THE BANKERS

Illustration by Don Eckelkamp

Gary Allen, *a graduate of Stanford, is author of* None Dare Call It Conspiracy, The Rockefeller File, Kissinger: Secret Side Of The Secretary Of State, *and* Jimmy Carter/Jimmy Carter. *Mr. Allen is an* AMERICAN OPINION *Contributing Editor.*

■ EVEN the prospect of nuclear warheads raining down from the skies probably carries with it no more fear for Americans over fifty than collapse of the banking system. The thought calls up the nightmare of 1933 and conjures visions of long lines in front of banks as tellers' windows are slammed down in front of enraged depositors waving passbooks recording their now-worthless life savings. For many decades it seemed that such scenes had disappeared with raccoon coats, nickel cigars, and the Pierce Arrow. One of the most successful of the New Deal reforms, we were assured, was the establishment of more stringent regulation of banks and creation of the vaunted Federal Deposit Insurance Corporation. Now,

The money machine ran faster as 42 banks closed their doors and 27 others were merged with stronger ones to prevent failure. The number of banks on the Fed's problem list increased from 353 to 607 in five years. Even the earnings of David Rockefeller's Chase Manhattan fell by 36 percent between 1974 and 1976.

for the first time since the days of Herbert Hoover, the possibility of a general failure of the U.S. banking system is a topic of concern in the mass media and along the Potomac.

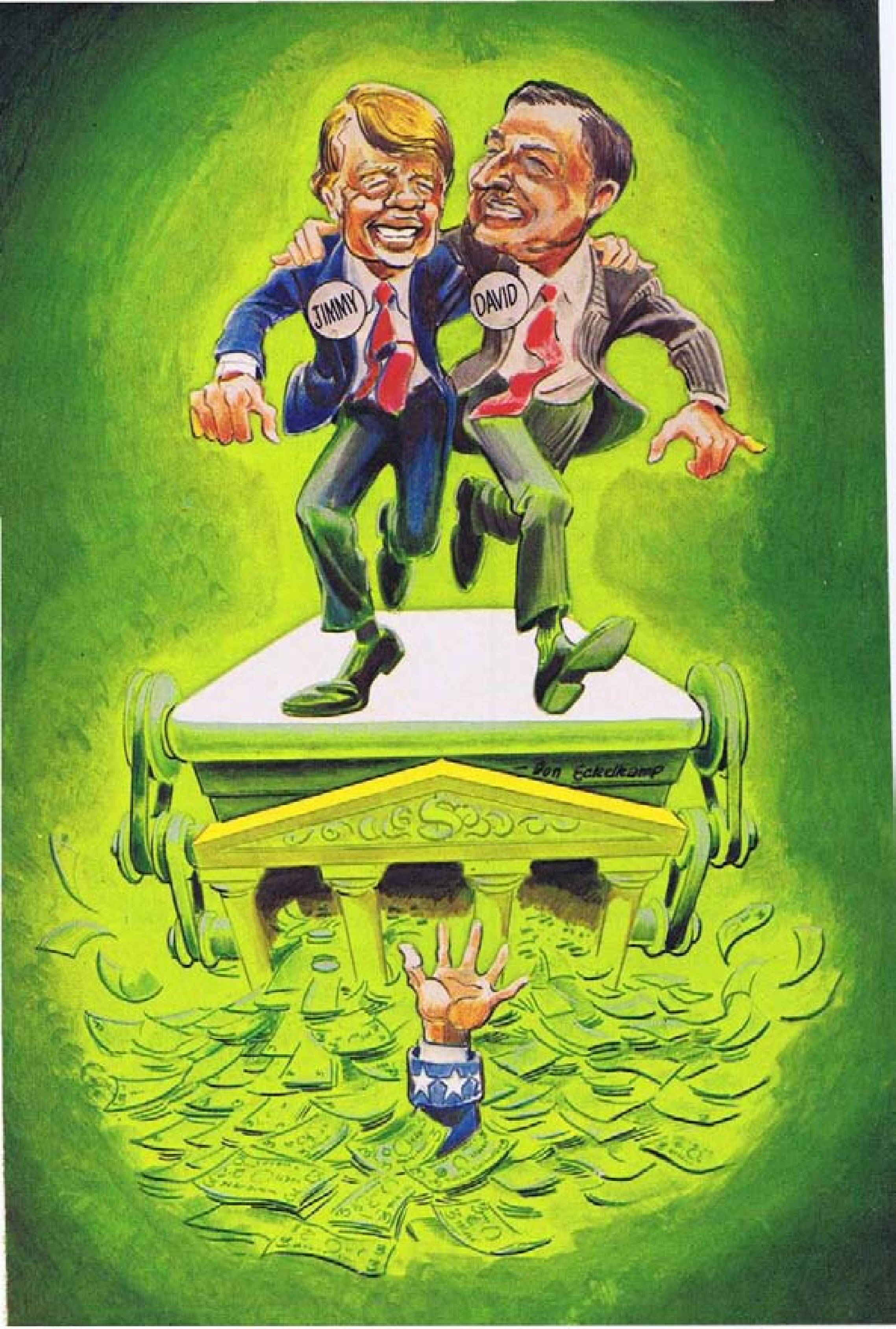
Until this year such discussions were reserved to the doughty little band of newsletter writers catering to the antediluvian gold bugs with the high button shoes and spats. You know, the ones who go about repeating that *a* is *a*, two plus two are four, and other pre-Keynesian homilies and platitudes.

