Evil-doings at the Bohemian Grove: another credit cutoff maneuver

by David Goldman, Economics Editor

The Bohemian Grove, California's summer camp for corporate and political brass, dominated by drag musical skits and opportunities for uninhibited communion with nature, was the unlikely point of origin of a new proposal for world banking reorganization. Secretary of State George Schultz, noting the pre-crisis state of the Western banking system, asked West German Chancellor Helmut Schmidt and others in the "Mandalay Camp" party, including Henry Kissinger, for backing in the most dramatic international financial proposal since the 1929-31 management of Germany's war debts.

According to Bohemians who sat in on at least part of Shultz's presentation, the new Secretary of State promised to remodel the State Department to run all international economic policy, and to subject virtually all existing agreements on lending and trade to comprehensive review. This grandiosity came under the central heading, "Global Agreement for Risk Analysis," which boils down to a formula for shutting off lending to the developing sector and the East bloc and others judged risk-unworthy. After the recent failures, e.g. Banco Ambrosiano, the world is indeed at the beginning of a global financial crisis, said Shultz; but the central banks could not be expected to rescue failing institutions unless, in return, they obtained assurances that such problems would not crop up in the future. Every East bloc country is now in trouble, Shultz added, and various institutions and nations might well go under; specifically cited were Continental Illinois and Mexico, which recently has been shut off the bank syndication markets and has paid its day-to-day bills by factoring its future oil shipments through the Royal Bank of Canada.

At the level of global institutions, Shultz continued, the State Department would press such an agreement through the Bank for International Settlements, whose regulatory staff has presented such an agreement for the past several years, without notable successs. Alternately, the State Department might put the credit issue at the top of the agenda at next November's extraordinary ministerial meeting of the General Agreement on Trade and Tariffs, viewing credit as another international commodity. GATT might then rationalize all controls and exports credits, Shultz added.

Aides to the new Secretary of State who helped design this midsummer monetary reorganization cite two methods of overcoming the West German Chancellor's reluctance to sign an agreement which would tie West Germany's hands in international affairs. First, they say, Shultz can offer the carrot of loosened sanctions against West Germany's participation in the Soviet pipeline. What may come of this is disputed even among the Shultz circle, since not merely West Germany but the rest of Europe has flouted the pipeline sanctions and has proceeded as per schedule with contracted deliveries of goods to the Soviets; what the Germans fear more than the existing sanctions, as the German business daily *Handelsblatt* wrote in an Aug. 5 editorial, is additional trade restrictions, e.g. on European auto exports to the U.S. or on irreplaceable soybean exports to Europe.

For the new State Department to betray the mailed fist underneath the velvet on trade issues would ruin the apparent rapport between Shultz and his old finance-ministry colleague Schmidt. It is even doubtful whether, as Shultz promised, the new Secretary of State can persuade the Reagan administration to drop the sanctions, now that the White House has dug its credibility into a mulish position on the subject.

What Shultz aides cite by way of a stick with which the West Germans may be persuaded to hamstring their freedom to issue credit to their trading partners represents even a greater danger of miscalculation: a crisis, in the international money markets or in the Mideast, they believe, would further drain funds out of the already weak German mark and cause a general run for safety into the American dollar, further weakening German banks and the German economy. Under such circumstances, they argue, the German central bank would have to ask the Federal Reserve for lines of credit to support German banks who had taken large dollar deposits, as well as to support the German currency; under these circumstances, could the West Germans fail to come to terms?

Britain: The U.S. would go first

The answer, according to skeptical Bank of England analysts, is that once a crisis were underway, the propects for negotiating any sort of quid pro quo would disappear in a general scramble of private and central banks to stay afloat. The threat, in the case of the Shultz proposal, as Aron Nimzovich said, is mighter than the execution. British analysts—at the Foreign Office and among Thatchers's private advisers as well as the Bank of England—expect that the worst of the crisis will break first and heaviest on the American banking system itself, and that, far from presenting itself as the tower of financial strength to the world, the United States may in fact be the epicenter of the crisis. "The countries which are now ripest for debt default, like Mexico, have spent too long working within the global financial system to contemplate any drastic action," said an official of the Foreign Office division for Commonwealth affairs. "It will take a major bankruptcy in the United States to get any motion going in the Third World. The big point now is to convince people that the crisis is really here—although, ha-ha, Citibank might have to go under before they admit it."

