nize the fight against the Hongkong and Shanghai Banking Corp.'s takeover of Buffalo-based Marine Midland. We argued then, in hearings held by the New York Banking Commission, that the takeover would open the floodgates for inflows of drugs and drug money. No one produced a refutation of the argument. But the Federal Reserve did change its own accounting standards to permit the HongShang bank to come into the United States without disclosing either the size, or the provenance, of its hidden reserves.

So Mexico's heart is to be ripped out to become the staging ground for the reorganization of the drug trade. This was wormed into the Gonzalez hearings by one Christopher Whalen of Whalen Associates, who on page 14 of his written testimony wrote, "Until such time as Americans come to their senses and bring the drug trade to the surface through legalization, the multibillion-dollar annual flow of illicit drug money into Mexico will continue to grow. . . ." Whalen did not have the guts to state publicly before the committee what was thus buried in his testimony.

The other aspect is this: When you set up a derivatives market, you are also setting up a credit-generating facility. The credit is, in effect, the difference between the nominal value of the instruments traded, and the margin required to leverage the trade. And thus dollar debt, issued against Mexican pesos, backed by the Mexican government, is to become transformed into offshore, dope trade-backed, dollar credit.

The derivatives markets are the cover for laundering the so-called capital gains associated with the finances of the dope trade into circulation, not as apparently legitimate money as such, but as a source of credit in its own right. For example, what is the present value of an asset to be collected 30 years hence, like the income from the highway privatization program? Nothing. It is merely a future promise to pay. With derivatives, you can create such a non-existent, a present value for a future asset, and negotiate it, and hedge it against a decline in its so-called value. Nothing times nothing equals nothing, right? Wrong. The present value of the asset to be protected is its undiscounted nominal present value. Calculate backwards from maturity, multiplying the future asset by expected inflation and interest rates. Then you get into the ball-park of the volumes of credit that would be produced out of thin air against the collateral of dollar-denominated debts secured against privatization and backed by the government of Mexico. It is mind-boggling.

And that is precisely where the threat to the sovereign existence of the United States arises out of these agreements. You see, their architects do not simply talk about the U.S. dollar; they distinguish between the U.S. dollar and what they now call the "international dollar," or the dollar which "knows no boundaries." That dollar, what *EIR* has called the "narco-dollar," transformed into a source of credit in a new way, is supposed to provide the leverage to mount an assault on the United States, with an intended effect which the armies of the Confederacy were never able to achieve.

Federal Reserve takes over banking in the hemisphere

What we have seen thus far, in terms of the bankers' takeover of the economies of Ibero-America, is only the beginning. The central banks of Mexico and Argentina both have, already in place, "arrangements" with the U.S. Federal Reserve. In the Argentine case, domestic currency issuance is tied to the volume of dollars in circulation. Argentina's central bank cannot issue more of its own currency unless the U.S. Federal Reserve ships down some dollars. In the Mexican case, the central bank is the "beneficiary" of a Federal Reserve credit facility.

National central banks are to be incorporated as extensions of the U.S.-based Federal Reserve System, issuing dollar credit, functioning as local dollar "lenders of last resort" to backstop the hideous speculative bubbles that are being created.

This is treason to the United States! The U.S. Federal Reserve becomes the lender of issue, and last resort, to support dollar credit generation outside the United States, in the form of the derivatives bubble and central bank dollar lending. Thus, through the secret agreements that Rep. Henry Gonzalez has put under the spotlight (see previous article), the Federal Reserve is putting itself in a position to coordinate how that externally generated credit is to be used against the United States itself.

Believe it or not, this atrocity is under discussion at the International Monetary Fund, the World Bank, and in the precincts of the Clinton administration, through such officials as Richard Feinberg of the National Security Council. Feinberg, before his appointment to the administration, was with the Inter-American Dialogue, which promotes the legalization of drugs.

The Fed is slated to fulfill the role of hemispheric central bank, or hemispheric Federal Reserve, originally intended for it back in 1913. The Federal Reserve is to become the central bank for all hemispheric central banks, south of the border. A globalized, international dollar is to be coupled with, and originate from, that internationalized Federal Reserve.

The IMF plan

It is hardly accidental that one of the institutions putting this forward is the International Monetary Fund (IMF), the revived post-World War II form of the old British Colonial Office, for extended world looting. One of the persons hatching a plan for this new type of Federal Reserve is Guillermo Calvo, a senior adviser in the research department and a director of macro-economics for the IMF. He anticipates some opposition to his scheme. In a Sept. 16 phone interview with a reporter, he indicated that there are "some political factors in Mexico" that could be a problem; but he was confident that these would be "circumvented."

