EIR Economics

Kissinger caught in corruption scandal

by M. T. Upharson

Since the Aug. 27-28 American Enterprise Institute (AEI) meeting on the Pacific Basin in Vail, Colorado, Henry A. Kissinger has become the center of the most destructive case of financial corruption by a U.S. government official in a very long time.

During late 1982, prior to his recent appointment as head of the new Central America commission, Kissinger formed a business venture, Kissinger Associates, Inc., with Britain's Lord Peter Carrington and other former government officials. The firm's advertised function was to use its influence to put official Western pressure on Latin American and other governments for the advantage of Kissinger Associates' clients. Kissinger has also held lucrative positions as special adviser to a number of New York financial interests, including the chairmanship of the International Advisory Board of the Chase Manhattan Bank N.A.

The bill to grant a U.S. taxpayers' bailout of $8.5 billion to the International Monetary Fund, currently stalled by the House Appropriations Committee, is part of Kissinger's scheme. He has been lobbying on Capitol Hill in a high-profile, not to say strong-arm manner for the IMF bill, because the IMF's austerity programs serve to soften up Kissinger's victims among debtor nations.

An *EIR* dispatch from the Vail, Colorado meeting reported on statements there by Alan Greenspan, a consultant to Kissinger: "Aug. 29—The Gerry Ford Second World Forum, which drew Henry Kissinger, former President Gerry Ford, former Chancellor Helmut Schmidt, former President of France Valéry Giscard d'Estaing, and other figures from the Kissinger-Nixon-Ford period, to Colorado for a weekend of discussions on the state of the world, ended here yesterday. . . .

"Wall Street economist Alan Greenspan, a consultant to Henry Kissinger and director of the Morgan Guaranty bank, told a journalist, 'Most of the private part of the meeting was on the pressing problem of developing-country debt.' What must be done, he said, is to convert the bankers' holdings of debt, which the countries can pay or not as they choose, to bankers' holdings of 'equity in the debtor nations' "—actual ownership by private European and U.S. banks of assets in the Third World, the way a stockholder owns a piece of a corporation, according to Greenspan.

" 'The only problem is what equity means in sovereign nations,' Greenspan stated. 'This is not self-evident.'

"Kissinger and Greenspan told the meeting that there will be no further bank credit to the Third World at all, until the equity ownership issue is resolved. 'We raised the issue that new private international lending to LDCs, especially to Latin America, but also to Pacific Basin countries such as the Philippines, will be extremely modest in future, in fact, much less than any number now being projected by private and official agencies. There will be almost no private bank lending, in effect.'

"The 'new mechanism' of world credit is to be equity ownership of Third World economies, and this is to be backed by official agencies in the North, he continued. 'It is clear that instead of traditional private bank lending, there must be a major extension of direct investment and access to capital markets for equity finance for the LDCs. We can't just continue to put in new debt on the traditional lines, because this creates payment deadlines the debtors cannot meet, which is a major source of the current debt crisis. With equity, there are no such deadlines.'

" 'We must convert debt to equity,' he added, noting that not only should new equity be bought, but that existing old debts should be converted to equity ownership. 'These debtor countries have export earnings and raw materials, and the question is, how would the creditors gain some form of equity? We must have forms of payments which are not specifically related to debt payment deadlines themselves, but to ongoing earnings on exports and raw materials development.' "

IMF: Kissinger's collection agency?

The policies discussed by Kissinger and Greenspan are being pressed on the U.S. government with the sales pitch that equity investment is "better free enterprise" than loans without strings to "socialistic" Latin governments. The U.S. government "will soon be publicly supporting the free market, equity approach," a source close to Kissinger reported. If this scheme becomes U.S. policy, Kissinger will have put the diplomatic and military weight of the U.S. government behind Kissinger Associates, while Kissinger Associates acts as a well-paid global enforcer for its banking clients' bad debts. The IMF is to have an ever-larger role as the local, on-the-ground collection agency in this process.

