Third World Debt Crisis Breaks In U.S. Press

SPECIAL REPORT

Breaking a long-standing press blackout, leading U.S. newspapers provided unusually frank coverage of the Third World debt crisis this week — including the possibility that a wave of defaults could bring down major banks. In a May 31 article entitled "50 Billion Dollars in Overseas Lending Haunts Bankers, Feds," the *St. Louis Post-Dispatch* reported that Zaire has already been in technical default and that "at least five other countries — Peru, Turkey, Mexico, Brazil and Indonesia — are being watched closely by the international financial community." "The billions of dollars of foreign loans on the books of major banks," wrote Post-Disptach Washington correspsondent James Deakin, "have revived memories of the 1931 failure of the huge Creditanstalt Bank in Austria, which set off the depression in Europe, and the more recent failure of the Franklin National Bank of New York."

On June 1, the trade-oriented New York publication *Journal of Commerce* led with the news that Peru could default on $190 million in debt service payments due by July, as a result of the Peruvian military's opposition to IMF austerity conditions. According to the *Journal of Commerce*, "military circles are considering the option of default, which the local press is also advocating...Bankers think that President Morales Bermudez will go the IMF way. But there is no indication from Lima that military circles are willing to pay the political price..."

Also on May 31, the *Chicago Daily News* revealed that plans to prop the debt through the formation of a special $20 billion IMF bail-out facility — the so-called Witteveen Plan — were "dissolving like a rope of smoke." Since the Saudis broke rank and refused to chip in their petrodollars, the Witteveen negotiations have broken down and "default could become a very real possibility... the Arabs are not going with the IMF, instead they are setting up their own fund. The IMF may only be able to finance balance of payments deficits in the industrial sector leaving the Third World out in the cold."

Global Poker Game

The fact that several regional press are breaking the Third World debt story now is a sign that leading U.S. industry and regional banking interests are groping for a solution to the crisis. Commenting on the Post-Disptach piece, one St. Louis banking source said: "You know, that article didn't come from nowhere...No banker will say this, but the IMF died in 1971, and anyone who doesn't realize this doesn't know a thing about banking. The problem is, no one knows what to do about it."

The position of many regional and European bankers is probably best summed up by an article in the June 2 *London Times* by reporter Frank Vogel. Vogel characterizes the Eurodollar debt build-up as a gigantic "poker game," which appears to be able to go on forever — until some of the frightened participants decide to withdraw their chips. While complaining loudly that recent loan syndications are being used solely for debt-refinancing rather than for viable development projects, U.S. regional and European banks have yet to pull out their chips and some are even trying to "out-compete" the major New York and Chicago banks at the Eurodollar lending game.

"Murder, Torture, Detention..."

This week's press coverage indicates at least some of the poker players could be wising up. The *St. Louis Post-Dispatch* article, in particular, makes several jibes at Carter Administration policy. Quoting Rep. Tom Harkin (D-Iowa), the Post Dispatch notes that, in order to pay off debts, a country may "slow down its national rate of growth, drastically reduce government spending...and freeze or restrict the real wages of its workers." '"How does a regime enforce such fiscally conservative policies?" Harkin said recently. 'It enforces them by repression — by union busting, mass arrests, murder, torture, detention without charge. If enforces them by allowing an 'acceptable' level of hunger and unemployment.' Congressional liberals have noted with some irony that economic stabilization, especially in poorer countries with authoritarian governments, is not very compatible with President Jimmy Carter's world-wide human rights campaign."

The Post-Dispatch also notes the "controversy" which has recently arisen over whether the huge volume of foreign loans "were made on the implicit assumption that if anything went wrong, international lending agencies such as the World Bank and the IMF would bail out the banks by serving as lenders of last resort."

Turkish Default

In the meantime, events in Turkey are confirming Harkin's scenario to the letter. Turkey has already defaulted on some foreign obligations, and according to the Turkish newspaper *Cumhuriyet*, the country's central bank is channeling every available penny of foreign exchange into debt repayment on a day-to-day basis — at the expense of essential imports. Between April 13 and May 13, the Turkish central bank received $300 million in foreign currency but applied only $58 million to import payments, indicating a particularly heavy schedule of short-term debt repayments. Outstanding import orders awaiting central bank funds now stand at $1 billion — or two and a half months' worth of imports — because the central bank is "not taking the risk of releasing imports." This has resulted in large-scale black-market activities and stockpiling, exaccerbating a chaotic atmosphere which, some observers say, could precipitate a military coup.