The Young Plan revisited: bankers head for a crash

by Criton Zoakos

The months of March and April 1983 are about to produce a re-enactment of the world trade collapse which occurred during June to October 1929. For students of history, the similarities between the world debt crisis now and then are extraordinary. Further similarities in the behavior of the major high finance factions then and now are also striking.

During the second week in March, a senior Swiss banking spokesman identified the "Morgan Syndicate," by which he meant the Bank of England, the U.S. Federal Reserve, and the major New York and London banks, as his major adversaries in the domain of current world credit and monetary policy. On the same day, a senior spokesman for Morgan Guaranty interests, based at Princeton University, told this review that he is alarmed over current Swiss banking policy, "a revival of 1930s-type Vienna monetarism," as he called it.

The "Morgan Syndicate" today is attempting a controlled refinancing, rescheduling, and/or reorganization of the $700 billion Third World debt. The Swiss-centered "1930-type Vienna monetarists" instead want a general collapse of the world credit structure and its replacement with worldwide liquidity famine.

Back in the 1920s, the Morgan Syndicate had also taken the lead in promoting, rescheduling, and refinancing the major problem of world indebtedness, the German war reparations, while the "Vienna monetarists," typified by Swiss, French, and Austrian policy at the time, were demanding that no such refinancing be allowed, that Germany be declared bankrupt, and its physical assets, mines, forests, factories, and valuable real estate be taken over by the creditors.

The parallels

Today, the heirs of the "Vienna monetarist" policy are actively preparing for a takeover of Third World assets in raw materials, minerals, etc., by colonial means as soon as bankruptcy of Third World debt begins to break out in the markets. Though such a generalized bankruptcy may occur as early as the end of March 1983, the means for a large-scale resource grab against the Third World may not yet be at hand. However, the similarities between now and 1929 are profound. Compare the following:

Between 1924 and 1929 a massive refinancing and recycling of wartime debt was orchestrated by the "Morgan Syndicate" under the rubric of the "Dawes Plan." During the 1970-83 period, a similar refinancing and recycling of world indebtedness in the "Eurodollar market" was conducted by the same "Morgan Syndicate," based on such instruments as the 1973 oil price "revolution' and the 1979-83 Volcker interest-rate "revolution."

The 1924 "Dawes Plan" enabled Germany to make payments of war reparations to the victors of World War I (England, France, Belgium, et al.) by borrowing massively from the Morgan Syndicate. The victors, in turn, used these reparations payments to pay off the wartime debts which had incurred on the accounts of the Morgan Syndicate. As German reparation obligations to the war victors were made, Germany's debt obligations to the Morgan Syndicate increased. But Germany's reparation obligations did not diminish in size. Nor did the victors' overall indebtedness to the Morgan Syndicate diminish.

Germany's total foreign obligations by the end of the Dawes Plan had increased by 18.6 billion Reichsmarks. This was in 1929, when Germany declared its inability to pay further—and consequently placed in jeopardy the victor-debtors' ability to pay the creditor Morgan Syndicate. At that point, Morgan moved in with the Young Plan to try to refinance the whole cycle of funds transfers. By October of that year, the Crash of Wall Street caused a breakdown in American ability to hold up its end of the credit merry-go-round, and led to the Great Depression.

The period between 1970 and 1983 is almost identical in character to the Dawes Plan period of 1924-29. World indebtedness has grown massively as a result of refinancing speculative financial paper by the Morgan Syndicate.

Third World debt has grown from about $60 billion in 1970 to $700 billion today. U.S. government debt has grown from $502 billion to $1.5 trillion; U.S. domestic household debt grew from $500 billion to $1.6 trillion; and business debt from $690 billion to $2.1 trillion. The fact that both the U.S. economy and the world economy have seen tangible-goods production stagnate during the same 1970-83 period establishes the condition which had been demonstrated to the creditors in early 1929.

What did the Morgan Syndicate do then, and what is it attempting now?

Between February and June 1929, having recognized the utter inability of the debtors to continue payment schedules, Morgan designed the Young Plan, which "restructured" world indebtedness along the following lines: Germany's reparation obligations would be stretched out to 1988, to be paid by very small annual sums, the funds for these payments being secured by putting aside about 600 million marks each year; the other debtor nations to whom Germany owed reparations, such as France, would be allowed to "commercialize" German reparation payments by using bonds to be sold in private markets against future German reparation payments. This "Young Plan" stretchout and reorganization logic is being followed today by the United States, on dictation by the Morgan Syndicate.

The administration's Interagency Group on Debt, a subgroup of the Senior Interagency Group on International Economic Policy, is currently maintaining a double-track posture. In terms of current policy, it is following Paul A. Volcker's line of pretending that there is no "systemic" payments problem, and that everything can be solved by means of perpetual refinancing, bailouts, and increased quotas for the IMF.

This is living in the never-never land of the "Dawes Plan," known to the man on the street as the "Roaring Twenties." The Interagency Group's fallback option, in case current policy fails, is typified by the contingency plans now under their consideration. Among the best known are the Rohatyn Plan, the Kissinger Plan, the (Peter) Kenen Plan and the (Norman A.) Bailey Plan. All these are variants of the Young Plan: they propose a stretchout of payments and reorganization of the instruments by which payments will be made. A slight variation is presented by the Bailey Plan, in the sense that that is the only one which nominally takes into account the fact that the debtors' ability to produce must be improved in the future—but it provides no competent way to accomplish that.

As we enter the latter part of March, payments on Third World debt become nearly impossible. The Morgan Syndicate will again try Dawes Plan-style refinancing. The "Vienna monetarists" around Swiss bankers will continue to boycott such refinancing. Hence, the Interagency Group on Debt, under Morgan influence, will eventually propose some sort of a Young Plan solution. The results are not likely to be better than they were during 1929.

As readers will recall, the final signatures of 22 nations were put on the Young Plan almost at the same time as the New York stock market crash was occurring. The next year, 1930, was spent by the "Vienna monetarists" pulling their assets out of world money markets.

The final straw was when France, under the influence of Geneva bankers, and in retaliation against Germany for its inability to honor its Young Plan commitments after the New York crash, pulled all its financial assets out of Austria; Austria, after the collapse of the Kreditanstalt, withdrew its assets from Germany; Germany withdrew its assets from England, and we finally reached the Hoover moratorium.

From there, it was a few steps before Adolf Hitler was put in power by the now reconciled forces of the Morgan Syndicate and the "Vienna monetarists"—i.e., the Bank for International Settlements.

The American administration today need not repeat the same sordid history.

If it abandons the disastrous "Young Plan" orientation now evident in the activities of the Interagency Group on Debt, it will be able to better orient toward the offer for cooperation made this month by the New Delhi summit of Non-Aligned Nations: enter worldwide negotiations with the Third World for the joint task, for the "common aims of mankind," as Dr. Edward Teller once put it, of industrializing and modernizing the entire Third World. From that standpoint, it can then proceed to scrap the existing world monetary institutions associated with the 1944 Bretton Woods conference and replace them with world financial institutions and treaties designed to facilitate world credit and trade flows. Then the Great Enterprises can proceed, enterprises which will build modern, prosperous, industrialized societies where squalor and poverty now prevail in the Third World.

The alternative is a calamity worse than that created by the Young Plan of 1929.