The structure and operation of the giant banks is one which has long divided and confused Conservatives who are in basic agreement on most subjects. The Ayn Rand Libertarians and the G.O.P. elephant worshippers have long put the international bankers on marble pedestals and praised them as the backbone of the Free Enterprise system. Dogmatic "Liberals" and labor-union activists tend to view them as stereotypical Republicans, while the academic cliché has it that bosses of the international banking operations are reluctant progressives.

Americanists and growing numbers of Libertarians do not see these operators as the bedrock of capitalism, but as its blood enemies. They view Big Government and Big Banking as Siamese twins involved in scratching each other's back and mutually lining their pockets while building up the size, scope, and power of Big Banking and Big Government. Libertarians generally ascribe this to a combination of greed, hostility to competition, and fear that without manipulation ignorant and destructive monetary policies will be introduced by venal politicians and power-hungry bureaucrats. Your correspondent believes that these are all factors, but that at the highest levels there is a great deal more involved. He contends that banking elitists are working with other elitists in government, the media, the academy, and the labor unions to establish an all-powerful government, first at the national level and then internationally, under the control of an inner party of *Insiders*.

This is not to say that the friendly local banker who lends you the money to buy a washing machine on eighteen easy payments is a conspirator or a Machiavellian. He is almost certainly an honorable professional going about the business of making sound loans. Your local banker may be a "Liberal" or a Conservative. More than likely he describes himself as a "moderate" and is more interested in his golf score than in monetary philosophy. If you query him about the gnomes of the Federal Reserve and their leverage over the American econ-

Illustration by Don Eckelkamp


JIMMY
DAVID
Don Eckdkamp

omy, chances are you will find that he has never given these matters a thought.

The point is that one does not compare David Rockfeller of the vast Chase Manhattan Bank with his counterpart at the Cattlemen's Bank of Elephant Breath. The one is trying to make a living, while the other is out to create a New World Order. It should be understood, however, that banking enjoys a unique and privileged position unmatched by any other industry. A bank is quite simply a money factory. No other industry or private institution has the privilege of manufacturing money. And one can hardly think of a more bountiful monopoly to be bestowed by the political powers that dispense bank charters.

An excellent book on this subject is *The Paper Aristocracy*, by Howard Katz, which spells out how the banking operators work. A graduate in mathematics from Harvard, Katz observes: "There are two kinds of people in America today — those who have the privilege of creating money and those who have the obligation to accept it. The privilege of creating money is given to a special elite, those who own or control banks."

His point is that the big bankers and their kept politicians schemed successfully over decades to replace gold and gold-backed money with paper currency and credit. One result is a Federal Reserve System that allows banks to create credit on their books by putting up the funds of their depositors as reserves.

Katz explains what this means: "According to present regulations (depending on the type of bank) demand deposits can be increased by more than six times the cash base; thus, for every dollar printed by the Federal Reserve, the banks can create five times that amount in loans, receiving corresponding interest payments. Banks, therefore, have a vested interest (in more than one sense) in budget deficits. Since by far the biggest budget deficits occur during war, banks have a vested interest in war."

The issue of whether America was to have a central banking system spinning out fiat currency was fought out again and again until 1913, when the Federal Reserve System was created to allow the politicians to put us in hock to levels undreamed of by anyone except the *Insiders* of international banking. During that same year, Congress passed the graduated income tax to give the federal government the ability to collect taxes at the rate necessary to pay the interest on the huge National Debt that would soon be accumulated. The "Paper Aristocracy" has since done its best to make as many of us as possible believe that the government Debt is funded by those wonderful savings bonds which it tries to sell under the guise that we are Taking Stock In America. Actually, $135 billion of the $700 billion National Debt is held by banks which acquired it for nothing but the making of blips on their computers. But the tax money collected from the American public to pay the billions in interest represents real earned wealth. In other words, these bankers lend created money and get back real money. This explains why the national banking fraternity is not fighting for hard money and balanced Budgets.

We are led to believe that the big international bankers are staid, careful, and conservative. They are in fact wheeler-dealers who promote loose Keynesian money policies. They want money made available through Federal Reserve "stimulation" to lend at interest to the public, the government, and the corporations. This is,

(*Continued on page seventy-five.*)

From page four

THE BANKERS

of course, inflationary. As a matter of fact this increase in the money supply *is* inflation. The deficit checkbook money takes on value only by depreciating the value of all the other money — including yours — which is already in circulation. Politicians run deficits which are monetized by banks that in turn make loans based on credit extended by "the Fed." That, dear reader, is the carburetor of inflation.

