

## International Credit by William Engdahl

### 'That little-known BIS'

*The Brady Plan to rescue Mexico's creditor banks called for a "bridge loan" from a shadowy entity in Basel.*

When the Bush administration announced its "breakthrough" debt accord with Mexico last month, there was a little-discussed short-term emergency "bridge loan" from a mysterious institution called the Bank for International Settlements (BIS). What is this strange entity nestled in the security of Switzerland adjoining the German and French borders? Perhaps more powerful than the New York Council on Foreign Relations, the BIS merits a closer look.

The BIS came into legal existence in 1930 at the behest of the Bank of England's eccentric Montagu Norman and J.P. Morgan Bank. Six central banks from Europe, plus the U.S. Morgan, Citibank, and First Chicago banks joined it as initial shareholders.

The BIS founding charter specifies that besides being exempt from all taxation, the bank be "immune in time of peace and in time of war from any measure such as expropriation." We won't dwell on the strange history of the BIS, set up to police collection of German Versailles reparations. Nor the fact that Hitler's Economics Minister Hjalmar Schacht regularly attended BIS meetings until 1938. Nor that throughout World War II, central bankers from Nazi Germany, Japan, and Fascist Italy continued to deliberate with French, Dutch, British and other "enemy powers" privately in Basel about world monetary affairs. After all, for central bankers, business is business, isn't it?

But what does the BIS do today? For different reasons, neither the United States nor Japan holds a seat on the BIS board of directors. The U.S.

Fed is permitted to attend BIS meetings along with the Bank of Japan as members of the bank's General Meeting, consisting of 29 countries who are members of the BIS. BIS statutes permit the U.S. to take a board seat, but, reportedly because the Federal Reserve would prefer an anonymous participation without congressional scrutiny of its relation to the BIS, the private Federal Reserve refuses the seat.

In reality, the BIS is a private shareholder-owned stock company. According to its own account, the bank's official asset base is valued at some \$74 billion, using its own conversion price of gold at only \$208 per ounce.

The real role of the BIS is not as a "central bank for central banks," but as a supranational "shadow" or embryo super-central bank. The BIS is the convenient pretext for key central bankers of the world to gather in one place regularly without raising the eyebrows from inquisitive press. It has its official monthly meeting on the second Tuesday of each month in Basel. This takes usually some 15-30 minutes, leaving the rest of the time free for the central bank heads to conspire at will. The Group of Ten, which includes the central bank chiefs of the Group of Seven industrial powers plus Sweden, Holland, and Switzerland, uses these monthly meetings to gather. On the same day, the central bank heads of the 12 countries of the European Community gather as well.

This European role is significant politically to understand BIS's policy. In its latest June Annual Report, BIS General Manager Alexandre Lamfal-

ussy blasted the United States for wanton disregard of world financial stability. Lamfalussy has been intimately involved in the EC's Delors Commission project to develop plans for a supranational EC central bank. In fact the Delors Commission met in Basel. The BIS board of directors consists of only central bank heads and usually past central bank heads from eight countries: Britain, Switzerland, Holland, France, Germany, Italy, Belgium, and Sweden. Its current chairman is William Duisenberg, governor of the Dutch National Bank.

Most of recent world financial market controls have come from the BIS corridors. Most relevant is the December 1987, BIS call for international private banks of member BIS countries to adopt uniform "capital adequacy" ratios and definitions of what constitutes "core capital." Drawn up by the BIS Cooke Committee, the new rules will "coincidentally" impose uniform reserve rules on world banks by the same deadline as the European 1992 Single Market Act. The main target of the new rules appears to be Japanese and, to a lesser extent, U.S. banks.

Regardless of whether the BIS will play the key role in creating the new European Monetary Union, it is already being mooted as the coordinator of Western monetary ties to Comecon. Already, six East European Communist countries sit on the General Meeting as part of the 29 country members of the BIS: Bulgaria, Poland, Hungary, Czechoslovakia, Romania, and Yugoslavia. The influential London *Economist* recently suggested the BIS will evolve into the central bank coordinator of some grand "one world financial regime," arguing that *perestroika* could give "the BIS a new edge by pulling Eastern Europe more closely into the central banking fold."