liquidity to try to bail out the big banks.

A Safety Net For The Gang

Instead of forcing Middle America to fork over \$200-\$300 billion to bail out the debt crisis in one fell swoop, the politicians and money manipulators are trying to camouflage this enormous operation by dividing the task into several projects and contingency schemes. And since the big money-center banks in the U.S. are interconnected with other financial bodies around the world, these bailout mechanisms include measures taken on the international level as well as plans for saving domestic banks. The mechanisms are as follows:

1. Rescheduling Delinquent Loan Payments. As we have noted, the banking creditors have avoided formal recognition of defaults by some Third World governments by "rescheduling" past-due loan payments when the nations involved cannot or will not pay them. By stretching out the payments further into the future, they hope to maintain the pretense that the debts are good. As a result, approximately half of the borrowing now being done by foreign governments is for refinancing earlier borrowings and rescheduled loan payments. The probability that these loans will ever be repaid becomes more remote with the passage of time. As new debt is added to the already huge burden, the debt pyramid keeps expanding with only the printing press to keep it going.

2. Looser Rules On Foreign Loan Status. Another way of pretending that bad loans are sound assets is to lower the standards on which the soundness of such loans are judged. In a speech delivered to the New England Council at Boston in November, Federal Reserve Board Chairman Paul Volcker stated that the Federal Reserve Board is prepared further to relax its loan-classification standards so that it won't have to consider some of the new commercial credits going to developing lands as non-performing loans. This means that banks will not have to write off bad loans as uncollectible. Through this creative accounting scheme, banks may keep such loans on their ledgers as bank assets even though their real market value is much lower than face value . . . or even zilch. This device will also relieve the banks from setting aside special reserves against losses from these bad loans.

3. A Formal International Banking Agreement On Lender-Of-Last-Resort Responsibility. In 1975, central bankers from eleven industrial nations made an informal agreement that parent banks would be held responsible for the losses of their foreign affiliates and that, if necessary, the central bank in the country of the parent bank would act as the lender of last resort for the parent bank's foreign branches. Unfortunately for the bankers, this agreement was not observed by Italy's central bank when a foreign subsidiary of one troubled Italian bank (Banco Ambrosiano) could not pay off its creditors. When Banco Ambrosiano in Italy went belly-up, its Luxembourg subsidiary was left holding losses of some \$400 million. The situation was so serious that it seemed to threaten a worldwide banking crisis, with the Luxembourg bank as the first domino.

The debate over this mini-crisis still rages: Who is ultimately responsible for the bad loans or losses of a foreign branch bank or subsidiary — the central bank of the nation of the parent bank, or the central bank of the host country of the branch or subsidiary? This problem of bailout responsibility could mushroom a hun-

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dredfold in the next few years, greatly destabilizing an already shaky world banking network.

Partly because of the uncertainties involved in the Banco Ambrosiano case, several top political figures are urging a formalized version of the 1975 banking agreement. Long-time Rockefeller employee Henry Kissinger is calling for a special banking summit meeting equivalent to the Bretton Woods Conference which created the current international monetary muddle. Senator Bill Bradley (D.-New Jersey) has called for "a formal agreement clarifying and reaffirming the 1975 central bankers informal agreement on lender-of-last-resort responsibilities."

4. U.S. Foreign Aid. At least part of the Big Bank Bailout is being disguised in the form of direct government-to-government largesse. The American foreign-aid program, now running at over $10 billion, helps favored foreign governments pay some of the interest they owe to the international bankers. To the extent that this occurs, it means that we as taxpayers are already footing the bill for the L.D.C. deadbeats.

5. Commodity Credit Corporation And The Export-Import Bank. Still another way of hiding part of the bailout operation is by means of agencies of the U.S. Government which provide funds to governments to help them pay debts to corporate and banking creditors or to purchase products from American producers. This is great for those favored corporations and agricultural syndicates, but it loots America as a whole. After all, from where does the money for this assistance come? It has to come either from taxes or from newly created money (inflation). Either way, it robs all Americans in order to benefit a few.