You can see why the banking crowd and the politicians have what is commonly known as a "community of interest." Even the *New York Times* admitted on December twenty-second that in the opinion of many Senators and Representatives, as well as congressional staff, Washington lobbyists, and other officials, "The nation's banks exert an influence over Congress and the Federal Government [*which*] surpasses the power of any other regulated industry." The *Times* quotes a lobbyist identified only as the "dean" of the fraternity as stating: "The bank lobby can almost certainly stop anything it does not want in Congress." The power of the banks, reports the *Times*, rests on an intricate political and financial structure that has many elements.

The banking lobby in Washington employs hundreds of lawyers, economists, public relations advisors, and other specialists — the whole of their effort costing millions of dollars each year. You can believe that the big operators in Manhattan consider this to be overhead on a vital investment. One experienced lobbyist, Robert W. Peterson, estimates that the total effort the big bankers make in Washington has quadrupled during the past five years.

The bankers' lobby has grown in sophistication as well as size. The American Banking Association, for example, has for many years had a system of "contact bankers" who could be called upon to reach a Senator or Congressman with whom they had developed "personal ties." William Lunnie, an A.B.A. spokesman, says: "This has all been computerized now. We can activate just those who have some kind of relationship with House or Senate members we want to reach on a given issue. We very seldom have to mobilize the whole list." What Mr. Lunnie is saying is that the money fraternity can turn the heat on key legislators to keep adverse legislation bottled up in Committee or to lobby for the passage of foreign aid and other appropriations which create business for the big banks.

The political action committees set up by the banker organizations have been making increasingly larger contributions to campaign chests. By 1976 there were 137 such committees donating a total of $633,155 to agreeable candidates. Private donating greatly increased what is given through their committees. And this is just the tip of the green iceberg. As the *New York Times* explained in a year-end series on banking:

"Unlike any other industry, the banks can magnify the impact of their campaign contributions by making timely loans to finance expensive fund drives in the crucial early weeks of primary or general elections. Many politicians, such as Thomas Rees, a former California Democratic Representative and now a savings and loan lobbyist, insist that loans are a straight-forward and necessary part of the political process. But they also acknowledge that on occasion the practice has been abused.

"According to reports filed with the Federal Election Commission, the campaign committees of 196 of the

860 candidates for the House of Representatives last year had obtained loans, mostly from banks, totaling $1,137,133. The commission's records also showed that as of last September almost half of these loans, or $519,862, had not been repaid. Moreover, apart from the loans taken by their campaign committees, the Congressional Quarterly reported several months ago that the House records showed that 37 Representatives reported personal unsecured indebtedness for a period of 90 days or more in 1976."

Here is the nut of the situation. Any successful politician will confirm that the most important part of a campaign is getting the seed money to launch the race. It boils down to which candidates will be extended a line of credit at the local bank. The banker is in a position to use his financial scepter to tap a primary candidate from each party who is favorable to his interests.

Not surprisingly, the banking lobby concentrates its largesse on those in a position to be most helpful. Seventeen members of the House Banking Committee have been the recipients of gifts from the bankers' political action committees. According to public records of the Federal Election Commission, the campaign committees of twelve current members of the House Banking Committee obtained loans totaling $80,193 for the 1976 elections. The reports also show that, as of September 1977, the campaign committees of six of the twelve Banking Committee members had not repaid their loans at the time the Committee was considering legislation strongly opposed by almost all banks. The largest loans involved were to Representative Mary Rose Oakar, Democrat of Ohio, whose election committee had borrowed $12,040 and not repaid a dime, and Representative Doug Barnard, Democrat of Georgia, who had borrowed eighteen thousand dollars and repaid two thousand.

So those overseeing the Paper Aristocracy are being financed by those whom they are supposed to regulate. Admittedly, this is not an unusual situation. Members of the House and Senate Labor Committees accept huge contributions from the A.F.L.-C.I.O., but that does not make the situation any less dangerous. The situation is made worse by the fact that the key positions in the bureaus charged with direct regulation and examination of the banking industry are held by former bankers. This is hardly akin to appointing a "former" coyote to guard a herd of sheep, but it does raise questions.

For many years we have pointed to the unparalleled influence the money magicians of Manhattan have over the Executive branch of the federal government through the Rockefeller family's Council on Foreign Relations. Every major banking institution in the country is represented in the C.F.R., which is of course headed by Chase Manhattan's David Rockefeller. While the *New York Times* is prepared to complain about the influence of the big banks on the Congress and the federal regulatory agencies, it says nothing of the power the banking *Insiders* have in the White House. Certainly the *Times* makes no effort to differentiate between the clout of the big New York institutions and that of the Prune Pickers Bank of East Overshoe, Arkansas. And the truth is that we really don't know too much about the condition of the banks that count — the biggies in New York. According to the *Times*: "A number of . . . New York bankers, who did not want to be quoted by name, said they doubted that the Federal agencies had the manpower . . . to do a thorough job" of assessing the health of the giant banking establishments. "They have an awfully small staff," according to an unnamed New York banker.

