did nothing but extend the life of their loans forever is crumbling.

The Operation Juárez solution

Ibero-American nations have been negotiating for almost two years on the way in which the continent would be integrated to form a world power. At this moment they have managed to shift the balance in their favor in such a way that they now have responsibility for far more than the survival of their nations or even simply the developing sector as a whole. These nations must take responsibility for designing the world monetary system that will replace Bretton Woods and help save Western civilization.

Operation Juárez, the program designed by Lyndon LaRouche for a solution to the crisis that is unfolding today, has been studied by governments on the continent for nearly two years. Since the formation of the debtors' club it has been received with increasing interest, and an "Open Letter to the Presidents of Ibero-America," which backs the presidents' call and details the Operation Juárez program, has been published with endorsements from trade unionists, industrialists, and politicial figures. A half-page ad appeared in the Venezuelan daily *El Nacional* on May 27, calling on the presidents to implement Operation Juárez now.

Operation Juárez proposes the following ground-rules for debt renegotiation: "We propose to establish a mutually agreed cut-off date for further accrual of existing contracts of indebtedness of Ibero-American republics. After that date, no further interest payments will accrue on those contracts. Effective that same date, each of the debtor nations will deliver to the creditor banks a portfolio of bonds equivalent in total value to the accrued value of the previous debt contracts up to the cut-off date. The old debt is thus 'sold' for new debt. Unfortunately, more or less inevitably some banker of lesser intelligence will howl in protest: 'We are being cheated out of the interest income we would have received under the old contracts.' Such imbecilic gentlemen need to have matters explained to them in very basic terms: 'Try to collect old contracts, and you force us to default, in which case your banks cease to exist.' The advantages of the new arrangement may then begin to be apparent to even the most stupid among New York bankers."

Operation Juárez is based upon the immediate allocation of new credits for big infrastructure projects and the kind of development that will soon allow healthy economies to pay the debt, and will cause an export boom in the advanced sector.

As to the bankers currently hanging off the ledge, Operation Juárez makes the following offer: "We propose to them, to help to save them from bankruptcy, if they will only be collectively reasonable, with suitable help from their federal government." Such help, based on the American System banking principles of Alexander Hamilton and Mathew Carey, is the furthest thing from the "lend, lend, print, print" strategy now being followed by the Herbert Hoover-style imbeciles at the Federal Reserve.

World financial

by Laurent Murawiec

One week has sufficed to turn the pontificating homilies of central bankers, the wizards of international money, into panicked about-faces. The spread of the banking crisis from Continental Illinois and Manufacturers Hanover to the whole top league of U.S. banks, and more recently to the British clearing banks as well as international stock markets, has intellectually devastated and concretely paralyzed the world of the controllers of international money flows, the collective of central bankers arrayed around the Bank for International Settlements.

The sorcerer's apprentices had hitherto been talking of "teaching a lesson to the U.S. banks," and rejoicing privately at the discomfiture of over-confident U.S. bankers, "who have not written off their dubious assets, have not set aside reserves nor prepared themselves for a shock," as the Swiss bankers' newspaper the *Neue Zürcher Zeitung* was writing with typical *Schadenfreude* (rejoicing at another's mishaps). But as of the end of May, a full-fledged panic has erupted in their ranks and those of the commercial bankers of major Western nations, and is raging among institutional and other investors terrified that a 1929- or 1931-style crash is underway.

Manny Hanny left high and dry

On May 24, *EIR* found out that Manufacturers Hanover Trust's certificates of deposit (CDs) were not being traded any more on the London-based eurocurrency markets: The interest-rate penalty the bank would have had to pay was too high. Manny Hanny was being treated by the market as a mere Third World debtor. The disease then spread to other American banks' paper: "Faced with the serious crisis of confidence that affects a growing part of the U.S. banking system, international investors are not inclined to hold dollar-denominated paper," said one source.

"Manufacturers Hanover paper ceased being traded," the *Wall Street Journal* reported. "Most London-based banks and brokerage houses simply stopped making a market in the U.S. banks' short-term securities . . . there is no market because there are no buyers." A London broker added that "American banks just don't dare to offer their paper for sale for fear of being snubbed, which would make the matters worse."

Flight into "quality" increased, as investors switched out of bank paper (bank shares, notes, bonds, CDs, and deposits) and rushed headlong into Treasury securities. A growing gap

crisis panics central banks

opened between the yields offered on bank and treasury paper, which reached the unprecedented level of 1.5%.

