system of off-balance-sheet lending over the past four years, this is very serious." In event of a worst-case bank crisis breaking over Mexico, he emphasized, "It is the policy of our bank and the Swiss national bank as well, that, in such a case, this problem must be solved by the lender of last resort, the national country most concerned. The BIS would not assume this role; it is not intended to. It must be done on a national basis."

Carli justifiably fears that American capitulation to Mexican nationalism would demonstrate the bankruptcy of Washington's entire policy since 1982, when the debt crisis first broke out. A bailout from Washington would immediately put the U.S. dollar at mortal risk: America needs $150 billion from foreigners to finance its payments deficit, and the Mexico situation could provide the trigger for a general exodus of short-term foreign funds invested in the United States.

In turn, a collapse of the dollar would have a devastating impact upon the principal dollar market, the City of London. British bankers vehemently reject the notion that the Mexico crisis should be, or even can be, limited to the American banks. "Nobody discusses it, but the fact is that the overwhelming bulk of the dollars loaned to Mexico and other Latin countries during the 1970s and early 1980s was made from the offshore markets," an official of Standard & Chartered Bank in London said. "This is because of domestic restrictions limiting the loan exposure of U.S. banks. The multiplier of the unregulated Eurodollar markets, via Bahamas or other branches, were the way the banks evaded these restrictions. In 1982, this fact was largely put in the background as all banks internationally closed ranks to save the system. Today, the situation is different, and the issue of who is really 'lender of last resort' for Mexico and so forth, could be pressed. This 'lender of last resort' issue is by no means clear, even after the Banco Ambrosiano Luxembourg scandals." Swiss bank officials insist that the largest lending banks are American, and, therefore, the U.S. Federal Reserve must be the "lender of last resort," i.e., assume ultimate responsibility for a debt default crisis.

A further complication, from the British standpoint, is that the U.S. administration appears hell-bent on breaking the Mexicans' political will, at the cost of a confrontation that would devastate the banks. "There is a growing divergence in policy evident between some of the European banks and the U.S. banks on how to deal with the Mexican crisis," reported a well-informed British banker. "This policy divergence is certainly true for the Swiss, and I think also to an extent the West German banks. They feel the United States is going against its own self-interest as well as that of the international banking system by its persisting insistence that the letter of the debt agreements be observed."

But Mexico, upon which the attention of the world banking establishment now focuses, may not be the trigger for a financial panic. Some European bankers fear the political consequences of the isolation of South Africa much more. Another danger lies in the speculative financial markets themselves, whose volume of trading has doubled in each of the past three years. One City of London analyst believes, "The imminent financial 'Big Bang' in London could be the trigger for a global financial crash." The "Big Bang" comes Oct. 26, when London financial markets will become fully deregulated, on the Wall Street model.

LaRouche comments on Mexico debt bomb

The following comments are excerpted from a news release issued on June 25 by Lyndon H. LaRouche, Jr., candidate for the 1988 U.S. presidential nomination of the Democratic Party. He was the author, in 1982, of a proposal for Western Hemisphere monetary reform, known as "Operation Juárez," which has been the central issue in policy fights at the highest level of government in the United States and other republics of this hemisphere.

. . . Any discussion of the Mexico debt-crisis must take the following sort of background information into account. This past March, leading Swiss bankers announced an imminent collapse of the U.S. banking system, and emphasized measures being taken by Swiss and German banks to insulate themselves against the effect of an American banking-system collapse. At present, Oct. 25, 1986, the date of deregulation of the British stock-market, is viewed as the probable time of outbreak of the new world depression. The word among the world's top banking circles today, is "quiet panic." I predict no exact date for the financial blow-out. The new worldwide financial crash could come at almost any time. . . .

The significance of the new outbreak of the Mexico debt-crisis, coinciding with the South African situation, and the situation in Peru, Brazil, and Argentina, could be the trigger to set off a chain-reaction inside the highly unstable U.S. banking-system. This is key to understanding the outright insanity coming out of the Helms Committee hearings on Mexico and Panama. The New York bankers are demanding that all of Central and South America be crushed into submission to the desperate bankers' new round of demands from these countries. . . .

It is most interesting to witness that the same sections of the Congress and Executive Branch which are usually the loudest in defending the civil liberties of some left-wing terrorist or drug-runner, are leading the pack with Senator Helms, backing bloody measures which will take the lives of many tens of thousands or perhaps millions of persons. Those who pride themselves in abhorring the memory of the U.S. war in Indo-China, seem fully prepared to call U.S. military forces out of Europe, as part of turning perhaps all of Central and South America into a new "Vietnam war." I have no fear of exaggerating when I characterize such elements of the

Congress and the administration as the most despicable and bloody sort of hypocrisy.