The Commodity Credit Corporation of the Department of Agriculture was involved in both the Polish loan bailout and the Mexican rescue package. The Export-Import Bank uses the money of American taxpayers to finance trade with governments which otherwise could not or would not pay for the things they buy from us. Some of this trade subsidized by the Ex-Im Bank, moreover, has included technological transfers to Red-dominated regimes which turn around and use it to undergird their military-industrial complex.

6. The International Monetary Fund. The I.M.F. has played a major role as the lender of last resort to countries in deep financial trouble and having difficulty borrowing from private institutions. In view of the mounting debt crisis, the International Monetary Fund has been asking for a fifty percent increase in its lending pool to accommodate more needy nations. The 146-nation I.M.F. currently has some $67 billion in resources — but only about $22 billion of this is in U.S. dollars, Japanese yen, German marks, and other "hard currencies" that more or less hold their value worldwide. Under an agreement made at the I.M.F./World Bank conference in Toronto last September, the lending resources will be increased to at least $85 billion by the end of 1983. Under I.M.F. lending rules, an increase of $100 billion in the Fund's capital base paves the way for an increase of $450 billion in new lending.

Some advocates of a New World Economic Order would greatly expand the role of the I.M.F. to make it into a world central bank having powers far greater than any of the various national central banks or any other international banking organizations.

With vestiges of the old Bretton Woods system still intact, and with all the other major Western currencies linked to the American dollar through the I.M.F., this would certainly make the fund into the engine of world inflation.

7. Creation Of A Special International Loan Reserve. In a speech delivered on the floor of the U.S. Senate on July 29, 1982, Senator Bill Bradley urged creation of "a multilateral fund from which central banks could borrow the foreign exchange they need to cover endangered banks under agreed conditions. The fund would need authority to borrow from the central bank of the country whose foreign exchange was in high demand in order to reloan to the central bank in need." The purpose of such a currency-reserve fund, according to the "Liberal" New Jersey Democrat, would be to help "create a pool of capital sufficiently large to stem runs on banks created from potential sovereign defaults and sufficiently diverse to assure the rapid movement of a variety of currencies."

8. The World Bank And I.D.A. The World Bank loaned out $10.3 billion and the International Development Agency $2.7 billion in Fiscal 1982 for specific projects guaranteed by individual foreign governments. The I.D.A., the "soft loan" window of the World Bank, lends money to socialist governments at zero percent interest and fifty years maturity. (Try to get those terms for your next house!) World Bank president A.W. "Tommy" Clausen is asking for $16-$18 billion in a "seventh replenishment" for this category of loans for "international development." That money will be spent by the I.D.A. over a period of four years beginning in mid-1984, according to Clausen.

Meanwhile, the former chairman of Bank of America is also requesting more money for the "hard loan" activities of the World Bank. Such resources, over $10 billion annually, will be diverted into "structural adjustment loans" to help stave off debt default by some impoverished nation — which would set off a string of firecrackers with the big banks as the cherry bombs at the end.

Part of the reason for the new demands by the World Bank on U.S. taxpayers is better to quiet the strident clamor by the Red Chinese for more Western funds. Clausen put it this way in a recent interview with *U.S. News & World Report*: "As the largest nation in the world, China will probably need about $1 billion per year. We're looking at ports, transportation, education, urban problems and agriculture projects there." In other words, while President Reagan has pushed for a $5.5 billion-per-year gasoline tax on American motorists in order to fix our crumbling roads, we will also be financing Teng Hsiao-ping's interstate highway system! And the money-center banks will have another "developing country" with which they can play the game of perpetual debt.

9. The Monetary Control Act Of 1980. Readers of this journal should by now be quite familiar with the Depository Institutions Deregulation and Monetary Control Act of 1980. This correspondent discussed its contents in the June 1980 issue of AMERICAN OPINION and it has since been discussed here in many other articles as well. Let us review some of the key provisions of that Act, for it is designed to play a major role in the inflationary debt liquidation to come.

