

# Fed to bring China financial AIDS?

by K. Wolfe

U.S. Treasury Secretary Lloyd Bentsen announced during a Jan. 20-21 trip to Beijing that Federal Reserve Chairman Alan Greenspan will soon visit China, to give "technical assistance" in restructuring China's central bank on the model of the U.S. Federal Reserve System. He failed to mention that the Fed's brand of 19th-century British free trade banking has bankrupted the U.S. economy.

"I'm afraid it may be another chapter of Jeffrey Sachs goes to Moscow," one World Bank source told a journalist Jan. 27. Sachs is the Harvard economist who has wrecked Russia by demanding International Monetary Fund "shock therapy" there. Apparently, the New York Wall Street bankers represented by Bentsen and Greenspan (formerly of Wall Street) want to put China through the same shock.

"From what I hear, Greenspan will preach some basic U.S. monetary doctrine, from the viewpoint of the U.S. banking system," he said. "They will go in and assume that all China has to do is change their banks and make 'em operate on a profit basis, and 'Why don't they just do it?!' " Such demands for shock therapy banking in China may be foolish, he said, but "there are a lot of Americans that dumb, making those recommendations in the ex-Soviet Union and eastern Europe."

At a Jan. 21 press conference, Bentsen and Chinese Finance Minister Liu Zhong-li announced that, in addition to the Fed, another half-dozen U.S. agencies, from the Treasury and the Internal Revenue Service on down, are being called into China. Bentsen said that China must move to such free trade programs to keep Most Favored Nation trade status with the United States, and to get into the General Agreement on Tariffs and Trade.

A Federal Reserve-type system could also promote the political breakup of China, which many geopoliticians in London have called for of late. The Fed's "open market operations" have given New York bankers on Wall Street control over Washington. In China, where financial warlords from Shanghai to Canton are already laughing at central government, this would be explosive.

Bentsen did not disclose when Greenspan would visit, but Hongkong banking sources said U.S. Fed and Treasury officials have already made several trips to China and others are spending February in Beijing and Hongkong.

## 'Open Door' bankruptcy reorganization

China's touted "economic miracle" is a complete fraud, as *EIR* has documented, so it comes as no surprise that Bentsen and Greenspan are drafting financial reforms appropriate to a general bankruptcy reorganization.

At a Jan. 21 press conference, Bentsen and Chinese Finance Minister Liu Zhong-li announced the re-opening of the "Sino-U.S. Joint Economic Committee," which has not met since 1987, and will now meet twice a year. The JEC, Bentsen and Liu said in a statement, will push for one of the Anglo-American foreign bankers' pet projects: opening up domestic Chinese renminbi currency deposits to foreign banks. "Secretary Bentsen highlighted the U.S. interests," the statement said, "in China's efforts to develop and reform domestic capital markets, including improving opportunities for participation of foreign financial institutions," Xinhua News reported Jan. 21. "Minister Liu indicated that China will, on an experimental basis, allow foreign financial institutions to engage in renminbi business and will further expand geographic areas opening to foreign financial institutions to additional major cities."

Due to the huge speculation in China, wealthy individuals in coastal cities have amassed over \$200 billion worth of Chinese renminbi deposits, the *China Daily* reported recently, while millions in the rural interior live at below-subsistence levels.

This is one form of "financial AIDS" from Wall Street. "We want a piece of that action," an official at Citibank's Shanghai branch told *EIR* Jan. 28. Currently, Citibank and a dozen other Anglo-American banks are licensed to have branches only in Shanghai and Canton. Citibank expects that these branches will be empowered to take Chinese currency deposits by the second half of 1994, and then expand across China. After that, the sky's the limit, the official said: Citicards, Citibank Visas, and so on will flood China.

The Bentsen-Liu JEC meeting also established three subcommittee-level joint working groups, whose U.S. "advisers" will flock to China, on "monetary and banking issues," "foreign exchange reform," and "investment and economic cooperation," the joint statement said:

- 1) The U.S. Treasury Department will send advisers from the Comptroller of the Currency, the IRS, Customs, and others, to reorganize China's banks and bank regulation, tax, and foreign exchange systems.
- 2) The Securities and Exchange Commission will send officials to reorganize China's speculative stock markets.
- 3) The Federal Reserve will send Greenspan and others to reorganize China's central bank, national credit, and bank loan policies.

## American System or British System?

What China needs is a banking system modeled on the original 1791 "American System" National Bank of Alexander Hamilton, the first treasury secretary of the United States.

Hamilton's bank—not the 1913 Federal Reserve, which was set up by British advisers on Wall Street—industrialized the United States.

Hamiltonian national banking has also been a big success in Japan, Taiwan, and South Korea. In fact, advisers from Japan's banks, Finance Ministry, and central bank have been in Beijing for months, urging China to create such a system, Tokyo banking and diplomatic sources have told *EIR*.