The *Times* quotes a former vice president of a large New York bank as admitting: "They [*federal bank examiners*] can't cope with the big banks. They [*are*] like a cop on a beat: if he sees somebody beating up a guy, he can step in and try to do something. But when it comes to sophisticated political corruption, he is helpless." It gets worse. The *New York Times* reports of the regulatory system:

> *The operations of the three principal agencies — the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Reserve — are funded by the banking industry itself, and thus are subject neither to the usual Congressional appropriations process or to audits by the G.A.O. And bank regulators, who insist that public criticism of bankers could lead to a damaging loss of confidence in banks, carry out their supervision with little oversight, and with a secrecy almost unknown in other parts of the Federal bureaucracy, outside the intelligence agencies.*
>
> *"They thrive on secrecy. It's something they pray to," says Representative Benjamin S. Rosenthal, Democrat of New York and the chairman of a House subcommittee that has some jurisdiction over the agencies. "They claim that if things are handled wrong, there will be enormous social consequences — that people will panic if they find that banks have broken the law or made bad loans to Biafra."*

We have had a number of warnings in recent years. These include the three largest domestic bank failures in history (the U.S. National Bank of San Diego in 1973, the Franklin National Bank in 1974, and the Hamilton National Bank of Chattanooga in 1976), and great increases in the number and size of institutions on the "problem bank" list. More recently, the public exposure of the banking practices of Carter intimate Bert Lance further soiled the image of bankers and shook confidence in the banking system and its regulators.

The problems of the failed big banks varied from case to case. In each instance, however, the federal regulatory agencies responsible for being watchdogs were subjected to sharp criticism. In the end these banks were bailed out by other banks with a king-size stake in preserving public confidence in their industry. One failure a year can be comfortably absorbed by the system as long as there are no other major crises. Multiple failures of big banks might be something else. The failure of several giants could have catastrophic consequences throughout the economy.

A number of smaller banks have shown weakness in recent years. Between January 1971 and June 1976, forty-two banks closed their doors and twenty-seven others were merged with stronger ones to avoid likely failure. Moreover, the number of so-called "problem banks" — those cited by the regulatory agencies as needing special supervision — increased from 353 banks in 1971 to 607 at the end of 1975. This was the greatest number since the bad old days of the Depression. Arthur Burns, then Chairman of the Federal Reserve Board, told a group of bankers in October 1975 that the existing structure "fosters what is sometimes called 'competition in laxity.' "

Because of the unique conjugal relationship between the bankers, the regulators, and the politicians, our banking system has become a huge money machine ripping off the whole economy. The Constitution specifies that money shall be gold or silver. The venerable Founding Fathers had plenty of experience with unbacked paper currency in the Revolutionary War. But, as we have noted, the bankers had by 1913 pushed the politicians into ignoring Article I, Section 10, of the Constitution and turning over to banks the privilege of creating money. Legal tender laws were then passed which force the rest of us to accept it. If money were gold and silver as specified by the Constitution, there could be no mass manipulation of the financial system and no need for stern regulation.

Now, just as it did through the booming Twenties, the banking system is once more painting us all into a corner. Whether this is an unintentional upset or a deliberate setup is currently provoking considerable debate. Frighteningly enough, one bank which is having its problems is David Rockefeller's own Chase Manhattan, citadel of Establishment banking. *Fortune* for July 1977 offers an article titled "The Three-Year Deadline at 'David's Bank,'" the title referring to the fact that David Rockefeller, age sixty-two, must according to the bank's by-laws retire at sixty-five. Consider:

"David Rockefeller, more keenly perhaps than any other of John D.'s grandsons, has always felt an obligation to perform in a way that he would describe as 'appropriate' — that will bring credit to the Rockefeller name and support the proposition that the family's power is being usefully channeled. In one sense, Rockefeller has succeeded splendidly; he is a world-renowned figure, clearly this nation's leading business statesman.

"Yet in another sense, Rockefeller must be judged at this point to have flunked. Chase Manhattan Corp., of which Rockefeller is chairman, and whose principal unit is so closely identified with him that it is sometimes called 'David's bank,' has in recent years had a totally 'inappropriate' record. Its operating problems have at times been terrible, the quality of its loan portfolio exceptionally weak, and its financial performance, by just about any measurement, inferior. Chase's earnings, to take one piece of evidence, fell by 36 percent between 1974 and 1976 . . . ."

The article continues: "The blame for Chase's performance, moreover, has often been squarely laid on Rockefeller. He has been called an ineffectual manager and vigorously criticized for being too often on the go instead of home minding the store. The waves of bad publicity that have swept in his direction have even included the thought that he should 'fire himself.' "

That's not likely, as *Fortune* makes clear. Besides, David is spending his time gallivanting around the globe in the quest to establish a New World Order. He thinks that his critics don't see the Big Picture — the really enormous amounts of money and power to be had from manipulating such a venture.

