

Britain declares world banking in default

by Kathy Burdman

The Bank of England and its Washington branch, the Federal Reserve, are threatening "precipitous retaliation against Italy," a senior Federal Reserve official said July 29, following the refusal of the Italian government to bail out the Eurodollar-market subsidiaries of the bankrupt Banco Ambrosiano of Rome. Britain's National Westminster Bank and Midland Bank declared Ambrosiano's offshore Eurodollar subsidiaries in Luxembourg and the Bahamas in default last month, and took losses of \$75 million and \$40 million, respectively.

The Bank of England, in retaliation, is encouraging British banks to also "walk away" from their offshore Eurodollar subsidiaries, New York Fed Vice-President Ed Frydl revealed, forcing major losses upon Italian and other offshore banks. "The British want to make an example of Italy," he said. "Banco Ambrosiano has created a precedent for walking away from bankrupt subsidiaries. Italy will not be immune from the consequences."

The Fed further revealed that it supports this policy, in order to create a "heightened perception of the risk in the offshore markets." The Bank of England and the Fed believe, he said, that the \$1.5 trillion Eurodollar markets are "overextended," and have lent far too much to Third World governments, Western corporations, and among banks to finance world trade.

The British and their Federal Reserve collaborators are, in short, engaged in a scheme to declare the world's offshore banking system in default, by "frightening lenders out of the offshore markets," as the Fed source put it.

Naturally such a confidence crisis will help bring dozens of weaker banks in the Eurodollar market over

the edge, and the Bank of England has announced that the U.S. government will be expected to foot the bill.

At a recent Bank for International Settlements meeting, and in all its pronouncements upon the Ambrosiano affair, the Bank of England has called loudly for an agreement on "lenders of last resort" among central banks, that is, an agreement as to which government is responsible to bail out which part of the Euromarket in case of banking failures. The British have made it clear that they want the U.S. Federal Reserve to print U.S. dollars, which the U.S. Treasury will have to make good, for bailout infusion into failing Eurodollar banks.

The British have no intention, however, of saving the international banking system as a whole. They are proceeding according to the insane plan that a controlled collapse of the offshore markets can be managed, if the U.S. government will bail out selected major banks to avoid an uncontrollable panic. This scheme has growing and vocal opposition in the United States, particularly from *EIR* Founding Editor Lyndon H. LaRouche. LaRouche has asserted that the Bank of England's request must be rejected absolutely by the U.S. Congress, despite what U.S. Federal Reserve Chairman Volcker may wish to do. No Eurodollar, LaRouche has stated, can be considered "legal tender" of the U.S.

Global shrinkage

The Bank of England and the Fed see the Ambrosiano scare as a "convenient crisis" to set into motion a plan announced by New York Fed President Anthony Solomon in 1980, Frydl stated, to force a "supranational agreement" among world central banks to "shrink

the Euromarkets." In a November 1980 letter to the Washington Fed, Solomon endorsed the creation of banking abroad could then be pulled back into IBFs, here in the United States, with the argument that U.S. banking abroad could then be pulled back into IBFS, terminating America's international banking role.

By creating such a U.S. fallout shelter, Solomon wrote, the Fed "would send a clear message that we take seriously the need for controlling the Euromarkets" and cutting world lending there. In an article in the spring 1982 Federal Reserve Bank of New York *Quarterly Review*, "The Eurodollar Conundrum," Frydl argued that the Fed must "increase the perceived risk" of offshore Euro-banking, to cut the "high rate of lending" there.

The Bank of England and the Fed consider the Banco Ambrosiano failure "convenient" in a way, because the refusal by the Bank of Italy to bail out Ambrosiano's offshore subsidiaries demonstrated that there is no "lender of last resort" for the offshore markets. "The news is that at least one central bank has announced it does *not* stand behind its banks abroad," Frydl said. "That creates a great deal of heightened perceived risk."

The Bank of England has conducted a campaign in the British press, charging that the Italian government is in violation of the 1975 Basel Concordat of central banks. Bank of England sources told the London *Financial Times* July 17 that under the Concordat, the Bank of Italy is responsible to act as "lender of last resort"—i.e., responsible for bailing out—Ambrosiano's offshore subsidiaries in Luxembourg and the Bahamas. On July 28, National Westminster Bank Chairman Robin Leigh-Pemberton told the bank's shareholders that NatWest and the Bank of England are "concerned" by Italy's behavior, which undermines "the effectiveness of the Basel Concordat."

But the Bank of England is playing a game to "point out the fact that there is *no* security in the Euromarket," Frydl stated. The Basel Concordat in reality commits signator central banks to no "lender of last resort" support whatever, and deals merely with bank supervision, he said. There is no central-bank agreement on bailouts, "and the Bank of England knows this perfectly well. They are using the case to point out that the West must reach a *global agreement* on how to control the world markets."

The Bank of England is "demanding immediate talks at the Bank for International Settlements in Basel on such an agreement, Frydl said.

The agreement would amount to world credit controls on international lending, according to Prof. Richard Herring, a consultant to the Fed and the Bank of England at the University of Pennsylvania's Wharton

School. "The offshore market should be put on its guard, by a statement issued by central banks that 'lender of last resort' facilities will be available only to domestic offices of banks and their branches, not to foreign subsidiaries," Herring said. "That will mean no one can make a move into the international markets without top-down surveillance by the Bank for International Settlements central banks. The central banks will take dollar-for-dollar supervision and control over every loan the private banks make."

The Fed for its part has already initiated a study to see "whether the Ambrosiano affair increases the flow of offshore dollars into U.S. IBFs," Frydl said. "We're expecting a major inflow, and the question is: To what extent can the IBFs *replace* the Eurodollar market? Now that everyone knows there is no lender of last resort out there, money will flee into the United States, since this country is perceived to be the least risky..."

The end of American power

The Fed scenario entails not only a "Fortress America," but the end of U.S. world financial leadership. Just as Britain's Margaret Thatcher goaded President Reagan into slapping sanctions on America's continental European allies' trade with the Soviet Union, the Bank of England is pushing the Fed's plan to shake the banking system. The end result will be the same: trade and financial warfare between the United States and its allies, in which the U.S. economy could be further destroyed.

First, the Fed is privately siding with the Bank of England on the Ambrosiano case, Frydl made clear—which constitutes an attack by the United States not only upon Italy, but upon West Germany, whose banks do most foreign lending in the Luxembourg offshore market where Ambrosiano has defaulted. The more the Fed and Bank of England raise the cry that there is no "lender of last resort" in Luxembourg, the faster banks there will experience runs on their deposits and loss of business. High on that list are the largest banks in West Germany, whom the British want to force to take defensive measures against the United States.

A U.S.-Europe banking war would result at an early date in European counter-measures against American banks which could bankrupt major U.S. institutions.

The Fed also plans to sit by while the British banks "make an example of Italy," Frydl said, giving tacit encouragement to U.S. banks abroad to join in an imminent British bankers' move to cut Italy off world credit markets. "Bankers in London and elsewhere will raise the costs of funds to the government of Italy for its international loans," he said. "Italian private banks who borrow for the government will be ostracized, too."