Ditchley bankers launch showdown with the LDCs

by Renée Sigerson

Ignoring all warnings that ill-conceived actions could plunge the world credit system into depression collapse, the leading policy-making institutions of the international banking apparatus have now resolved to launch a head-on confrontation with developing countries which are in arrears on debt payments to the banks. The policy, which involves the creation of a visible "cartel" of private banking institutions that will "stick together" and cut off all credits to any country refusing to meet debt payments, was spelled out Oct. 26-27 in a closed-off conference room in New York's Vista Hotel.

Closeted in that chamber for the two-day session were the leading officers of 31 top commercial banks, including Chase Manhattan, Morgan Guaranty, National Westminster, Lloyds and some representatives of German banks. Also in attendance were "observers" from the International Monetary Fund (IMF) and the U.S. Federal Reserve System. This group has been acting as an informal policy coordinating body since last May, when it first gathered for a planning meeting held on the premises of the London-based Anglo-American Ditchley Foundation. Following that event, the group has adopted the "Ditchley" name for its proceedings.

The "Ditchley II" gathering, having occurred in tandem with similar high-level meetings of bankers in Europe the same week, marks a turning point in the financial/political crisis of 1982, a crisis over the $700 billion, usury-based international debt owed by the developing sector. Despite a series of leaks to the New York and London press prior to "Ditchley II", that the high-level bankers group was primarily concerned with avoiding an international credit crisis, and, to that end, was committed to maintaining emergency credit flows to countries already sorely in arrears, there is evidence that in the past 10 days international banks have been pulled into line to attempt a massive "chicken game" with their borrowers. Its outcome could be a financial blowout of unprecedented proportions.

In addition to the meeting in New York, the gameplan now under way was also discussed the last week in October at a London event sponsored by the European Banking Forum, a discussion group run by the London *Economist* and private Italian banks. Outlined there was a blueprint for a complete reorganization of Third World economies to enforce murderous contraction in the aftermath of a credit cutoff.

In Paris, at a closed-door session leaked to the French press, banks with large outstanding credits to Zaire decided that they will refuse to reschedule $500 million in loans due from the Zairean government this year, although these loans have been stretched out several times in recent years. The banks in question know Zaire has no funds with which to meet payments. The crackdown, which is expected to plunge Zaire into economic and political chaos worse than anything the country has experienced in the past decade, is the model for a dozen or more developing countries.

The Ibero-American question

While the war of financial triage has already been launched against Africa, Ditchley representatives have confirmed that their greatest concern is to break Ibero-America, where political resistance spearheaded by Mexico is threatening over the coming months to collapse the banks even before they can force payments from their debtors.

According to a top aide to Dennis Weatherstone, the British subject who chairs Lower Manhattan's Morgan Guaranty, the objective of the Ditchley group is to force the Ibero-American countries to hand the management of their economies over to the IMF, which will squeeze debt payments out of reduced living standards, the shutdown of industrialization projects, and by claims on foreign-exchange earnings from all exports.

"Our entire approach," this Ditchley insider told a journalist Oct. 25, "is to get the IMF to negotiate for us and impose conditions [i.e., genocidal levels of austerity] on these countries." Since Mexico has refused to sign a financial reorganization accord with the IMF, he noted, the banks will "starve Mexico" until it learns to comply. Mexico "is the first test case," he noted, "although not the only one. We're going to keep pushing them to sign an IMF agreement until they run out of spare parts for all their tractors, which has already begun to happen. . . . Mexico won't get a cent more until it comes to some sort of terms with the IMF."

At the time of these remarks, Weatherstone's aide was still being careful not to mention the Ditchley group's intention to announce creation of their own "private IMF" at the close of their meeting. The secretiveness around the creation of this institution is easily explained by the fact that since early September, the same international bankers' group has been carefully cultivating a public-relations road show, aimed at convincing Mexico, Argentina, Brazil and other debtors either in negotiation with, or considering going to the IMF, that the lending windows of the private banks were still open to them.

Among the chief spokesmen for this public relations line have been U.S. Secretary of State George Shultz and former Secretary of State Henry Kissinger. In "prestigious" public appearances in September and October, Kissinger publicly warned that an open, head-on confrontation with Mexico and others ran the risk of triggering a banking crisis whose consequences could be dangerous for the West. Shultz has been working overtime to orchestrate U.S. diplomacy to Brazil, to give that country the impression that Washington is prepared to go to great lengths to assist Brazil in ironing out its payments crunch, expected to hit during 1983.

Similarly, in the week leading up to the Ditchley gathering, Chase's William Ogden made a round of New York press interviews and public appearances, where he urged central banks to announce a policy for making funds available to banks that might suddenly find themselves in major losses due to the rapidly accumulating arrears on their developing country loans.

Speculative bubble in U.S.

There is only one pathway through which the international banking community could avert the crisis they have now set up for themselves. After admitting (as is well known) that the collapse of developing countries' payments ability is primarily the result of these banks' own support for high interest rates since 1979, as well as for zero-growth economic policies, they would have to grant at least 6- to 10-year moratoria to their borrowers and shift their loans onto a long-term basis geared toward real industrialization. This is the solution generally outlined under developing countries' demands for the creation of the kind of New World Economic Order which would allow them to develop their population and energy resources to the maximum extent.

What the Ditchley meeting signals is that just at the moment that the policy of usury and Malthusianism is about to come crashing down on the international banks themselves, the financial institutions have decided to stick to their impotent, failed ideology, which dictates that their control of world monetary relations must be maintained at any expense to human life and economic development.

Although there is no question that sticking to this policy will destroy numerous Third World countries, these banks—unless they reverse their pact—will face the full vengeance due their own stupidity.

The latest estimates of the World Bank soberly reveal that no fewer than 40 countries internationally are now in arrears. This represents a fantastic sum of backlogged debt, reaching into the $50 billion range. Also, quite in contrast to Kissinger's propagandistic counsel that banks should not shut off credit lines to countries in arrears, the truth is that in recent weeks there has been a virtual suspension of new credit syndication lines to any countries outside of what one financial newspaper called "civilized" Europe.

Moreover, Western Europe itself is being deprived of credit. From all over the world, funds have been pouring into the United States, grabbing at speculative earnings from the stock-market bubble and from increasingly dubious real-estate speculation. Between January and September, $1.2 billion of such funds went straight into the stock market, triggering the boom with so many eerie similarities to 1928-29, when disinvestment in Europe, in favor of capital inflows to New York, finally collapsed the German and then the world banking system.

The stock-market boom has temporarily boosted U.S. liquidity by drawing in foreign funds. However, on another end, U.S. commercial banks' subsidiaries in offshore banking centers from the Cayman Islands to Luxembourg—where a large proportion of Third World lending is booked—are now going through a tremendous drain of deposits. For the first six months of 1982, there occurred a $7 billion rise in foreign deposits in the domestic U.S. banking system compared to 1981. This represented another part of the large inflow onto U.S. shores, as foreign funds sought the safety of American home branches and escaped from the unprotected offshore havens where, when a bank goes bust, nobody knows who's responsible for its funds.

There is obviously a time fuse on this situation. While the Ditchley policy is not irreversible, even if Third World resistance to austerity-based debt refinancing is broken by early 1983, victims of the Ditchley stupidity will be the bankers duped by the oligarchic strategists who, as in 1932, are quite content to see Western financial centers crumble.