Fortune says that, "as critics view the situation, Rockefeller is forever traipsing around seeing heads of state instead of running the bank. As Rockefeller views it neither do these visits consume all that much time, nor are they by any means extraneous to Chase's interests. The bank has for many years been scrambling to build up its international business, and by all evidence, Rockefeller has been an extraordinary marketing force. The heads-of-state routines — played out, for instance with the Shah of Iran, King Faisal, Sadat — have specifically helped in getting Chase permission to extend its operations into new territory. Michael Esposito, Chase's controller, says there is one sure byproduct of Rockefeller's road shows: 'He gets back and we immediately start having to fill out all sorts of forms necessary to go into a new country. It's absolutely predictable.' "

David Rockefeller is apparently confident that, even if there are problems at the bank with money running short in the meantime, the taxpayers can be made to step in and ease the strain. Rockefeller thinks Chase Manhattan has a friend in you. And his power in Washington is beyond question.* How this could be accomplished requires for the moment that we return to the big picture.

One of the more intriguing expositions on the current problems of the major banks is being widely circulated in Dr. Paul Erdman's bestselling novel *The Crash Of '79*. Erdman, who came equipped with a master's degree from the School of Foreign Service at Georgetown University and a Ph.D. (*summa cum laude*) from the University of Basel, Switzerland, knows the gnomes on both sides of the Atlantic. He was president of the United California Bank of Basel which collapsed in the early Seventies due to speculation in foreign currencies. The other banking interests chose not to come to the aid of the maverick Erdman, and he was left holding an empty bag. The ten months he spent as a guest of the Swiss prison system were devoted to thinking about international finance. It was while in the calaboose contemplating the games gnomes play that he began his career as a tattletale novelist.

Dr. Erdman's *The Crash Of '79* is written from the point of view of a banker in 1984 looking back on the imagined Great Crash from the quiet of his California ranch. The standard of living formerly enjoyed by the Western world is gone with the wind, and the author is reconstructing how and why the economy collapsed. The work is assuredly fiction, but the description of banking conditions leading up to the crash are as real as a gun pointed at your head. Erdman writes of the condition of the banks prior to the crash:

"It was not a mess that was created overnight — messes never are. It had taken my fellow American bankers a full decade to get to the point they had reached in 1979. And it was the top fifteen banks — those that 'insured' everybody else — that were in the most trouble. Their problem lay in both sides of the balance sheet. On the asset side, where the loans and investments of a bank are listed, their situation was bad enough to give an honest bank examiner a case of cardiac arrest even though it is generally considered extremely bad form to drop dead in a bank. For at least 25 percent — one quarter — of the assets of the top fifteen banks in the United States were worthless. They were carried on the books at full value, of course. But they were simply not there. They represented loans and investments that had gone down the drain, totally and irrevocably.

"To realize how bad the situation was at the beginning of 1979, one must go back to numbers — not de-

*Remember when people used to scoff at the notion that Henry Kissinger was an errand boy for the Rockefeller family? Henry has now been rewarded for his services to the clan and creation of their New World Order by being made chairman of Chase Manhattan's international advisory committee. But, that's not Henry's only job. The *Chicago Daily News* of December 8, 1977, reports: "Wall Street thinks Henry Kissinger will become international trouble shooter for the ready-to-merge firms of Lehman Brothers, Inc. and Kuhn Loeb & Co." Lehman Brothers and Kuhn Loeb have long been regarded as major operations of the European Rothschilds in America. Employment of longtime Rockefeller operative Kissinger by these two Rothschild investment banking firms would be very significant.

tailed statistics, just ball-park numbers. By that time, the total assets owned by all the commercial banks in the United States were about $1 trillion, *i.e.*, $1,000,000,000,000. The 'big' banks, my top fifteen, controlled about 25 percent of that — or about $250 billion. OK? Their annual reports indicated that most of this $250 billion was safely invested in such marvelously safe things as government bonds, especially municipal bonds (what could be safer than a municipal government?), in real estate (what could be safer than land and buildings?), in loans to America's largest corporations (those great companies that make America rich), in tankers (tangible wealth if there ever was any), and loans to foreign governments (doubly safe, since not only was government again involved as the safest possible debtor, but the banks had diversified their foreign governmental loans among dozens of different nations).

"It was extremely important that everybody should believe that all these loans were as solid as the Rocky Mountains; for, after all, the loans had all been made with the money of depositors. If the loans were not repaid, the depositors would never get their money back. If word got around that such a possibility — no, probability — existed, and everybody showed up at the same time one fine day at the withdrawal window, no power on earth could prevent the panic of the century. So the truth was not — could not — be told."

What was the truth? Let's start with real estate. During the Sixties everyone else was making a killing in real-estate speculation and the banks wanted in on the game. They were only making eight percent on money they were lending to the developers. But, they could double their return by going into the development business themselves. The medium was a new innovation of theirs — the R.E.I.T., or Real Estate Investment Trust. A bank would put up one or more of its captive corporations and then lend them all the money they needed. The R.E.I.T.s, in turn, started to finance everything in sight — condominiums in Florida, commercial buildings in Manhattan, high rises in Chicago. The projected returns looked great — on paper.