Calvo's plan was first enunciated in a July 10 speech to a conference in Bogotá, Colombia, on the occasion of the opening of the very large Colombian Cusiana oil field. The reader will forgive us for quoting a few paragraphs of "banker-ese" from his speech (which will be translated), because it is necessary to give the details of what he is talking about. Calvo said:

"The central banks of Latin America must realize accords with the Federal Reserve to be able to control dollar monetary flows and to have an efficient banking system. . . . It is becoming ever more difficult for the central banks to control inflation and liquidity. We must recognize that we are in a dollar area and that our economies have become dollarized. The central banks can carry on open market operations, or they can control by means of managing bank reserves, which is better [than open market operations] because it doesn't have fiscal consequences. But how can they control dollar liquidity? In Bolivia for example, 80% of the banking system deposits are in dollars. . . . [The result of dollarization] is that the central banks can no longer serve as lenders of last resort" in their own national currencies.

Calvo said that one option would be for the central banks to lend in dollars both inside their own countries and abroad, but that these banks "find themselves limited by the term of the deposits. The banks can only lend for a term exactly equal to that of their [dollar] deposits. If the deposits are for three months, the bank cannot lend for six months. By contrast, banks in the United States, if they are confronted with a temporary shortage of resources, can request a credit from the discount window of the Federal Reserve. *The way to resolve this problem would be for the central bank of the [Ibero-American] country to have an accord with the Federal Reserve, a type of affiliation with the Federal Reserve, to also be able to receive discounted credits, and to be able to adequately back the banking system serving, as it must, as banker of last resort*" (emphasis added).

After his speech, in a conversation with an *EIR* correspondent, Calvo added: "With NAFTA there already exists a line of credit from the Federal Reserve . . . to the central bank of Mexico. This is called a credit swap. The idea is that this be generalized to all of Latin America."

Calvo has cleverly couched his proposal as an attempt to allow Ibero-American commercial banks, which do not have the access to longer-term deposits that American commercial banks do, to gain access to those deposits. In order to achieve this purpose, Calvo would have the Federal Reserve make those funds available, lending them to the commercial banks of Mexico, by first lending them to the nation's central bank, the Bank of Mexico. The Federal Reserve would lend the funds through its discount window.

Isn't it strange that an opponent of the North American Free Trade Agreement (NAFTA), Sen. Donald Riegle of Michigan, is now involved with a proposal to change U.S. banking laws to permit banks to lend against their holdings of U.S. government debt? U.S. banks have been stuffed with more than $700 billion of such government debt over the last few years, in the swindle that Federal Reserve Chairman Alan Greenspan calls "rebuilding their balance sheets." The Fed lends to the banks at 3%, and the banks to the U.S. government at around 7%. The difference is what you, the taxpayer, are paying to keep them afloat. How do you tell how much can be loaned against U.S. Treasury bonds maturing in 30 years? That's what the derivatives markets are for, isn't it?

But lending the funds through the discount window for purposes of re-lending, as opposed to currency intervention, is a privilege that is only extended to American banks. What Calvo is proposing is that the Bank of Mexico and other Ibero-American central banks join the Federal Reserve System! The implications of this radical change in policy are monumental.

First, as Calvo says in his speech, the Bank of Mexico, or any other Ibero-American central bank, would stand as lender of last resort in dollars, that is, lending dollars to its commercial banks. In the capacity of lender of last resort, a nation's central bank bails out its banks in the event of a banking crisis. If a crisis erupts in Mexican commercial banks's dollar lending portfolio—which is one-third of all Mexican commercial bank-originated loans—*these banks rush to the Bank of Mexico, which in turn, rushes to the Fed as its lender of last resort in dollars, to bail out the Bank of Mexico, since only the Fed can print dollars and has an adequate supply of dollars.* The more that the financial system of Ibero-America becomes dollarized, under the NAFTA financial accords, the more likely this scenario becomes.

Second, by having the Fed lend the funds through the discount window, which Calvo recommends, the Fed would be lending what are called central bank "high-powered funds." High-powered funds (which can include newly monetized dollars), when lent to a central bank, are multiplied a few times in size by the Keynesian multiplier inhering in all currently consituted commercial banking systems, so that a few billion dollars of high-powered funds loaned out becomes a few tens of billions of banking funds. There is no saying that American commercial banks that will begin operating in Mexico under NAFTA could not borrow some of these high-powered Fed funds, passed on through the Bank of

Mexico. In turn, these funds will be loaned out for investment in every piece of usurious speculative garbage, such as the derivatives markets and NAFTA-bonds which the Fed and the U.S. commercial banks, under the NAFTA Financial Services provision, are imposing in Mexico. Once inside these markets, the dollar volume of these funds will be blown up in size, several times again.

