

The bailout that would bankrupt the United States

by Laurent Murawiec and David Goldman

When leaders of the six major industrial nations meet at Williamsburg, Virginia for their regular "economic summit" discussions in May they will—following the present drift of world policy—face a world banking system in shambles and national economies in a depression worse than that of the 1930s. At this point, they will sign away national sovereignty over basic economic policy to the International Monetary Fund and Bank for International Settlements.

This, at least, is the explicit viewpoint of the old European *fondi* based in London, Zürich, Venice and other centers. As the world remains on a monetary razor's edge, tilting towards the worst monetary crisis since the 14th century, the design is no longer secret; it is to be read in the *Montreal Bank Credit Analyst*, the *London Economist*, the *Economic Review* of London's Morgan Grenfell bank, and similar outlets.

There is a special irony, therefore, in the meeting of Group of 10 finance ministers in Paris Jan. 19, which agreed to cough up \$20 billion for an emergency financial fire-fighting fund, plus upwards of \$30 billion for the International Monetary Fund. The bailout, as various well-informed European cynics emphasize, is no bailout at all, no more than would be the more grandiose financial reorganization schemes offered by private bankers like Felix Rohatyn of Lazard Frères, or Rimmer de Vries of Morgan Guaranty Trust. Rather, it is a means to persuade the United States to commit its national credit to the defense of the indefensible, \$2 trillion Eurodollar market; and further, to force the United States to accept the equivalent of a Chapter 11 bankruptcy before the world court of the International Monetary Fund by no later than the Wil-

liamsburg summit meeting. Spurred by former Morgan Guaranty Director George Shultz, now Secretary of State, the tendency of Reagan administration policy is to swallow the hook.

The dragon's teeth

Roads leading in and out of Switzerland are guarded by a nasty brand of tank-trap, the underground "dragon's teeth" that will rip up out of the roadbed through hydraulic means at an instant's warning. The developing nations' debt crisis is of the same order. Each day, the major New York commercial banks perform a slapstick routine in order to close the accounts of Brazilian banks and other Brazilian borrowing entities. The accounts of the latter at the New York clearing house must clear at 5:00 p.m. each day, a difficult chore, since Brazil has had no cash whatever since last November; Brazil's entire short-term overhang must be refinanced each day.

Venezuela, Argentina, Chile, Peru, and Bolivia, to cite only the Ibero-American problem cases, might be called into default at any moment by a couple of telephone calls out of Zürich; the only uncertainty about Mexico is whether a domestic political revolt against the International Monetary Fund or a drop in the oil price will explode the Mexican debt first.

All this is taken into account in London, Zürich, and Venice, as we shall report at more length. If the United States affirms its commitment to a Eurodollar bailout at the Feb. 10-11 meeting of the International Monetary Fund's Interim Committee, and the Congress confirms this by approving the package, the United States will stand surety for the entire

mess. If so, the relevant telexes will be sent out from Zürich, London, and Venice at some point between March and early May, dumping the mess onto the summit at Williamsburg.

The view from San Marco

In operational terms, the ground-level planning of America's bankruptcy occurs through such institutions as the Brandt Commission, the Commonwealth Secretariat in London, the United Nations Council on Trade and Development (UNCTAD) in Geneva, and the ultra-elite think tanks of the old Venetian oligarchy, the Cini Foundation and Ipalmo Institute of Venice. In an interview in Venice in late January, the director-general of the Ipalmo Institute remarked:

"To solve the world debt problem, a general strategy is required; this is the slightly provocative proposal put out by [chairman of the board of Olivetti Corporation] Carlo De Benedetti, that of a general debt moratorium. [In December, de Benedetti shocked the financial world with an interview in the daily *La Repubblica* warning that \$1 trillion of Euro-dollar debt would have to be written off.] There is a clash between banks and industry. Banks have hegemonized the world economy. U.S. banks exert exorbitant, outrageous power of life and death over nations—Third World nations should find new allies with the progressive industries in the developed nations to break up the power of the U.S. banks."

Ipalmo has a task force under the direction of Professor Leon of the St. Mark's University in Venice, preparing papers on this view of Armageddon, working closely with the supposed advocate of the Third World in the United Nations bureaucracy, UNCTAD. In practical terms, UNCTAD is the principal conduit for Soviet policy influence in economic policy matters affecting developing nations.

According to deputy UNCTAD chief Jan Pronck, who succeeded Gerasimos Arsenis when the latter moved to the socialist government of Greece, UNCTAD is promoting "large-scale debt moratoria. We at UNCTAD and I personally favor that strongly," Pronck said in a discussion in Geneva the third week in January. Pronck adds that UNCTAD is working closely with the Commonwealth Secretariat, the revamped Colonial Division of the British Foreign Office, which seeks to steer the policies of the former British colonies in the Third World.

A debtors' cartel?

"The conditions we have imposed on these countries in Latin America are very severe, too severe to be realistic or tenable. A few months down the line, either they face a revolution, or they will set up their debtors' cartel," commented a senior official of the Bank for International Settlements, the ultra-secret "central bank for central banks" in Basel. As an institution above governments, the BIS will become the crisis manager for the depression of the 1980s, in the Anglo-Swiss view. Morgan's Rimmer de Vries told congressional hearings Jan. 19 that the United States must join the BIS, after 52 years of refusal to associate directly

with an institution whose status under international law is so dubious.

All eyes are on the March summit of Third World nations in New Delhi, where the central agenda item will be a coordinated stance on the Third World debt. Of course, no such general summit will produce a "debtors' cartel," to use the banks' fearful terminology, but the summit context might yield a set of alliances between the Ibero-American nations now on the firing line and other, especially Asian, nations, prepared to collaborate with them in a real fight.

