Chase Formal Bankruptcy Forecast For End Of September

High level financial sources in London and New York stated privately last week that they expect the Chase Manhattan Bank to be thrown into formal bankruptcy some time by the end of September. Factions centered around the relatively solvent Citibank group of international commercial and investment banks have taken steps to nudge Chase over the edge.

BANKING

In the process of negotiating adjustments of debt service and amortization with the two emergency cases among national debtors, Turkey and Peru, Citibank has arranged for Chase to get the short end of the stick. Pursuing the policy first announced as a factional position at the May 1977 international bankers' conference in Tokyo, Citibank wants to establish enough political stability and real economic expansion in Peru, Turkey and other focal countries to ensure, as they see it, fruitful, growing bases for lending and direct investment in the future — letting Chase take the consequences of its grab-and-run operations.

Chase Manhattan has been publicly distinguished in two ways: its preeminence as the worst-managed large commercial bank in the world (a topic of Wall Street talk for at least two years), and its commitment to international debt collection through sheer mass butchery of populations and economic assets. The relation of the first count of notoriety to the second (fully anatomized in EIR, Vol. IV, No. 33) is Chase's penchant for purely speculative loans, rather than the kind of foreign industrial financing, multinational deposit bases, and local-currency lending that have made the Citibank group less vulnerable to Eurodollar blow-outs and more disposed to keep their debtors alive. Chase's deposits have dropped at least $2 billion between January and August 1977. Owing to interest-rate conditions, they must pay more for the funds they borrow at the same time they have to scrape hard for international lending terms above break-even. The autopsy report is on the desk of even middling-level Treasury and Federal Reserve officials, who have been freely telling congressional aides that Chase is a basket case and should have emulated Citibank's "good assets" orientation. This verdict emerged even before Chase and its friends at Chemical Bank and Bankers Trust appeared at the Fed's discount window two weeks ago for a shocking $1 billion to meet their Wednesday reserve requirements — prompting *The Wall Street Journal* to observe that Fed discount loans could be denied banks "abusing the privilege."

As EIR reported last week, Citibank has arranged with Peru a debt-payment schedule that favors Citibank's longer-term debt claims over the short-term claims of Chase and others. And Chase has apparently been preempted from political or economic foreclosure on the Turkish economy by a Citibank stretchout of its funding demands against Turkish lira accounts; by a refusal to give Turkey any balance-of-payments financing that might end up on Chase's books; and, as announced Aug. 30, by a half-billion-dollar investment agreement between Turkey and Western European-backed Libya.

Having failed in its buildup toward a Pinochet cold coup in Peru, Chase is stuck with a moronic de facto collateralization of its Peruvian credits against the copper revenues that evaporated over the summer. (Citibank, according to an article in the latest *Business Week* on the dangers of Peruvian debt default, is relaxed about any rollovers or freezes it may have to undertake in Peru.)

On the lending level, Chase is trying to forestall official bankruptcy scrounging for volume loans, like the new $1 billion syndicated credit to OPEC member Nigeria with a mere 1 percent return above the London interbank rate, to make up for its lack of higher-return claims. This in itself is a mere attempt to prove that Chase is still some sort of bank instead of a grotesque confidence racket.

Still more crucial is a new loan to Portugal — in the name of the International Monetary Fund, but dictated along Chase lines. For a mere $49 million, Portuguese quisling Mario Soares has pledged to slash wages, cut the state enterprise sector and public subsidies to industries, mortgage Portugal's gold reserves, foster exports in an anti-developmental mode, and devalue the *escudo*.

This is not a grand debt-collection ploy on Chase's part; it is intended to give credibility to the IMF's "conditionality" requirements for doling out its trickle of remaining funds, and it is above all a salami-tactic assault against Western and Eastern Europe — destroying a small but potentially extraordinarily dynamic segment of the continent whose importance was recognized by post facto laments in the French and West German business press.

"In This Age of Atomic Warfare"

On the balance sheets, these coups show up as mere debtors Chase has won a lawsuit against, but whose forced settlements will never begin to restore Chase's standing, much less its actual books. Jacob Javits, during the Aug. 29-30 Senate Banking Committee testimonies, and NATO, in a secret memorandum being now circulated, both specify the Chase final solution in political terms.