Kissinger is pushing the currently blocked appropriations for H.R.2957—which grants the IMF an $8.5 billion U.S. quota increase—as a bill to enhance U.S. trade with Ibero-America and the rest of the Third World, retailing the lie that the IMF funds will be put toward expanding U.S. exports. In fact, U.S. cash for the IMF will not "bail out" the Third World or stop the world debt crisis.

The role of the IMF, as a spokesman for Henry Kissinger and David Rockefeller's Commission on Latin American Debt and Governmental Politics stated the day after the Vail meeting, is to "squeeze" the economies of Ibero-America—until the nations of the region give up their sovereignty, and agree to Kissinger's transfer of equity ownership to foreign lenders, said an official of the Americas Society, the sponsor of the Rockefeller Debt Commission. "We have to use the austerity and social chaos to crack the social institutions of these countries, to change the laws," he stated, stressing that the IMF is assigned to shrink the industrial operations of public sector companies in Brazil, Mexico, Argentina, and other countries where in truth the public sector has carried out most of the nations' industrial development.

The Rockefeller Debt Commission is already meeting with Ibero-American governments to make the bankers' demands for equity ownership and repeal of national laws, the spokesman stated.

The Commission on Latin American Debt is sponsored by the Americas Society; its de facto chairman is Henry Kissinger's piggybank David Rockefeller, and its executive director is Robert Hormats, former Kissinger State Department employee and Kissinger's aide at the Goldman Sachs investment bank. The commission was set up in New York on Feb. 24, by the Ditchley bank's creditors' cartel, and the Americas Society (Council of the Americas).

The commission includes leaders of the Ditchley creditors' cartel such as Chase vice-chairman Willard Butcher (head of the Ditchley Group), Morgan Bank vice-president Robert Lindsay, Bank of America vice-Chairman William H. Bolin, First National Bank of Chicago president Barry Sullivan, Lehman Brothers Kuhn Loeb executives Nathaniel Samuels and Jose "Pepe" de Cubas, Jimmy Carter's lawyer Sol Linowitz, First Boston president Pedro Kuczynski, and Celanese Corporation president John McComber.

The policy outlined by Greenspan and the Rockefeller spokesman is a revival of the British Empire's 19th-century transformation of Egypt into an abject colony by creating and then foreclosing on Egypt's Suez Canal debts, and turning masses of Egyptian workers into slave laborers working off debt payments. That policy will devastate U.S. allies and turn ally and "neutral" alike against the United States, toward Soviet "assistance." No Soviet agent inside the U.S. government could strike a more effective blow against the strategic interests of the United States.

'Laws will be changed to give creditors equity'

The following interview with an official of the Council on the Americas Society, which is the sponsor of the Rockefeller Debt Commission, was conducted on Aug. 30 and provided to EIR. *Emphasis has been added.*

Q: The Latin American Debt Commission will issue a report on debt in the area this fall. What will it say?

A: The entire structure of Latin American debt needs to be changed. The U.S. government is committed to a new approach using private capital flows and private enterprise, of which private equity ownership is a touchstone. The problem is that Latin American debt has not been structured that way. The debtors have shifted the free enterprise system over the past 10 years, intentionally, and obtained large masses of capital to expand their public sector corporations as the preferred instrument of development, while placing obstacles on private foreign investment.

That must be changed, and is being changed. The problem is that most of the debt these countries accumulated was borrowed by these public sector corporations, which wasted huge amounts of money. Loans were mistakenly given to these countries, to do with as they wished, and they decided to build up huge public sectors. Instead of producing export revenues, they set up internal development programs, and only produced a mass of bureaucratic waste.

This sort of socialization of credit should be stopped. That is what the IMF is doing with its programs in most of Latin America and elsewhere—squeezing all the subsidies out of the public sector companies. The IMF is enforcing first and foremost the reduction of these overblown public sector companies, and the reduction especially of borrowing by them, and subsidies by the governments to them.