The R.E.I.T.s managed to lend almost twenty-one billion dollars and the banks made parallel loans directly to such construction projects totaling another ten billion. But something happened. The great American boom in commercial real-estate, which had started after World War II and went on and on, suddenly came to an abrupt end in the recession of the Seventies. In the process the R.E.I.T.s and the banks got stuck with half-completed projects spread the length and breadth of the land. These projects were put in mothballs, waiting for the next economic boom to come along. They have been waiting and waiting, and so far no boom has developed. Meanwhile the half-finished buildings are crumbling into decay. But not the loans on the banks' books. They have not crumbled in the slightest. All thirty-one billion dollars are listed as good loans while as much as half of them — roughly fifteen billion — are irrevocably gone. And that is the optimistic view. Pessimists claim the losses are at least twenty billion dollars.

The next fiasco was huge bank investments in supertankers. Like the condos in Tucson, the loans on supertankers looked like, well, money in the bank. The demand for petroleum products in the late Sixties and early Seventies was escalating at ten to fifteen percent per year and would obviously continue to do so for the next thirty years. The New York superbanks began making loans on foreign-built supertankers through their overseas branches. They fed fifteen billion dollars into the tanker market in Scandinavia, Japan, Greece, Germany, Britain, Ireland, and Norway.

Then came the 1973 oil embargo followed by the quadrupling of petroleum prices. Oil consumption not only stopped growing, it backed off. Tanker rates sank to historical lows. Nobody could employ the old tankers, much less the new ones that were being constructed with loans from American banks. So, just as with the real-estate projects in the United States, the American banks were stuck with tankers that were half-built, three-quarters built, or completely built, but simply sitting idle in some distant Norwegian fjord. It is conservatively estimated that at least half the fifteen billion dollars in loans can never be repaid.

However, there seemed to be a silver lining to the oily cloud. While the Arabs were jacking up the price of oil and choking the tanker business, it opened up massive new opportunities. Now the mega-banks could lend oceans of money to governments. It was just like the good old days when the bankers could pour out loans to countries to make war on each other. The new game was lending money to so-called Less Developed Countries (L.D.C.s) to pay for the desperately needed oil at the new quadrupled prices. According to figures released in August 1977 by the Senate Finance Committee, the L.D.C.s are back in hock to the tune of an incredible three hundred billion dollars. Approximately fifty billion of this is owed to the big American banks.

Columnist Jack Anderson claims the actual debt of the L.D.C.s is five hundred billion dollars. "The money managers are scrambling behind the scene in Washington," he says, "to protect major banks from a financial crash."

The money has been sent to such nations as Zaïre, Egypt, Burma, Sri Lanka, and Soyouwannadance. These countries are very eager to borrow, but they have a repayment problem. The so-called L.D.C.s are the Welfare nations of the world. They were having a tough time keeping their heads above water financially even before the explosion of oil prices. Now the situation is impossible. The loans have not gone for capital which would produce revenue with which to repay the loans; they have gone up in smoke. It is as if you loaned your teenage son a thousand dollars every month. If he invested the money in a pickup truck and a power lawn mower, he would soon be able to support himself and quit borrowing money. He could even gradually repay the loans. But if the money is spent on a cool pad and a hot car, the boy will never get out of hock. Each month he will simply dig the debt hole deeper and deeper.

This is what has happened with the Less Developed Countries. They can't pay back what they have borrowed, yet every year they need to borrow more money than the year before — an estimated fifty billion dollars this year. They are now borrowing money just to pay the interest on funds borrowed (and dissipated) years ago. Many balloon payments on these loans fall due during the next two years. The banks are now trying desperately to get the I.M.F. to come in with a bailout program. Which explains Jimmy Carter's scheme to inject seven billion dollars of your tax money into the I.M.F. The banks are looking for a hook from the taxpayers to pull their financial fat out of the L.D.C. fire. However, as the Senate Finance Committee Report on the situation points out, trying to save the bacon by adding to the I.M.F. the amount of money proposed is roughly equivalent to trying to put out a forest fire by spitting on it. According to Dr. Erdman, at least twenty-five billion dollars' worth of these L.D.C. loans will have to be written off.

"On top of all that," writes Erdman, "these linchpin banks in the system also [*have*] their share of the entire banking industry's woes: billions of dollars of bad loans to essentially illiquid American corporations — led by the airlines and railroads." For instance the Chicago, Milwaukee, St. Paul & Pacific Railroad has recently filed bankruptcy, following its eastern brothers into the poor house. As I write, a meeting has been called by Secretary of Transportation Brock Adams for January eighteenth with the other midwestern railways. "The Milwaukee Road's situation is only the tip of the iceberg," admits Adams.

