Their Debt Moratorium or Ours

by David Goldman

Oct. 8 (IPS) — Although senior financial and government officials still tremble at the mention of the idea of debt suspension, this week's events in New York City and at the United Nations have compelled leading capitalist spokesmen to associate themselves with the debt moratorium policy — until now regarded almost as a copyrighted slogan of the International Caucus of Labor Committees.

In the case of New York City, both Treasury Secretary Simon and Rep. Henry Reuss (D.-Wisc.), chairman of the House Banking Committee, admitted reluctantly this week that no "rescue" package for New York City could work without the suspension of at least a significant portion of the City's $3.5 billion annual debt payments. The alternative, both Simon and Reuss are aware, would involve either default and subsequent panic, or printing of Federal money to cover the debt payments gap to the point that the U.S. currency would become worthless through hyperinflation.

They Just Can't Collect

In no sense has the Treasury Secretary abandoned the most sacred of capitalist principles, the collection of income by the holders of paper titles to income, in this case, the $14 billion in notes and bonds of New York City. On the contrary: William Simon merely suggested that New York City exercise the privilege that W.T. Grants used last week. The bankrupt retailer applied for court protection under Chapter 11 of the Federal Bankruptcy Act, suspended payments on $640 million in bank loans, **continuing to pay its suppliers on a cash basis**, and shutting down about 30 per cent of its outlets.

No one in Washington has suggested that New York City should continue to provide even the minimum of essential services its population requires under a reorganization plan. But no amount of austerity, Simon and Reuss have admitted, can pay all the debt on schedule.

In a recent interview, Assistant Secretary of State Thomas O. Enders admitted candidly that the U.S. capitalists would have to take a similar approach to the debt of Third World countries. "A likely scenario" is a breakdown of the $220 billion international lending market, which includes most of the Third World's $60 billion private debt, "which would probably convince these countries that they have nothing to lose from debt moratoria," Enders said. In this case, he explained, the U.S. would attempt to apply "Paris Club" proceedings to all the defaulting countries — a bankers' Kangaroo court with remarkable similarities to the banks' Emergency Financial Control Board in New York City — and extract what income available from debtor countries.

Indeed, what has terrified banking circles in regard to Simon's proposal is not the financial principle involved, which has had an honored place in capitalist textbooks since the Spanish bankruptcy of the sixteenth century. Rather, bankers fear that debt moratoria will get out of hand **politically**. "Debt moratoria are immoral!," declared a spokesman for Lazard Freres, the investment bank called in to "reorganize" New York, commenting on the Simon and Reuss proposals — meaning that a New York City moratorium might "demoralize" local governments and Third World countries sufficiently to make them want moratoria, too.

In general, leading bankers are thoroughly aware that they will not be able to collect on most of the forty per cent in bad loans on their books. Chase Manhattan yesterday indicated this by writing off sufficient of its bum assets to knock its third-quarter 1975 earnings down to half of their level in the second quarter. There have been no major bankruptcies during the third quarter, ended Sept. 30, and the Chase announcement represents a decision to bite the bullet — provided that the bullet is already lodged in the hide of a debtor-victim.

No Policy

The fundamental problem of the Rockefeller banking interests, in particular, is that their present economic role — the world's biggest coupon-clippers and interest-collectors — rules out for them any form of sane economic policy. Third World countries, who plan to renew the push for debt moratoria in the United Nations later this month through the Economic Committee delegated by last month's Special Session on Development, understand perfectly well what policy the industrial countries require. Mexican President Luis Echeverria spelled out in detail yesterday the coincidence of economic interests between underdeveloped countries and the advanced sector: he noted that the main obstacle to mutually beneficial agreements of this sort was the stripping of present foreign aid and more by $20 billion in annual Third World debt service.