First, Javits himself, referring to "this age of atomic warfare," declared verbal war on the U.S. as well as the Comecon. Javits made another threat-tinged bid for petrodollars to beef up the IMF; insisted that for capital to flow into the Third World, any violation of national planning and sovereignty must be accepted; called with rather pathetic stridency for a Western Europe united under U.S. auspices to replace the "nation-states": and thumped, like most other banking spokesmen at the hearings, on the virtues of the Carter energy program "to cut our dependence on imported oil."

With various nuances, the less ambitious statements of other bankers amounted to the following:

Foreign lending is a problem in spots.

The spots are really the lower-tier First World countries like Turkey.

The $10 billion Witteveen Fund of the IMF must be approved by the U.S.

And everyone should stay cool.

There was one literary flourish which U.S. Treasury Department has been relaying privately to Congress as well: the U.S. in the 19th century was a big foreign borrower, and a developing country, and look how well it all turned out — this from Chase, simply to prove that "there is nothing wrong with debt in itself," as Undersecretary for Economic Affairs Richard Cooper affirmed first off.

Citibank spokesman Irving Friedman declined to explain to the Senators that with proper arrangements geared toward crash-program industrial and agricultural development, debt can indeed be a useful mechanism. Instead, Friedman mumbled in favor of a $100 billion IMF slush fund for the banks, and only after questions from the banking committee attacked the Chase austerity slaughter policy, never identifying the policy as Chase's. Formally the hearings' spectrum ranged from Treasury Secretary Anthony Solomon's insistence that everything is under control to Javits' invocation of a world economic catastrophe.

In effect, the hearings were a least-common-denominator plea to keep the IMF afloat, and maintain political confidence in the dollar system.

Proxmire's 'Banking Return' Will Push The Economy Over The Edge

The Securities and Exchange Commission (SEC), allegedly spurred to action by the Bert Lance scandal, asked bank holding companies today to disclose any "sweetheart" loans to executives of companies that have had dealings with their banks or any other improprieties.

BANKING

Like the made-to-order Lance affair, the SEC's sudden, first-ever move is an operation by the Lazard Freres investment house crowd, the principals behind the "Mondale option." It is one more step toward setting up the blackmail and terror apparatus by which to crush any, in particular regional, opposition to Lazard's plans for Schachtian reorganization of the economy. But first the investment house gang must gain control over the nation's banking system and credit supply.

Proxmire's FINE Retreat

The high point of this assault on the national economy is expected to come at Senate hearings, Sept. 13 through 16, into bank regulatory reform which will be directed by Sen. William Proxmire (D-Wis), the arch-Fabian chairman of the Senate Banking and Currency Committee.

Roy Schotland, a former aide to the House Banking Committee and now a "left-CIA" operative at Georgetown University law school, reported Aug. 30 that banking malpractice scandals built along the lines of the Lance affair will be introduced for the consuming interest of the committee. "Many, many banks are riddled with conflicts of interest," Schotland gloated, "And every congressman has some banking ties."

As the publicity begins to pour in around the scandals, Proxmire, according to his chief banking aide Ken McLean, will use the atmosphere to motivate passage of his banking regulatory reform legislation, Senate bill S. 711, a threadbare revision of Italian fascist Mussolini's banking codes. "The Lance affair and the like may lead some Senators who were skeptical of supporting the bill (S. 711) to change their minds," McLean threatened.

Proxmire's current bill is less all-encompassing than its predecessor, the FINE (Financial Institutions and the Nation's Economy) legislation and was first proposed by Rep. Henry Reuss (D.-Wis.), chairman of the House Banking Committee. Reuss still supports FINE in its original form, which included proposals on "full employment," housing, and slave-labor measures, but Proxmire is more "pragmatic." "The other stuff in the FINE bill may have gotten it bogged down" among conservatives, McLean said, adding that Proxmire's new approach will be instead a "safer" piecemeal implementation of the entire FINE legislation.

The Power To Make Or Break Banks

Consideration of the bare framework of Senate Bill 711, however, shows that it is already much more than a simple foot in the door for the rest of the Mondale crowd's fascist legislation.

Under the terms of the bill, a Federal Bank Commission would be created, headed by a five member board and incorporating all existing regulatory functions of the Federal Deposit Insurance Corporation, Federal Reserve Board, and the Comptroller of the Currency. The powers of the proposed Federal Bank Commission (FBC), while apparently restricted to supervision and regulation, are enormous, including powers of inspection, and final say over mergers, who can buy what bank, where new branches of a bank can be set up, and certain standards of financial soundness!

The powers of the proposed FBC do not stop there. Proxmire would give the commission additional power to