(A.) The Fed can monetize (turn into new money) all sorts of debt instruments, including municipal bonds and debts of foreign governments. Section 105 (2) of the Act greatly expands what can be used as "legal reserves" for the banking system. Effective June 1, 1981, the Federal Open Market Committee of the Federal Reserve was authorized to expand the money supply by "purchasing" not only U.S. Treasury securities but also revenue bonds; warrants having a maximum of six months' maturity issued by any state, county, district, political subdivision, or municipality; and, most importantly, all obligations of foreign governments or their agencies. The Fed can also buy up the debt of foreign private entities if that debt is guaranteed by a foreign government. This means that the obligations of foreign banks can be monetized by our central bank if those obligations are guaranteed by the governments under which those banks operate.

By the end of summer last year, the Federal Reserve had used the foreign-debt-purchase provision of the Monetary Control Act at least seventy times. Foreign debt paper has been purchased by various branches of the Fed — primarily the Federal Reserve Bank of Boston — with new fiat money. While most of this debt is being bought from the countries of Western Europe, the Fed can be expected greatly to accelerate its purchases of foreign sovereign debt for the coming super bailout operation.*

(B.) Section 105 (6) (b) of the Act does away with the previous requirement that regional Federal Reserve Banks have certain levels of collateral on hand as backing for any cash reserves. As a consequence, billions of paper Federal Reserve notes can be stored in the vaults of regional Fed banks for emergency distribution in case of a banking panic. Plane-loads of cash could be rushed to the teller windows at a moment's notice. In connection with this possibility, Senator William Proxmire has introduced legislation (S. 2305) which, if passed, would provide for the warehousing of billions of dollar bills, with only one side of each bill printed by the traditional (high quality but slower) "intaglio" process and the other side blank. In time of "emergency," the blank sides could be quickly printed by any high-speed offset printing press in town — or all of them at once if need be.

(C.) With a vote of only five board members, the Federal Reserve can completely suspend all reserve requirements in the banking system for a period of 180 days, then extend this for another 180 days continuously. By reducing reserve requirements to zero, the Fed has the power legally to inflate credit to Alpha Centauri!

(D.) According to Section 705B (2) (6) (1), bank holidays can be declared on a regional basis or on a state-by-state basis in the event of a natural calamity, riot, insurrection, war, or any other emergency, and this can be done at the discretion of the U.S. Comptroller of the Currency or by designated officials of a state. If this were to occur, those with deposits in the banks would not have access to their funds at the time they would most need them. By the time the government permitted depositors to get their money out, the super-inflation would have wiped out much of the purchasing power of their paper wealth.

(E.) All "depository institutions"

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*Some Fed watchers speculate that the U.S.-based money-center banks encouraged the Mexican government to nationalize all its banks there. Under the Monetary Control Act, the Federal Reserve could not buy their debt papers unless the loans were guaranteed by the Mexican government. Here we see another example of how the banking elite pushes for more socialism. The real remedy for the plight of the developing nations is, of course, a Free Market economy with private property recognized and protected by government instead of violated and confiscated by it.

(including banks, S.&L.s, credit unions — everything except your children's piggy bank) are brought under the jurisdiction of the Fed and can now borrow from the Fed's "discount window" during an emergency. This was to stop the mass exodus of banks from the Federal Reserve System in recent years by erasing the distinction which formerly existed between Fed members and non-members. The central-banking boys want *all* the marbles.

(F.) Minimum reserve requirements for banks were sharply lowered by the Act, which means that the banks will be able to expand credit by many additional billions of dollars through their fractional-reserve pyramiding of loans.

Clearly, the implications of all this for runaway inflation are enormous. The Fed now has the legal authority and the will to hyperinflate both currency and credit to serve the bankers. Some analysts believe that the Fed is already using these provisions in the bailout of Poland, Mexico, and other debt-ridden nations.