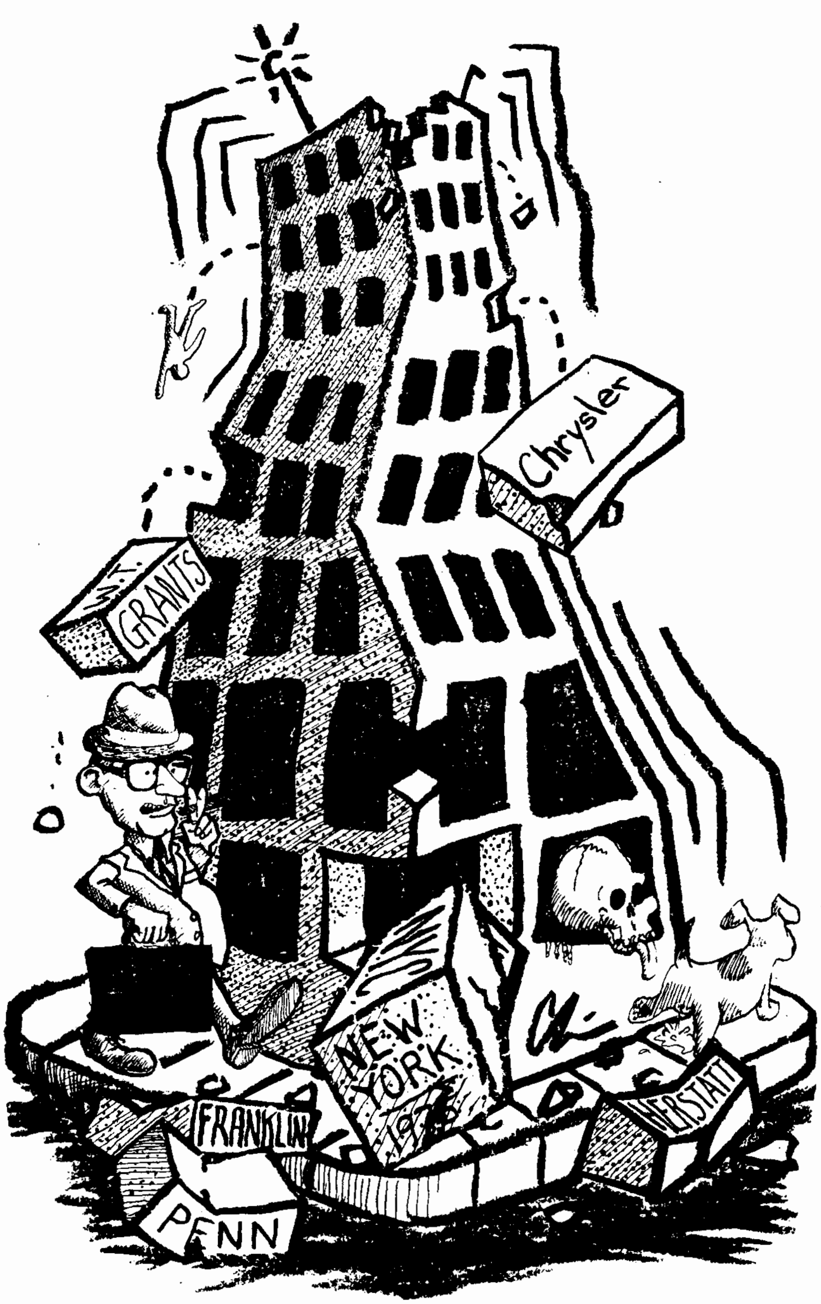
Any policy for expanding production requires suspension of debt service, the main cause of the strangulation of production since the 1969 recession. In any period of financial panic, in which paper assets against the finances of a New York City or Argentina become worthless, the capitalist is thrown back to those productive facilities he controls which can be made to generate profit — a phenomenon which forced the rise of **industrial** capitalism following the utter collapse of **mercantile capitalism** by the middle of the seventeenth century. Present debts must be **at least** suspended during the period in which production is re-started. In this sense most industrial capitalists, principally the Europeans and Japanese will reluctantly back debt moratoria when there is clearly no other option, at the expense of financial interests who rely principally on the collection of debt.

But — as Simon's remarks to a badgering journalist indicate — the Rockefeller interests themselves cannot avoid effective debt moratoria; Chase Manhattan Bank, prior to corralling a banking consortium into a $700 million credit for their bankrupt real estate investment trust, Chase Mortgage Investors, had to ask for a temporary moratorium for its own subsidiary.

What Kind of Debt Moratorium?

The rate of debt-service payments in the dollar sector has outstripped the economy's capacity to maintain even current-account expenditures for its own maintenance, such as purchases of raw materials, consumer replacement of durable goods, new family housing, and so on. Following the December-to-May industrial downturn, which stabilized during the past five months, the economy is now heading into a second and worst tailspin for this reason. But the destruciton of current profit-making activities to pay debt service — such as W.T. Grants' decision to shut down 250 retail stores — immediately destroys the basis for further collection of debt service.

There are, in fact, two debt-moratorium policies; the first intends to freeze parasitical titles to income in the interests of re-starting production and investment; the second to guarantee the most cents on the dollar for creditors. What makes it impossible for the Rockefeller interests to impose bankruptcy-court politics on the capitalist sector is a political fight on the debt moratorium question. The working class is immediately able to dictate such policy to industrial layers and those financier layers whose main asset-base is in productive industry or agriculture. At the present juncture, the very preliminary efforts in this direction by our own forces and our allies in the U.S. sector, and the motion of Third World countries in this direction, made Simon's sounding of debt moratoria one of the worst blunders of a leading capitalist official in recent years.



'Just Another Isolated Case....'