In Frankfurt, a director of a powerful private bank explained: "We take the crisis damn seriously. We've written off everything we conceivably could have, but what use is it, if the U.S. banks topple, we'll go down with them? . . . This being said, we're quietly cutting down our credit lines to *all* American banks. Nothing hectic, that would create too much of a panic." In Paris, a banker said that as soon as the wires reported the Manny Hanny problems, his house canceled its credit lines to the bank. "Did you not fear to precipitate a general banking crisis?" Answer: "Perhaps, but our problem is to put our own marbles out first."

The growing panic on the international markets was not soothed by articles such as the *Neue Zürcher Zeitung*'s of May 26, "Wild rumors about U.S. banks," which criticized those banks for having "hesitated to provision their loan-losses, on good grounds if one considers the scale of their exposure: Their claims on big Latin American debtors alone exceed the shareholders' capital of most U.S. banks." Similarly, the *Financial Times* on the same day wrote: "It is not surprising that investors are pulling their money out of what they see as risky assets—be it long-term government bonds or deposits in banks whose capital is exposed several times over in politically volatile LDCs."

On the interbank market, the $1 trillion lifeline of the international banking system, the systematic withdrawal of unsecured credit lines to American banks, and the domino effect this had overall, led to an estimated $50 billion shrinkage of available liquidity, while part of the market's deposit base fled banking to find shelter in short-term government securities: At the moment the banks needed it most, liquidity was vanishing. On May 30, the crisis took another turn as the CDs of the Big Four British clearing banks started receiving the "Conti Illinois treatment." The clearers were compelled to add 0.25% interest to their CDs to be able to market them. In two days, the London Stock Exchange lost nearly 40 points from 826 at the *Financial Times* 30-share index, the May 30 losses being the worst beating in 10 years for shares in London.

Writing on May 30 on the U. S. banking crisis, the *Neue Zürcher Zeitung* predicted that "much more worrisome than the commercial banks . . . is the situation with the Savings & Loans institutions," warning of extreme overextension in the U.S. mortgage sector and the paucity of means available to the FSLIC, the S&Ls' insurers. The rumor about the S&Ls was already making the rounds on the European markets, as well as rumors concerning primary bond dealers in the United States, left with $15 billion or more of unsold bond inventories after the disastrous May Treasury auction. No investor is buying the new paper, in anticipation of large falls in bond prices and another round of increase of interest rates.

The crisis has assumed all the attributes of a classical banking crisis: contraction of the interbank market; inability of banks to fund themselves outside Federal Reserve and other lenders of last resort's largesse in open market and discount window operations; flight into quality; wider and wider yield gaps; tiering between banks; and an increasingly steep yield curve between short- and long-term interest rates.

Leutwiler beats a retreat

The U.S. Treasury, the Federal Reserve, and the Bank of England have dug up in their archives the dusty old volumes of Walter Bagehot, founder of *The Economist*, to find in the century-old Lombard Street the recipe to extricate themselves from this self-created mess. Did it not occur to them that the prime cause of the panic was the debtors' cartel's smashing of their own endlessly repeated words of self-delusion about how the debt crisis was under control, the sudden realization by large segments of the markets that the eurodollar market system is utterly rotten?

When a fright seizes the markets, participants usually look up to what they consider the Great Authorities for reassurance. What came down from the Oracles of Zürich et al. was anything but reassuring. On May 28, the *Wall Street Journal* appeared with a front-page article revealing that Bank for International Settlements and Swiss National Bank head Fritz Leutwiler thought it "counter-productive for the U.S. to pressure Argentina to settle with the IMF." This simple sentence exploded like a bomb: Leutwiler, the most fanatical of the debtor-bashers—who on Dec. 12, 1982 had advocated on Swiss television "lowering the living standard, including in countries whose population lives below the subsistence minimum; even if adjustment is painful, it has to be done"—was now sounding a hasty retreat in front of the strength of the debtors' cartel!

"Leutwiler's statement clearly reflects the recognition that the U. S. banking system could not withstand the onslaught of the debtors' cartel," a Bundesbank official said.

"Leutwiler fears that he is going to lose his shirt, his pants, and his underwear—that's why he's wising up," a leading French business journalist added.

'Lend, lend boldly, lend again'

"There is only one way out: the Fed has to turn on the taps, and that's what it is doing," a Belgian think-tanker said. "Lend, lend boldly, and lend again. The holders of the Bank reserve ought to lend at once and most freely in an incipient panic . . . they ought to know that this bold policy is the only safe one."