From a few billion dollars of Federal Reserve high-powered funds lent through the discount window, this is multiplied potentially, by the "normal course of business," into a mass of several hundreds of billions of dollar obligations, which are by this route hypothecated against the productive capacity of the United States. America's productive capacity is put into hock. The sovereign nation of the United States of America is never asked about this; it never authorized this process. The funds are loaned outside the normal banking channels. The whole process is unconstitutional and dangerous.

No wonder the written record of the NAFTA Financial Services chapter negotiations does not exist, and that no official can be found who admits to having been part of those negotiations.

Supervising Mexico's banking system

Calvo also wants the Federal Reserve to supervise the Mexican banking system. On Sept. 16, he told a reporter that there are two different reasons that there could be a run against the Mexican peso. The first is because of speculators, and that would only be of short duration. The second is because "there is no real sound banking system in Mexico, because the Mexican banking system is bankrupt. It would be foolish for the Federal Reserve to pump in dollars in that circumstance. The Fed needs to get a grip on the situation."

Calvo further proposes that both the Federal Reserve and the leading U.S. commercial banks, like Morgan, Bankers Trust, and Citibank, place their people in both the Mexican central bank and the big Mexican commercial banks for supervision purposes. "The American bank people would be working in the Mexican banks on a daily basis, supervising, looking after the money that they've invested. The Federal Reserve has to be concerned; it wants to see that the Mexican central bank is doing the right thing."

Supporting this view, Carlos Melcher of the Hongkong and Shanghai Banking Corp.'s Public Financial Management, commented, "I would feel better with Americans supervising the Mexican banking system than with Mexicans."

The nations of Ibero-America are squashed back into the banana plantations of the previous century. They are mere extensions of a Federal Reserve-administered octopus.

Calvo reports that during the summer, he met and discussed this IMF proposal for transforming the Federal Reserve with Richard Feinberg, the former chairman of the Inter-American Dialogue, a very powerful private bankers' group that recently placed one of its people, Fernando Henrique Cardosa, as finance minister of Brazil, and Oscar Camilion as defense minister of Argentina. For the last nine months, including at the time he met with Calvo, Feinberg has been the head of the Latin American desk of the Clinton administration's National Security Council.

Calvo gave a presentation a few weeks ago on this topic at the IMF/World Bank, for staff from those agencies and for "financial people, including from the U.S.," whose names, however, he would not divulge.

The North American Development Bank

The international institutions, of course, have their own irons in the fire of this plot against the sovereignty of nations. A parallel plan is the call for a supranational North American Development Bank (NADB). Supporting this misnamed bank is Steven C. Davidson, senior vice president of Ferguson and Co., a financial management consulting firm. Prior to joining Ferguson and Co., Ferguson was a consultant to the National Council of La Raza, advising on the development of a legislative proposal for an NADB, in conjunction with NAFTA.

Davidson explained that an initial capital of $1 billion would be put up for a NADB, with 60% coming from the United States and 40% from Canada and Mexico. The NADB would work on a gearing ratio like the World Bank has: With its $1 billion capitalization as collateral, it would raise an additional $5 billion in the credit markets. This money would be then fronted as initial funds for projects, to attract "outside private investors." This bank would advertise itself, and has been sold to some U.S. congressmen, on the grounds that it would build infrastructure. But when asked to describe what type of infrastructure this would be, Ferguson replied, "such as the privatization of toll roads in Mexico" (see previous article for an analysis of this plan).

Carlos Brezina of the Inter-American Development Bank said that his bank sees the NADB as a way to "help along the privatization process in Mexico." His bank is meanwhile working with U.S. Special Trade Representative Mickey Cantor and U.S. Environmental Protection Agency head Carol Browner to devise the Border Environment Financing Facility, a swindle to hypothecate upon the environmental issue billions of dollars worth of bonds that would go, in part, to "privatization of water systems."

Both these proposals strengthen the international institutions and put public credit backing behind private speculative projects. They are also designed to get round present Inter-American Development Bank limits. Mexico is loaned out, and the United States is ineligible. Now, both Mexico and the United States can be brought under the umbrella of the international financial institutions.