The banks have also poured billions upon billions of dollars into suspect municipal bonds — New York, Detroit, Cleveland, and the State of Massachusetts — the list goes on and on. The major holders of New York City's debt were the big banks. The Securities and Exchange Commission has recently revealed that the friendly folk at Chase Manhattan immediately began unloading bonds on widows and orphans as soon as it determined that the *S.S. Gotham* was about to founder. Thanks to a federal rescue that set a very expensive precedent, Chase was eventually able to distribute its bad loans to widows and orphans nationwide. Despite the federal bailout, as *Fortune* of July 1977 puts it, "New York City is still on the brink." The front page of the *New York Times* for January 12, 1978, screams more warning about shaky bonds. And things will likely get worse. Columnist Victor Riesel, discussing the coming year, predicts:

One of the top stories certainly will be New York City. The Big Apple will turn into a municipal employees' weather vane. Mayor Ed Koch, long a militant liberal, will be faced by some of the nation's toughest liberal, left-of-center public employee union chiefs.

This is heady stuff. In New York there may well develop one of the few general strikes ever to hit any American city. Actually, one insider who has been the authority on municipal labor relations privately predicts a paralyzing subway and bus transit strike. This would affect some 20 million people in the vast metropolitan area. And the city's 50,000 teachers may strike in September. Hospital workers will run mass demonstrations in the streets. Ed Koch . . . will have chaos if he keeps his campaign promises of tough dealing with the 100 unions. Or "bankruptcy" if he yields.

The net result of a decade of shaky, unsound loans, writes Dr. Erdman, is that of the $150 billion in assets shown by the top fifteen banks in the United States, at least fifty billion dollars are worthless. And their combined net worth — that is, their capital that could not be withdrawn — is placed at only twenty-five billion dollars. In other words, they are broke twice over.

Yet, as the whistle-blowing former Swiss banker points out, the hustlers are all still operating, all intact, their presidents, vice presidents, cashiers, and assistant cashiers all cheerful and seemingly prosperous. The reason, says Erdman, is "Because everybody, starting with them and ending with their auditors and the bank examiners in Washington, kept their heads firmly stuck in the sand. Because the official rules said that a bank in the United States did not have to call a spade a spade, as in any other business. It did not have to call a bad debt a bad debt, at least openly. For banks operate by rules of their own. Loan losses must not be declared as such immediately, but can be 'written off' at the leisure of the banks' executives. Bad loans could be converted into good loans by merely lending the bad debtor some more money — so that he could at least pay the interest on the bad loan, thus making it unnecessary for the bank to declare the loan as bad. Crazy, but true."

That is what the "asset" side of the balance sheet looks like for the big banks. And when this is combined with the liabilities, observes Erdman, the situation is "nothing less than criminal." He points out that a bank can have all the bad loans in the world and, as long as nobody knows it, people will keep putting money in the bank and "you can cover forever." If someone wants his money back, the bank does not recall loans to secure the funds, since the debtor could not repay anyway. The banker finances the withdrawals by getting new deposits.

Banks need not fail because of bad loans on their books. What kills them is lack of liquidity — ready cash — to pay off debtors when they appear at the door. The classic way to avoid such a fix is to "lend short and borrow long." In other words, the prudent banker will make one-year loans and take in two-year deposits. This, explains Dr. Erdman, is the Golden Rule. In America, however, just the opposite has been going on for years.

Our big banks have been giving fifteen-year loans to the Congo and financing them with ninety-day certificates of deposit in the United States or thirty-day call money from the Eurodollar market. Meanwhile, the O.P.E.C. nations have fifteen billion dollars deposited in American banks which could be withdrawn on very short notice. Suppose they were to demand their money?

The banks, you see, have also been breaking the second cardinal rule of banking, which is to spread your deposits among the largest possible number of depositors. If, for example, ten depositors control twenty-five percent of your total deposits, the bank is highly exposed. If a few show up on the same day and want their money returned, the bank is up the creek. But the New York banks in the Seventies did not have a choice. They had to have fresh money because their loans were not being repaid. Banks had to keep making new loans to save old ones. So they were willing to bend the traditional tenets of banking and get more and more of their money from fewer and fewer depositors, accepting shorter and shorter maturities.

A recent issue of the highly respected and very careful *Bank Credit Analyst* reports that increased loan demand in the banking system is bringing liquidity into the danger area. Part of the problem is that the U.S. Government is absorbing more and more capital to cover the consequences of its ever larger Debt. There is no chance that the demands for money from the federal monster will abate in the near future.

Will there be a Crash of 1979? It is possible, but there are so many variables involved that only *Insider* knowledge or blind luck could allow one to pick the date. In the early 1970s, for instance, author-economist Harry Browne published a best-selling book, *How You Can Profit From The Coming Devaluation*. Those who followed Browne's investment advice did handsomely, but the crash he predicted did not come because in 1974 the Arabs started putting their huge oil profits in American banks, quelling the liquidity crisis. Browne's reasoning was sound, but an unforseen occurrence distorted the time frame of his predictions. Such happenings tend to put the prophet at a loss, resulting in his being categorized with those eccentrics who periodically make fools of themselves by predicting the end of the world on the following Tuesday. Browne wasn't wrong. He was just early. Dr. Erdman, who picked his date for literary reasons, may be early too. Or maybe he won't be.