Keep in mind that this bill, certainly the most important change in the banking laws since F.D.R. grabbed the gold in 1933, slid through Congress with less noise than a pickpocket makes relieving you of your wallet. The Purdy, Missouri, dogcatcher's race attracts more national fanfare than did this revolutionary law.

10. The Bailout Of Federally Insured Deposits. Some banking and governmental leaders have been concerned that the deposit insurance pools of the F.D.I.C. and the F.S.L.I.C. cover only about one percent of the total deposits in the nation's banks and savings institutions. When Franklin National Bank went under in 1974, it took forty percent of the total F.D.I.C. fund in existence at the time just to cover the losses from that one bank collapse. To strengthen consumer confidence in fractional-reserve banking, the government increased coverage from $20,000 per account to $40,000, and in recent years up to $100,000 for each account. But the total reservoir of the F.D.I.C. is today only $12.2 billion compared to $1.16 *trillion* in deposits which are theoretically covered. The Federal Savings and Loan Insurance Corporation is in much the same situation with respect to S.&L. deposits. Clearly, if two or three large banks were to fail at the same time the F.D.I.C. would not be able to cope by itself.

In March of 1982 Congress passed H. Con. Res. 290, which officially pledges the "full faith and credit of the U.S. government" to cover all insured deposits in all insured depository institutions. In case of a financial emergency, the government is obliged to bail out the depositors and the system by creating tens of hundreds of billions of "dollars" out of nothing. To paraphrase Herbert Spencer, the ultimate consequence of attempting to shield banks from their irresponsible practices is to fill the nation with irresponsible banks.

11. The Garn-St. Germain Depository Institutions Act Of 1982. On October 1, 1982, Congress passed the Garn-St. Germain Act, also called the Omnibus Banking Bill of 1982, by a voice vote. Among many other things, this complex Act allows the F.D.I.C. and F.S.L.I.C. to "make deposits in, assume the liabilities of, buy the assets of, or make contributions (gifts) to" any insured institution or any company which controls or will acquire control of such insured institution at the sole discretion of the insurance agencies (the F.D.I.C. and the F.S.L.I.C.) and upon such terms and conditions as they shall decree.

In the November 1982 issue of the

McAlvany Intelligence Advisor (Box 39810, Phoenix, Arizona 85069, six-month subscription, $47), Donald S. McAlvany summarizes the combined effects of these bailout bills:

The "F.D.I.C. and the F.S.L.I.C. can totally bail out any bank or S.&L. or any company which controls or contemplates controlling a bank or S.&L. And where will the F.D.I.C. and F.S.L.I.C. get the money (since they have only 1 percent deposit coverage)? From the full faith and credit of the U.S. Government as per H. Con. Res. 290 passed in March, 1982. This is a total blank check for the F.D.I.C. and F.S.L.I.C., using the authority of H. Con. Res. 290 and the Omnibus Banking Bill to bail out all the big money-center banks (*i.e.*, Bank of America, Citibank, Chase Manhattan, Manufacturers Hanover, Continental Illinois, *etc.*) who have Mexican, other Third World, Soviet bloc, and other bad loan exposures."

Another feature of this new law is the creation of the new money-market deposit account, which savings banks and S.&L.s began offering on December fourteenth. The new accounts, federally insured up to $100,000, are designed to help banks and savings institutions compete with money-market mutual funds, which are not insured. Many savers can be expected to withdraw from M.M.F.s and set up deposits in the new accounts. Some observers believe that this could drain as much as one-half of the assets out of money-market funds, which now manage about $231 billion. If that occurs, it will reliquify the banks, helping them to brace themselves for foreign loan losses.