In general, the West Germans have never responded to direct arm-twisting of the sort that some Shultz aides threaten. A close adviser and confidante of the West German Chancellor warned, "If this is just another roundabout way to stop us from issuing credits to the East bloc or to the developing countries, it would be politically unacceptable. It would be extremely unwise for Shultz to bring it up. We have an East bloc financial problem on our hands which is very difficult to deal with; the Soviets will not help their satellites; the banks do not want to lend without some government guarantee; and the govenment of West Germany, like yours, is not in such good financial shape itself, and not anxious to give out guarantees. The Americans don't want to lend to the East bloc, and they can't turn around and tell us not to."

In sum, the Shultz proposal to apply a tourniquet to international lending on the pretext of banking safety has no future, at least not as a formal proposal. Nonetheless it bespeaks an orientation for the new State Department which represents enormous danger not merely to the West Germans but to world trade. As the the most recent statistical releases of the Bank for International Settlements indicate, the rate of international lending has already dropped off sharply between the last quarter of 1981 and the first quarter of this year. After the Banco Ambrosiano case in Luxembourg, the first interbank market disaster since the 1974 Herstatt collapse and perhaps the biggest of all time, the rate of lending must decline further.

The unraveling of the present monetary system is, as *EIR* has emphasized, not a matter of speculation, but rather ocurring in full public view. At issue is not what form of patches might be applied to the present structure; the impossibility of that, short of a dramatic change of policy at the U.S. Federal Reserve, only reflects itself in the Bank for International Settlements' inabilty to reach agreement among its member central banks on a mechanism to stabilize the mess.

The 'debt bomb'

What counts, no matter how Shultz and his friends understand the issue, is what sort of arrangements will replace the current monetary structure, dependent on failing, unregulated Euromarket credit. At least in a certain way Shultz's advisers understand this. According to one participant in the Bohemian Grove sessions, there is real fear among the new State Department group of what Latin Americans call the "debt bomb."

Objectively speaking, the Latin Americans have the power to obtain virtually any debt-reorganization terms they require, if they act together. Not merely the possibility that Latin American might act together in this fashion, but the liklihood that Japan and Germany (with suitably pious, hypocritical expressions of regret) might fall in with such an arrangement. The Japanese Ministry of International Trade and Industry, says one well-known international bank economist, "would love an international banking collapse and a wave of debt moratoria, so that they could start issuing new credits to the Third World and export again." Less aggressive, but no less self-interested, are the West Germans.

That is the midsummer nightmare of the Bohemian Grove. While Schmidt—to the extend of subjecting himself to the humiliation of spending several days with Americans in togas and false eyelashes—went to every length to appear conciliatory, he is not to be "trusted" to accept a permanent world depression while others proffer the possibility of a New World Economic Order. Like virtually every other German public figure of his generation, Schmidt, is in no fashion capable of truly independent action outside the scope of American tolerance, although the Schmidt-Giscard combination of 1978 that put the European Monetary System in place came close.

Far from gloating over Schmidt's visible limitations, the Bohemians are afraid lest Schmidt keep lines open to the sort of New World Economic Order approach forwarded in one way by Indian Prime Minister Indira Ghandi and, in another way, by this publication's founder, Lyndon H. LaRouche, Jr. At least some of the Germany-watchers in the Shultz camp feel this keenly. The central problem is not to make a deal with Schmidt covering basic policy issues where no deal is ultimately possible, commented a former State Department official with close ties to the new crowd; rather, Shultz will keep Schmidt grasping for a proffered deal that was never really there. Under these circumstances West Germany would be able to play no role in the breaking monetary crisis. Not Schmidt's susceptibility to pressure, but his caution and mediocrity, will permit the Bohemian perspective to triumph by default.