Venezuela, Argentina, Chile, Peru, and Bolivia might be called into default at any moment by a couple of telephone calls out of Zürich. The only uncertainty about Mexico is what will explode its debt first. If the U.S. Congress approves an IMF bailout package, the U.S. will stand surety for the entire mess. The Jan. 19 meeting of the Group of 10 finance ministers, which agreed to cough up \$50 billion, was part of the effort to persuade Washington to commit its national credit to the defense of the Eurodollar market.

Therefore the IMF, the BIS, UNCTAD, and the would-be inheritors of a bankrupt dollar monetary system must be cautious. UNCTAD and the Commonwealth Secretariat have not opposed the debtors' rebellion as such; they have merely told national governments to be cautious, to do nothing at New Delhi in March, and to wait for the UNCTAD ministerial meeting in June to take action on the debt issue. By this time, however, no developing nation may be in a position to negotiate with the governments of the West; the United States in particular will, by that time, no longer have sovereign authority over its own economic decisions. All such questions would then be referred to the IMF. British Commonwealth sources emphasize that they want debtors' action against the banks, but emphatically not against the IMF and its sister institution, the World Bank. UNCTAD's Pronck adds that "[former IMF chief] Johannes Witteveen and I favor the creation of a lender of last resort for the banks, if only that means that the International Monetary Fund gains control over the banks' operations."

The Treasury rollover

Federal Reserve Chairman Paul Volcker's warning Jan. 20 that continued attempts by the Federal Reserve to pump liquidity into the world banking system would "lead to perverse effects," namely rising interest rates, brought to world attention what elite European financial circles have considered for some time: as Richard Coughlin, deputy editor of the *Montreal Bank Credit Analyst*, emphasizes, the U.S. Treasury must issue \$15 billion in debt-securities per week, including \$6 billion of new money and \$9 billion of rollover. Coughlin evaluates the Treasury's rollover position as parallel to that of Brazil. A snap rise in interest rates, a run against the dollar, a drop in oil prices, or simply the continued weight of the American depression could bring the American credit markets down.

The problem is unpleasantly simple: the Treasury must borrow about \$300 billion of new money this year, while the American economy will generate little over \$200 billion in savings. The balance must be absorbed either through foreign buyers of Treasury securities, or through the Fed's printing presses.

Strictly speaking, the American banks cannot go bankrupt so long as the Federal Reserve can print money. Chase Manhattan Bank Senior Vice-President Francis Mason, in charge of the bank's risk analysis division, argues, "We know there are people in Europe who want to get us. We've known this for a year and more. But tell me, do they control the dollar printing press? If they don't control the dollar printing press, who are they to say who goes bankrupt and who doesn't?"

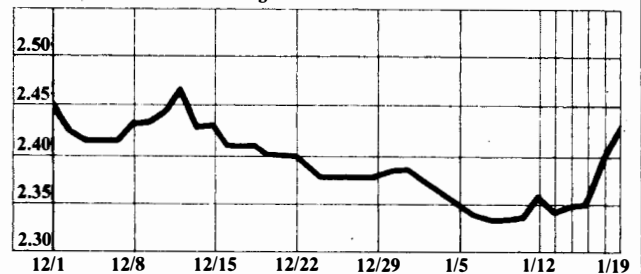
Mason's point is well taken: the argument is made frequently, if privately, by New York bank economists, that because the U.S. banks are the primary-originators of dollar deposits, and have primary access to the discount window of the Federal Reserve, the European banks stand to take it on the nose. On this ground alone, Chase and Citibank are following Morgan Guaranty's pied piper, Rimmer de Vries, into a "creditors' cartel," the Ditchley Group which met in Washington Jan. 14, which wants enhanced powers for the IMF. Such powers will, as the Venetians insist, appear over the corpses of New York banks.

This was the subject of the OECD staff papers which dominated the just-concluded Group of 10 meeting; with a \$45 billion current-account U.S. deficit foreseen this year, the dollar may collapse, and the Treasury debt market with it. The IMF will conduct a private seminar in March to review procedures for such an eventuality: at this point a central bankers' consortium will be organized through the IMF to handle America's Treasury debt problems. The IMF will offer Special Drawing Rights in return for unwanted excess dollars held by the central banks, and obtain virtual right of veto over American budget policy. American banks will lend at the behest of the IMF only, and the United States Constitution's clauses regarding credit will cease to hold effect.

Currency Rates

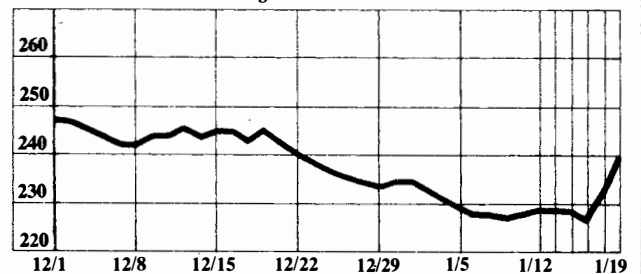
The dollar in deutschmarks

New York late afternoon fixing



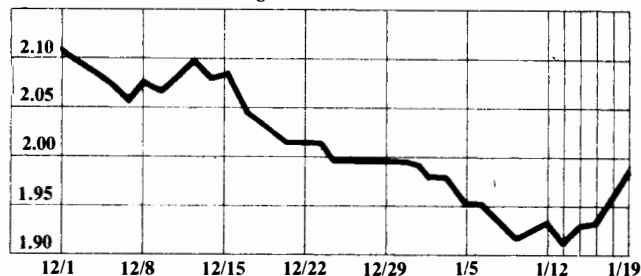
The dollar in yen

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing

