

## International Credit by Kathy Burdman

### BIS plots next phase of creditors' cartel

*The Bank for International Settlements wants a formal cartel—backed by the U.S. government, and run by the Ditchley Group.*

**B**ank for International Settlements Chairman Fritz Leutwiler instructed the March 25-26 meeting of the Ditchley Group bankers' cartel in Zürich to form a formal world credit cartel, banking sources told a journalist early in April.

To provide the muscle behind the BIS-run cartel, it will be necessary for the United States to join the BIS, bankers further stated. As Morgan economist Rimmer de Vries has proposed, if the United States joins the BIS, the BIS "can borrow on the world markets with the full guarantee of the government of the United States," a Morgan source said.

What is needed, one Genevan financial expert said, is an "institutional context" in which the BIS and the central banks, especially the U.S. Federal Reserve, could freeze all international credit and "control the international credit multiplier" in the Eurodollar markets, making any future expansion of lending to the Third World impossible.

Named for London's Ditchley Park, where it was founded in May, 1982, the Ditchley Group is a cartel of over 36 international commercial banks run by the British banks, the Bank of England, and the Swiss-based BIS. The Zürich meeting was hosted by the Swiss Bank Corporation and the other big Swiss banks. Dr. Fritz Luethoff of Swiss Bank Corporation is now Ditchley "interim director."

Bankers meeting at Ditchley said they are now confident that the Third World has been effectively dealt with,

and will not form a debtors' cartel but will cower before the creditors' cartel. "We don't have to do anything in particular, because these [Latin American] politicians are no threat to us," a Morgan banker said. "In December, people said Mexico would play hardball, that they were going to declare a moratorium. Look at them now, they have been forced to eat crow. We've gotten them to agree to pay whatever they can.

"They know if they push it to confrontation, they will be totally cut off from the outside world. . . . Some of them are screaming, because it hurts. It's too bad. Screaming is not the same as declaring they refuse to pay."

The meeting was dominated by a speech by Leutwiler, who is also the head of the Swiss central bank. He urged the banks to make the cartel more formal. "Mr. Leutwiler praised us as a contact point between the banks and the central banks, and announced that he finds it very convenient to discuss the debt crisis with us as a group," one participant explained.

"In fact, they want us to do even more. So far, the Ditchley Group has resisted getting involved in individual ongoing 'workouts' of specific debt renegotiations like Brazil Project 1. But Leutwiler wants us to expand, and to do just that. They want us to get into the rescheduling workouts per se, to run the actual operations in a country.

"The BIS wants to have a single contact point with the banks, a clear channel of information and direction for the regulators and the central banks.

I don't think we can do that just yet. But it's a good idea."

In his speech, Leutwiler stressed his recent theme that "the BIS is simply *not* a new source of credit in the financial markets," the banker said, in order to make two points:

First, by pointing out that the BIS won't pick up the tab, Leutwiler wants to force the banks to establish global credit controls. He wants them "to find a level of credit to which they can force the countries to reduce, and which they can force the countries to pay, through tough austerity programs," one banker explained. "He wants the banks to negotiate conditionalities strong enough to do the job. He does want the banks to be prudent, and cut back lending, but he doesn't want them to pull out entirely."

Second, Leutwiler is trying to call the question on the Morgan-backed amendment by Sen. Charles Percy (R-Ill.) which would have the United States join the BIS. Then "the BIS would get a powerful new shareholder," the banker said.

"At the moment, the United States is not behind the BIS, just some private U.S. banks which hold some shares. But if the U.S. government became a shareholder, this would help the BIS's presence on the markets enormously when it goes out to borrow. What Leutwiler has been saying is that the BIS really can't borrow, and therefore can't lend, very much at all at the moment. If the BIS can borrow on the world markets with the full guarantee of the government of the United States, with the formal name of the U.S. government behind it, they will be much happier."

At the next Ditchley meeting in June, the BIS relationship may be formalized, and the officers of the new Ditchley Institute for International Finance officers will be announced.