An astonishing process began to occur, in which the staunchest of monetarist ideologues, the fanatical advocates of squeeze for squeeze's sake, suddenly threw ideology overboard, discreetly buried the reputation of their idolized master Friedrich von Hayek, and called for a huge printing spree by the Fed to bail out the banks.

The best available option, in the words of British monetarist Tim Congdon, "would be for the Fed to relax monetary policy, reduce interest rates, stoke up inflation and depress the dollar. . . . This would all be helpful to the debtors and a ruinous culmination to Mr. Volcker's period as Fed Chairman. A shift in this direction seems inevitable. Inflation is disagreeable, but an insolvent banking system would be intolerable."

No end of noise is to be heard from the banking community concerning ingenious technical schemes whereby the debt-and-banking crisis could be "contained": "capping" interest rates, capitalizing interest, bringing in the World Bank, etc. None of these is anything but one more illusion which the motto of the hour—"print, print, print"—is now dispelling. How can a crash be averted? Leutwiler was asked by the German weekly *Die Zeit*. "Under the condition that governments and central banks make no big mistake. There will be no great crash if we respond promptly and correctly." In short, the response advocated by Leutwiler is also a spree of money-printing in order to allow banks large write-offs, give "several years interest-free to the debtors," to allow "debt consolidation" and the transformation of short- into medium- and long-term debt. Who will pay for that? The printing presses.

"If the Fed has been able to muster $7.5 billion to rescue Conti Illinois, why should not it find what is necessary to bail out the system?" one hears on the markets. The Bank of England, a City source reports, "favors total bending of the rules so long as the word 'default' is not pronounced even if no one pays anything." Since $11 billion has in fact been made available to the Chicago bank, plus $17 billion in guarantees, the sky is the limit as far as the new converts to bailing out the system wholesale are concerned. The creation of Weimar-like dollar hyperinflation is not an issue, as long as the sacrosanct "system" be kept alive.

Emergency meetings have been going on in Washington, New York, London, Frankfurt, and Zürich, between central and commercial bankers "to hammer out fresh approaches to the debt problem," and desperately try to face the disaster. Those who have been turning to the Great Authorities are presently "voting with their feet," and showing their new lack of respect for central bankers who have lost their nerve—such as Leutwiler's sudden virtual conversion to the Brandt Commission's recipes, by dumping wholesale their risk assets, which include most of the world's top banks, and long-term securities.

Deeper into the crash?

Paul Volcker, U.S. sources report, intends to open wide the discount window and do whatever will be necessary to save the banks. "Volcker and the central banks, are being pressed hard and will be pressed even harder," a banker commented. "Governments must contribute," says Leutwiler. Will that suffice? A peculiar quality of the present situation must be taken into account: Under the avalanche-like pressure of the crisis, the officials and the bankers are liable to say anything, to babble uncontrollably, even to confess their sins and speak of "concessions to the debtors." Some of them still have the illusion that their own segment of the market could benefit from the others' misery, and will be busily scheming to short the others' assets, which will only aggravate the situation.

Exemplary of this case is Venetian oligarchical financier Carlo De Benedetti, the chief executive of Olivetti, who had already signaled his faction's designs in December 1982 when he called the crash of the $2 trillion eurodollar market and the international debt system both inevitable and necessary. In an article in the Italian daily *La Repubblica*, de Benedetti warned on May 30 that "the specter of the great financial crash has reappeared . . . it is likely that once more the reassuring veil of bandaids and official declarations to allay the fears and avoid facing reality will come. Out of fear, bad conscience, and incompetence, the root of the problem of bad debts is not being faced . . . the world economy is in fact based on a fragile financial system which is based on a vacuum." The U.S. fiscal deficit and national debt are going to blow up, warned the spokesman for Venetian financial interests, the debts will never be repaid. Those who sinned most, he warned apocalyptically, will have to pay the most now—the U.S. banks, and the U.S. taxpayer.

The central bankers, on whose orders Paul Volcker jacked up interest rates in October 1979, devastated the world economy, and created the debt crisis, are now lurching wildly in the other direction. "We won't repeat our predecessors' mistakes of 1929 and 1931," they whine—they are trying another set of mistakes now. The debtors' cartel's action and pressure by Western public opinion to reorganize the debt on a productive footing are the only escape hatches from the mad world they would create if left to their own, bankrupt devices.