12. Forced Mergers Of Banks And S.&L.s. Still another piece of legislation, H.R. 7080, gives the Fed "in time of emergency" the power to compel or swiftly approve mergers and takeovers of financial institutions and to assist savings institutions. As part of this 1980 act, the National Credit Union Administration Board can forcibly take over and control the assets of any insured credit union without prior notice. Similar power was granted to the F.D.I.C. with regard to banks. In fact, the F.D.I.C. invoked this authority when it took over the assets of the failed Penn Square Bank last July.

The implications of this were well-stated by Donald McAlvany in his September report: "This legislation gives the big money center banks, who have helped staff many of the key positions in the Fed, the F.D.I.C., and the F.S.L.I.C., the chance *forcibly* to acquire S.&L.s, country and other small banks in a government-sanctioned power grab. The powerful international money center banks are using this legislation to circumvent state anti-branch-banking laws, which heretofore have precluded such mergers. A classic example is the forced merger in late September of the large, troubled San Francisco S.&L., Fidelity Savings & Loan, into Citicorp. The Fed forced through by fiat what Citicorp could not get through the Congress or the California state legislature. This is called 'operation power play' and will lead to a tremendous concentration of financial power and wealth in the hands of the giant international money center banks."

13. The International Emergency Economic Powers Act. This frightening law, passed in 1977, gives the President of the United States authority to "investigate, regulate, or prohibit: (1) any transaction in foreign exchange, (2) transfers of credit or payments between, by, through or to any banking institution, to the extent that such transfers or payments involve any interest of any foreign country or national thereof, (3) the importing or exporting of currencies and securities."

But that's not all, friends! Under this incredible law, the President may also "investigate, regulate, direct, compel, nullify, void, prevent, or prohibit any acquisition or exportation of, or dealing in, or exercising any right, power or privilege with respect to, or transactions involving, any property in which any foreign country or a national thereof has any interest, by any person or with respect to any property subject to the jurisdiction of the United States."

Such power could be exercised whenever it is deemed necessary "to deal with any unusual or extraordinary threat, which has its source, in whole or substantial part, outside of the United States, to the national security, foreign policy or economy of the United States, if the President declares a national emergency with respect to such a threat."

Put simply, the Act gives the President nearly total power over foreign exchanges, currency trading, foreign financial assets, and all other foreign property under the jurisdiction of the United States. At the time this was passed, President Carter's attorney general, Benjamin Civiletti, was quoted as saying "the Administration believes that this Act permits them to *ban all foreign travel*, on the grounds that such travel would involve foreign exchange transactions." So much for our liberties.

This Act could be invoked at any time (given the fact we are already in a crisis) in order to interfere with foreign bank accounts held by American citizens, implement foreign exchange restrictions, or freeze assets of foreigners in U.S. banks. Think about it.

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ALL OF the above thirteen mechanisms and legislative powers are intended, in one way or another, to facilitate a bailout of the banking system, especially the Big Banks which are so heavily exposed to foreign indebtness. When considered in combination with one another, these bailout mechanisms can be seen to constitute what syndicated columnist Patrick Buchanan calls an "eiderdown safety net — for the soft landing of David Rockefeller and Walter Wriston."

The big Establishment banks will be bailed out at all costs. While the L.D.C. deadbeats and the Soviet Bloc regimes are blackmailing their banking creditors by threatening to default if further loans are not forthcoming, so too the bankers are blackmailing us by threatening to take the economy down with them if we don't bail them out. As Patrick Buchanan puts it, "That is the bottom line on the balance sheet — the threat to take the United States down the tubes along with them, if Ronald Reagan doesn't support an international system of no-fault banking for three-piece Trilateralist types . . . ."

The fundamental monetary problem in the world today is that money is under the monopolistic control of either governments or central banks chartered by governments. Only by exposing conspiracy and making free enterprise responsible for money and progress can hard money be restored and order be established in the world financial market. ■ ■

CRACKER BARREL

■ To learn the worth of a man's religion, do business with him, advises Josiah Lancaster Spalding.

■ In times like these, says Senator William Armstrong, it is important to remember that the Chinese words for "crisis" and "opportunity" are one and the same.