"The alternative to the Fed, a model which looms large in China's part of the world, is the Japanese banking system," one Washington banker told *EIR*. "The Chinese have the idea that they as a government should have some hand in where their economy goes—as do the Japanese, the South Koreans, and the Taiwanese."

Hamilton's "American System" depends on totally private commercial banks and private industrial companies, committed to "enterprise" in which the individual has perfect freedom. With it, however, goes a government national bank, which issues large amounts of low-interest credit, but keeps it from flowing toward inflationary speculation, by credit standards.

Hamilton, and Abraham Lincoln after him, used a national bank *discount* window for credit standards. In this system, private bankers may make any loan they like, and the national bank issues credit by joining in loans; it *discounts* a banker's loan for him. The national bank then judges whether or how much to participate in a loan—based on whether it be productive. The nation is lending, not borrowing; no government debt is involved.

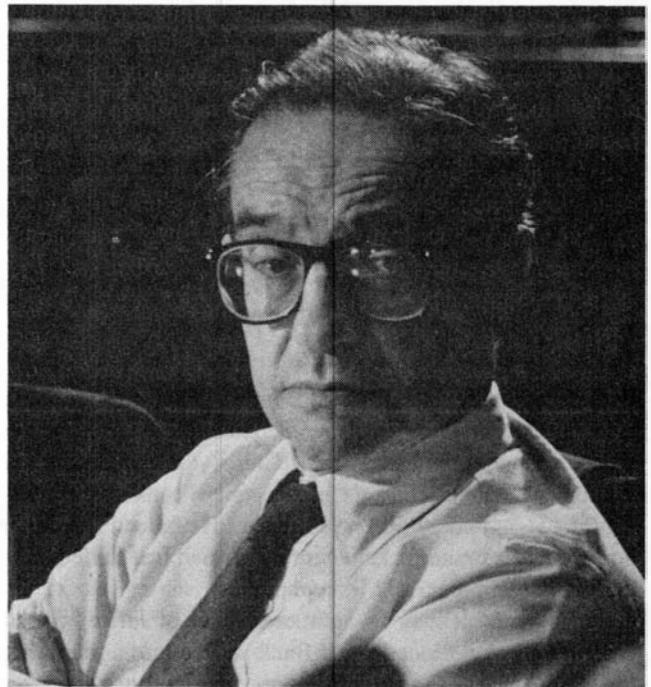
This system is no big secret. It was adopted by Japan in 1871, by Taiwan in 1905, and by Korea in 1950. It industrialized all three and was in place in all three countries including Japan until the mid-1980s.

It is also a system which makes plenty of sense for transition from a total "command" communist banking system such as China's. At present, China has no private banks whatsoever, just a few small loan companies. The cabinet (State Council) decides on a credit budget each year, and the central bank dutifully hands the money out to state enterprises and other state-owned banks.

The most obvious thing to do would be to privatize all but the core of the central bank, and set up a Hamiltonian-style national credit discount window.

"But the U.S. doesn't go for that," the Washington banker complained. Wall Street's Messrs. Greenspan and Bentsen want to set up a "competing plan," he said, on the Federal Reserve model. "If a banking system is going to be completely privatized on a for-profit basis, with liberalized interest rates and so on, you're not going to be able to do a lot of that tuning of your economy, and what technology it acquires."

"The major change we hope Alan Greenspan will make will be to move the Chinese central bank toward Fed-style open market operations," an official at Citibank Shanghai told *EIR*. Most U.S. free trade attacks on East Asia are aimed



*Federal Reserve Chairman Alan Greenspan will be traveling to China soon to set up a Federal Reserve-style banking system, when what China needs is a Hamiltonian national bank.*

at demanding they import this Fed system, which opponents in Japan call "Financial AIDS."

Under the post-1913 Federal Reserve System, modeled on the Bank of England, no national judgment on where credit goes is permitted. Instead, everything is privatized, and the central bank is owned by the private banks. The government borrows large sums from private banks, who amass a huge "treasury debt." The central bank then issues credit by what is called "open market operations": the central bank pays the private banks to buy a portion of this cancerous government debt.

In it, the private banks control not only the central bank and central bank credit, but by holding the government debt, they control the government itself. This is precisely how Wall Street in New York has come to run the U.S. government in Washington.

Such a system could become a threat to China as a nation. China today has no national debt in the hands of its banks—but it does have a major problem with regional "banking warlords" in the "free zone" coastal cities such as Canton, Shenzhen, and Shanghai. The supposedly nationalized banks in these cities have been taken over in fact by the local drug and real estate mafia, who have kidnapped all the credit coming to them from Beijing.

Simple privatization of these regional banks by letting the mafia take formal title, and then putting a large sum of central government debt into their hands, would be the end of national government in China.