Frederich von Hayek, Nobel Laureate of 1974 and perhaps the world's most formidable living economist, accurately predicted the crash of 1929. Now he talks about the coming world economic collapse as something that everybody should more or less take for granted. "I used to think it would not come for many years," he maintains, "but now I think I might live to see it." Hayek is seventy-seven years of age.

One thing which could trigger the crash is that not only are the banks carrying an enormous debt burden but the whole country is doing the same. Richard Russel, highly respected author of the *Dow Theory Letters*, writes in his issue for December 21, 1977:

The more I read about the debt and credit structure of this nation the more worried I become . . . . What worries me is that at this point the US has simply used up its capital. *Everything, and I mean everything, is awash in debt. The cities and municipalities, the citizens, the corporations, the banks, all of it is "loaned out." And this, of course, is the situation which has given rise to that hard-money creature disparagingly known as "the gold-bug." The goldphile's retort to all that I have shown here is this: "I don't care about timing, I don't care what month or even what year it goes. But the debt pyramid is now tottering, the dollar is melting away, and I don't trust anything in the inverted pyramid but the very tip — and that tip is the real money — gold. Sure I know that every factory is worth something, and every car is worth something, but* there's a loan against everything *that exists in the US. The only thing that will stand up when the loans are called is the real money, and that's gold.*

Fearing the worst, Americans are starting to salt away cash outside the banks. Alex Campbell, financial editor of the *Los Angeles Herald-Examiner*, reported on November 11, 1977: "There is $85 billion in coin and currency floating around the country but nobody knows exactly where it is. Analysts speculate that much of it — billions in fact — is being held by individuals in private hoards consisting increasingly of hundred dollar bills."

It is possible that we may have an old-fashioned, deflationary crash in the style of 1929. During that period the Federal Reserve, following eight years of pumping up credit and (therefore) the stock market, pulled the plug and threw the country into deflation. These policies were carried on for several years and the money supply was actually contracted by one-third despite the fact that "the Fed" had been established for the avowed purpose of preventing such a deflationary crunch. Apologists for the Federal Reserve claim that the money managers choked in the clutch and that it was all an unfortunate accident. That is hogwash! As Murray Rothbard has proved, it was about as accidental and impromptu as the Rose Parade. But it is doubtful that such a scenario could be repeated today. In the 1930s, very few people understood what was happening. Now, thanks to widespread educational efforts by Conservatives and Libertarians, there are too many people who are familiar with the actual causes of the Great Depression to get away with playing that scene again.

Most Free Market economists and financial analysts believe the approach this time will be the exact opposite. Professor Antony Sutton, author of *The War On Gold*, maintains: "A general banking collapse could be caused by huge foreign loan defaults, major corporations filing bankruptcy, foreigners pulling their funds from the banking system, a war in the Middle East, a major bank becoming insolvent or a large city or state going broke. If the crises come one at a time, I think the Washington bureaucrats can handle them. They can handle a Penn Central, a New York City, a Franklin National Bank if they are not simultaneous. They will do it by simply creating the liquidity necessary for the bailout. This is inflationary, but it will at least hold the system together. But, if there should be multiple crises at the same time, a chain reaction or a domino effect, the problem could get out of hand."

Economists and analysts believe that the strategy of the *Insiders* and their allies in Washington is to get out from under by cranking up inflation and wiping out their debts with the printing press as post-war Germany did — crushing the frugal German middle class and bringing on Hitler. One European central banker remarks: "The dollar is going to be asked to die for its country." The 1940 dollar is now worth twenty-four cents. It is heading for a value equal to a Roosevelt dime, a Jefferson nickel, and perhaps a Lincoln penny.

What happens if we do get multiple simultaneous crises which produce a bank panic? What happens to all those bank accounts which, as they say in the ads, are "insured by an instrumentality of the United States Government"? The F.D.I.C.'s reserves are miniscule in comparison to what it would need in a panic. Psychologically the existence of the F.D.I.C. insurance programs helps millions of people sleep better at night, but in the long run it could be a setup for unsuspecting lambs.

Certainly the F.D.I.C. can protect depositors if a small or medium-sized bank goes over the falls of bankruptcy. But there is no way it can pay off from its reserve funds in the event of a nationwide catastrophe. What would it do in case of a crash? Most likely government would simply print the cash needed to bail out the banks and other financial institutions. Perhaps giant Air Force transports will be flying thousands of tons of freshly printed paper money all over the country. The result will be instant runaway inflation as the people dump cash to get into hard goods before the money further depreciates. The Big Mac could cost you fifty dollars in Federal Reserve notes or one real silver dime.

We do not wish to cause panic. On the other hand, ostriches tend to get kicked in the tailfeathers. Allen's rule Number One for financial survival is: "Never be the last in line when there is a run on the bank." Rule Number Two is: "Never believe a politician who says that we have nothing to fear but fear itself and that prosperity is just around the corner."

There is still a way out, of course. And that is to expose the depression-inflation game being run by the banking *Insiders* and their political friends. It will require an enormous educational effort. But that effort is already well begun. And without doubt it is now the *only* way to preserve the economy and liberty of this nation. ■ ■