There are those who instruct President Reagan that he must support such policies against Mexico and Panama, because, otherwise the savings-deposits of millions of U.S. citizens will be in jeopardy. That sort of advice to the President should be denounced as a cruel fraud. A bloody destabilization of Mexico will do nothing to save any U.S. bank from collapsing. The center of the problem is not approximately $350 billion foreign debt of Latin American nations; the center of the problem is a minimum estimate of $1.2 trillions of off-balance-sheet loans of the U.S. banking system. The center of the problem is a gigantic financial bubble inside U.S. financial markets, centered around Merrill Lynch and Walter Wriston's "creative financing" methods at Citibank. . . .

The chief source of the present danger of a U.S. banking collapse is not Third World debt; it is deteriorating conditions inside the U.S. economy itself. It is sufficient to mention a few of these intersecting factors:

1) The collapse of agriculture, and therefore of farm land-values.

2) The collapse of petroleum prices, and therefore a collapse of financial values and loans associated with petroleum investments.

3) The depressive impact of Gramm-Rudman-Hollings on several already depressed sectors of the economy, including manufacturing.

4) The catastrophic impact of the current tax-reform legislation on real-estate markets and upon all capital-intensive investment and employment.

Under present trends, the combined effect of these and other depressive factors are expected to hit the nation about the time of the second round of Gramm-Rudman cutbacks, about October.

These effects will hit a U.S. banking-system which is presently operating at a ratio of current liabilities to current assets of approximately 2.5 to 1. As real-estate and other markets sag, this ratio will increase. In other words, the U.S. banking system is already in a condition of hyperinstability. . . . With the passage of weeks and months, the size of the shock required to transform this instability into a financial chain-reaction blow-out, like that of 1931, becomes less and less.

South Africa the trigger?

The most probable external trigger for a general banking collapse comes not from Latin America, but from South Africa. Any step-up of sanctions action against South Africa will impel South Africa to unleash its economic super-weapon, the fact that the Soviet Union and South Africa control, combined, over 95% of the world's supply of strategic minerals. South Africa could bring the economies of the OECD nations to their knees. A bloody racial war in South Africa, or an escalation of the present Soviet military offensive in southern Africa would shut down southern Africa's strategic minerals output, to similar effect. . . .

The time has come to do what our bankers insist is unthinkable. The government of the United States must act immediately, through bilateral and multilateral negotiations with the governments of Mexico and leading South American republics, to scrap the present form of the international monetary system, and to reorganize the debts of these nations and of the United States under the terms of a reorganized monetary order. . . .

We have a not-unrelated situation in the Middle East. The crisis-points in front of us include July 1 in Egypt. Unless the government of the United States gives an immediate and credible signal to both the government of Egypt and the Israeli government of Prime Minister Shimon Peres, that the President is prepared to provide a negotiating table for rapid development of a "new Marshall Plan" for the Middle East, a series of destabilizations will erupt in the Middle East over the coming months of 1986, leading to early conquest of both Israel and Egypt by a Soviet-backed aggregation of Syria-led forces.

We have a not-unrelated failure in our policy toward Japan. The recent Tokyo monetary summit was a disastrous failure of the OECD nations' refusal to face the reality of the imminent international financial blow-out. The included reality of the situation is that Japan, the only functioning industrial economy of the OECD group, is forced to take international leadership in economic policy-shaping, a political role which Japan's leaders had not prepared themselves to undertake, and which the other OECD nations were unwilling to propose to Japan. The world urgently requires the scrapping of the so-called "floating exchange-rate system" established at the 1972 Azores conference, and general monetary reform based on a return to a gold-reserve system. Japan, the only OECD nation which has maintained the habit of a pro-scientific, pro-industrial outlook, has obvious special qualifications to contribute a leading role, and could do so if the U.S. government would show better insight in the manner Japan evolves policy-shifts.

We can not end the spiral of debt-to-income ratios without promoting rapid increases in the rate of physical output per-capita, especially among the principal industrialized nations. We can not accomplish this without long-range stability in exchange-rates of currencies, and return to low borrowing-costs for financing of world trade and hard-commodity production. To do this requires us to fall back to the precedents of Hamilton's American System of political-economy, both for our domestic economic and monetary policies, and respecting our relations with other nations. Any attempt to address the challenge of the impending financial blow-out will be a miserable failure, unless those specific kinds of measures are adopted in framing the new policies introduced. There is no longer any sort of patchwork action which could sustain the present monetary order over the medium-term ahead.