All money must be channeled instead into production of exports to earn export revenues for debt repayment.

Q: But how can this be done?

A: The real problem is that they won't allow it. *The laws in Latin America on foreign investment must be changed, and that is a problem of national sovereignty.*

We are meeting with many of these governments to make this point clear. The Commission has sounded out the ideas of most U.S. multinational corporations and banks, and we are presenting them to the governments in Latin America. For example, we're having a meeting here with Argentinian finance and economics ministry officials soon to tell them what Americans are thinking about new investment. There are a number of laws which must be changed.

Take the Argentine state company Fabricaciones Militares, the company owned by the army; it is active in industry and mining, far beyond the needs of the military. We will tell them: "You have to squeeze all the subsidies out of the domestic economy, and the first place to start is with these public companies. Fabricaciones has been absorbing too much foreign capital and government subsidies, to cover up their inefficient management. These have got to be eliminated."

In fact, somehow in Latin America *the concept of bankruptcy has to be introduced into the public sector*. There must be a change in the state laws in Argentina, Brazil, Mexico, and other countries. First, no state subsidies to public companies like Fabricaciones, which do not operate on a business basis like normal private companies. Then, either they are allowed to go bankrupt, or, if they need new money, *open them up to private foreign investment*. This goes for a company like Petrobras in Brazil as well. They have been borrowing money to do with as they like, and if they go into the red, the state borrows more money to bail them out. This has to stop.

Q: Can this be extended to the conversion, as Greenspan said, of existing public sector company debt into equity, as well?

A: Exactly. Once you have a public sector company in a bankruptcy court, if you are a creditor, you can do what the U.S. government did in the case of Chrysler or what the banks in Germany do when a corporate borrower gets into trouble. You convert some of the debt into equity.

In Mexico and Brazil, we must get rid of the law saying that foreign investors may not own 100 percent of a company. This is ridiculous. Also, in Mexico there is the question of what the government is going to do with the non-bank assets which they acquired when they nationalized the banks. The Mexican central bank still owns the Mexican banks' shares in many companies, including companies which are joint ventures with U.S. companies. The U.S. partners must be allowed to buy them out.

Another example is Andean Pact Decision 24, which limits the participation of foreign owners in equity. This must be changed. [The Decision also limits foreign investors to a 12 percent annual rate of repatriation on foreign investment in Andean Pact nations.]

Q: But how will you ever get these nations to change the laws?

A: It is a slow process. First, we are meeting with them, as I said, to urge them to change the laws. Then there is the fact that we will put out no more money until they do so. We say to these governments, "If you want foreign investment, you've got to eliminate those barriers."

We are getting some results. Ecuador recently loosened restrictions on foreign investment. Brazil is manuevering in that direction. The organization responsible for determining which are the "national interest industries" is getting more lax and allowing more foreign investment. Meanwhile, the current IMF measures are biting and they have no other sources of credit. They will agree eventually.

Q: Isn't there the danger if you push them too far with austerity, they will declare a moratorium on their foreign debts?

A: You are absolutely right. I don't feel confident about the ability of Brazil, for example, to survive its current domestic situation. But there is no substitute for the austerity process. It is very true that it causes social chaos, but mass protests can be used to promote change. There will be tremendous public pressure, due to unemployment, on these governments to change their laws to get access to new credit. *We have to use the austerity and social chaos to crack the social institutions of the country, to change the laws.*

The more that is done now to reduce levels of expectations, the better. There just ain't enough money to go around. It's crass, but it's true. We're going to be doing the same thing in the United States—reduce the level of expectations.

If unemployment continues, in Brazil, and social unrest makes the institutions unworkable, I would not rule out a military coup by a strong figure like Pinochet to impose austerity, as occured in 1964. It is bloody and painful but we have no choice. We have to continue withholding funds, and push the current process as far as we can.