EIR Economics

The Conti Illinois case: U.S. credit under siege

by Christopher White

The federally organized bailout of the bankrupt Continental Illinois Bank has pushed the ongoing crisis in international financial and credit institutions to a new level, and highlights again the principal fact this journal has stressed over the years: It is not particular banks which are bankrupt, it is the banking system as a whole. By putting the weight of the Federal Reserve System behind Conti, Volcker from the Fed, and Connover, the Comptroller of the Currency, along with those responsible at the Federal Deposit Insurance Corporation, have qualified themselves for a treason trial.

A case of insanity

These distinguished gentlemen will of course argue that they are merely doing their job, providing support to an ailing financial institution. This is pure bunk. They are fighting to maintain a policy which has already proven to be a total failure, as each of their successive "necessary" or "supportive" measures merely aggravates the underlying causes of the present crisis. Thus what erupted symptomatically in the last days as a solvency crisis in the nation's eighth largest bank has escalated rapidly, because of the actions of Volcker and Connover and their accomplices in insanity, into a test of the viability of the U.S. sector of world credit and finance.

Under the governance of present policies, this is a test of strength the United States cannot win. By putting the full weight of the Fed behind Conti, to an extent which even surprised the editors of the *New York Times*, Volcker and Company have simply brought the day nearer when the whole shebang will come tumbling down. And if that's what it's going to take to bring about a policy change for the better, perhaps, it ought to come sooner rather than later.

The facts were laid out for all to see in the last report of the Basel-based Bank for International Settlements (BIS), and were reported at that time in *EIR*. Over the past year, the United States, struggling under the effects of Volcker's fraudulent recovery, with a President desperate for re-election clinging to the illusion that there was such a recovery, became a net capital importer for the first time. As we reported then, the continued solvency of U.S. banking had become dependent on maintaining the inward flow of funds, estimated at over $180 billion last year, which were the proceeds of the looting of Ibero-America, Asia, and Europe, through capital flight, currency devaluations, interest-rate hikes, and raw-material price manipulations.

But where questions of world power are concerned, as is the case with the United States, the dependency that Volcker and Company thus permitted to develop, along with the active help of Donald Regan, the bull in the china shop at the Treasury Department, are very, very dangerous. U.S. banking and finance, and thus the nation itself, were put in hock to the foreign creditors in London and Switzerland,
ample, who directed the inflow of funds. While that inflow of looted wealth, extracted by genocidal austerity from Third World countries, helped maintain the illusion of the fraudulent recovery in the United States, it also established blackmail control over national existence, and thus over the direction of the world economy, as long as the policy dictated by Volcker and his friends at the BIS remained in effect. From relations of dependency in this tortured world of ours it is but a short step to political victimization.

Gearing up the printing press

So, on March 10, Conti Illinois suspended its dividend payments, was withdrawn from stock-exchange quotation, and shortly thereafter the bailout package of the century was announced. Someone geared up the printing presses down at the Federal Reserve, and nearly $8 billion, supposed to provide stability for the next month, was put into place. It doesn't take much more than a few phone calls to come up with such sums these days when you control the printing presses down at the Fed. And if you control the statistics department too, you can also prevent the other kinds of things that are being done along with this from showing up in the money supply figures, or in the inflation figures.

The $7.5 billion that was found in that way for the nation's eighth largest bank is about half of what Mexico, for example, is expected to pay in debt service this year. And it came as an augmentation of a $4.3 billion package that had been put together over the weekend by a consortium of 16 private banks, led by Morgan Guaranty. The updated package now involved 24 banks, none of which is fundamentally in any better shape than Conti, many of which are in far worse shape.

The public packages also came on top of a more than $2 billion credit line which the Chicago Federal Reserve had made available to the bank, daily, since the trouble hit. So Volcker and Company have probably been prepared to cough up about $12-$15 billion over the third week of May, or about half of what the country needs to finance the MX missile, now held up by Congress.

Now there are some folks who see the grimy fingers of Henry Kissinger and his friends at work here, setting up Conti for takeover by American Express, and, as usual, lining their own pockets in the process. That will probably all come out in the next few days. Such takeovers are still made in public.

But the U.S. credit system was shaken because the run on Conti was primarily organized from outside the United States, by those who are now taking advantage of the net capital importer status of U.S. finance. As we reported last week, the run was timed with the run-up of international interest rates. Prominent in organizing such an attack were the Swiss interests that operate through the West German Bundesbank, the British central bank, and the British and Swiss interests that operate through the Hong Kong-centered extensions of the Eurodollar market. Given the collapse of national financial and credit systems under the impact of Volcker, and the proliferation of the offshore market after Connally and Volcker removed the dollar from gold in August 1971, these outfits have built up control over sufficient funds to shake weakened countries such as the United States to their very foundations, in just about the same number of phone calls it took Volcker to organize the bailout. And that was what they did.

'Cut the defense budget'

And what did they say about their own handiwork? Listen to the Bundesbank: "As far as we're concerned, it happened behind the Iron Curtain. . . . This will teach people a lesson." And the Swiss National Bank: "Well, the U.S. banks will have to write off their bad paper, the markets will soon learn from this." Or Karl Brunner, an adviser to the Swiss National Bank and the U.S. State Department, who says U.S. banks will have to learn to "adjust."

The British are on exactly the same line. According to City of London insiders, the time has come "to force the issue of the U.S. deficit." Therefore, it is reported, the British Exchequer and the Bank of England have decided that U.S. interest rates should be forced up further. As one demented soul put it, "It boils down to forcing the United States to smash its own defense budget." But because the United States is now a net capital importer, it is the international interest rates which are of crucial importance in U.S. banks' continuing abilities to borrow. London six-month euro-rates moved ahead of the U.S. prime as the Conti episode broke into the open two weeks ago, forcing a contraction in the United States by increasing American institutions' cost of borrowing. At the same time, it was reported that U.S. banks were being squeezed out of London markets for certificate of deposits. Conti's CD were no longer accepted. Other U.S. banks were forced to pay a premium to maintain their capacity to borrow. The lunatics have evidently come to the considered opinion that the way to "blow out" the U.S. defense budget is by organizing a series of runs against the U.S. banking system, until the United States is pounded into submission.

These are the same banking interests which have put together a political deal with the Russians which is based on parallel cooperation for the destruction of the United States. In this arrangement for the oligarchs in the West who control British and Swiss banking interests, the destruction of the United States as a nation will remove the external threat which keeps the Russian Empire together—thereby permitting the latter's eventual dissolution. For the Russians the prize is world domination, and control of the heartland of Western Europe, the Federal Republic of Germany.

As the Euromarkets were shutting down to U.S. banks, two consortia, headed respectively by Deutsche Bank and by Dresdner Bank, were putting together a combined loan package for the Russians of $350 million at only five-eighths of a point above LIBOR. This is the first such package since the invasion of Afghanistan in 1979. It is unique in other ways; for the first time the loans are not tied to specific projects or to Russian credit requirements. They are simply a political gesture, or symbol, indicating that the Euromarkets have opened up to the Russians again.

And what about the United States? It's not just the big banks like Conti. There is a rash of bankruptcies among small and not-so-small banks and companies, along the lines of the real-estate swindle associated with Baldwin United, the airlines, and so forth. All of the bankruptcy cases are debtors of banks that are in as bad, if not worse trouble than Conti. One bright day, not far off, it may not be one bank, but the whole thing. What will it take for us to change the suicidal policy, before that day comes? Or have we already doomed ourselves to repeat the history of Herbert Hoover and the summer of 1931 all over again, in vastly worsened conditions?