Banking by Kathy Burdman

IMF takes control of U.S. foreign loans

The Fed will underwrite Eurodollar banks' rollover loans, i.e., the ones the Fund approves.

While the International Monetary Fund is talking about exercising dictatorship over Third World nations, that supranational institution has already been handed control over United States credit by the Federal Reserve Board.

The Fed policy was quietly dropped in a speech to the Boston-based New England Council by Fed Chairman Volcker himself Nov. 16, 1982, but its ramifications are revolutionary. It boils down to the fact that, because of the shutdown in Third World lending in the wake of the Mexico and Brazil crises, the Fed has turned over to the IMF its regulatory authority over U.S. banks on all U.S.-bank loans to the Third World.

Volcker announced that, when the IMF is in on a rescheduling package and/or consortium to a given Third World nation—i.e., Mexico, Brazil, Argentina—the Fed will look the other way from the bankers' loans to the country, and never classify them as doubtful debts, in defiance of U.S. regulations which demand such classification.

"From the standpoint of the banks themselves," Volcker said, "such restructuring and the provision of some additional credit, alongside and *dependent upon agreed IMF programs,* will in some instances be the most effective and prudent means available to enhance creditworthiness of borrowing countries, and thus protect their [the banks'] own interests.

"In such cases, where new loans facilitate the adjustment process and enable the country to strengthen its economy and to service its international debt in an orderly manner, *new credits should not be subject to supervisory criticism.*" [emphasis added]

In the first place, this amounts to giving a U.S. government guarantee to IMF-sanctioned loans, which implicitly puts the credit of the United States behind a pledge to bail out the bad Eurodollar debt of the banks involved. While it does not involve any taxpayers' money immediately, it is a form of U.S. government insurance to the banks—a cryptic statement that if the loans can't be paid, as long as the IMF's political power is asserted supranationally, the Fed will bail out the banks.

"When the Fed tells the banks something like this, they are agreeing to guarantee the debts," a Hudson Institute economist noted this week. "They have raised the question who is the lender of last resort for the capital of banks which has just been overextended by these new loans. First, just by waiving the per country limits of bank lending, under U.S. law, the banks' lawyers have likely already told them that the government is now insuring the loans."

The fact that the Fed is now offering to "guarantee" the private bankers' Eurodollar debt was openly noted by New York financier Felix Rohatyn in the French magazine *L'Expansion* Jan. 6. Volcker's statement "creates a sort of implicit government guarantee for the creation of supplemental liquidities," he stated.

The scandal is worse. Volcker's "guarantee" is not merely accounting fraud, but a move to subordinate the United States to the IMF. For the converse is undoubtedly also true, though Fed officials won't admit it publicly: Any loan without the IMF's participation is now an extremely dangerous one for a bank to make, and they will clearly not be making any. As Morgan's *World Financial Markets'* own statistics point out, new lending to the LDCs fell by 57 percent during the second half of 1982, and only rose slightly at the end of December—when the IMF/BIS "bridge loans" were announced.

Michael Martinson, head of International Accounting at the Fed's Supervisory Division in Washington and assistant on Volcker's Boston speech, confirmed this to *EIR*. "We did say that if an IMF plan which we back looks like it's going to work, then we probably won't classify it."

He noted further that in Volcker's statement, "new credits" applies not merely to "new money" banks are giving Brazil and other nations, but "to all credits involved" in IMF-run consortia—some $25 billion in the case of Brazil.

Asked whether these loans are not obviously "doubtful debt," given that the rescheduling occurred in the first place because they could not be paid, Martinson gave a response which would give any accountant heart failure. "Yes," he acknowledged. "Now the question is, will the loans be paid in the future?"

A source at the Overseas Development Council in Washington said clearly what this means. The Fed and the IMF, he stated, are out to "end" the notion of "sovereign nation control over credit," and enforce credit as something only issued under supranational "agreement."