IMF bailout battle down to the wire

by Kathy Burdman

After weeks of reports circulated by Federal Reserve chairman Paul Volcker that Congress will pass an $8.5 billion bailout for the International Monetary Fund, the IMF suffered a last-minute reverse Nov. 10 when the Senate leadership struck the appropriation for the IMF cash from the 1983 budget.

"The bottom line is that the votes for the IMF just may not be there," an aide to Sen. Robert Melchior (D-Mont.) told *EIR*. Volcker had attempted to slip the IMF cash appropriation bill onto the vital budget continuing resolution, but the Senate refused to commit the cash because no authorization bill has been passed.

Acting for IMF Director Jacques de Larosière rather than for the United States, Volcker, Treasury Secretary Donald Regan, and House Banking Chairman Fernand St Germain (D-R.I.) are still working overtime to "fix" a compromise IMF authorization bill. "Volcker and Regan are demanding that the IMF bill be passed before the Nov. 18 deadline set by de Larosière," an aide to St Germain said. "De Larosière wants his money before the IMF has to vote on a crucial loan to Brazil that day, and the Congress doesn't have the guts to refuse."

Administration sources have been saying for weeks that "a deal has been struck" under which President Reagan will okay St Germain's pet porkbarrel housing bill in exchange for House Democrats' support for IMF. "Volcker and Regan demanded that the President accept the deal," the House aide said.

St Germain would thus have succeeded in embarrassing Reagan and forcing him to publicly beg for the IMF money for the second time this fall. Last month Volcker and St Germain forced the President to write a public letter supporting the IMF and those Democrats who voted for it.

IMF opponents claim, however, that the deal "has collapsed." "St Germain may not be able to sell the IMF to the House membership period, even with the housing bill," said aides to Rep. Tom Corcoran (R-Ill.).

Should Congress fail to pass the IMF bill by Nov. 18, the international monetary situation could blow wide open. The first session of the 98th Congress recesses on that day until next February, but the IMF has set the end of December as the date by which all member nations must provide their total of $40 billion in new quotas. If the Congress balks, European governments will balk. IMF officials have already vowed to call an emergency meeting of the IMF Interim Committee to censure the United States and remove America's veto on the IMF board.

At that point the IMF will be officially bankrupt and at war with the United States in the middle of real trouble for the U.S. banking system. Banking sources say that U.S. banks have yet to take the full punch of losses from over $200 billion in debts owed to them by Latin American nations such as Brazil. During the third quarter, banks declared almost no losses, although most debtors had stopped paying even their interest.

During the last quarter of this year, interest payments by Brazil, Argentina, Mexico, and the Venezuelan government will all become a full 90 days overdue. Under current U.S. banking law, these debts then become "non-performing" and U.S. banks as a whole will have to declare $5-$8 billion in lost interest income.

If the IMF is junked, the United States will have to support a "debtors' cartel" in Latin America, and freeze and reorganize the debt to save its own neck.

If Congress is gutless enough to pass the IMF bill, on the other hand, the banking crisis will overwhelm the United States and Volcker will demand more bailout money.

The IMF bill won't solve a thing, a source close to Volcker laughed Nov. 11. "We've gone to the mat with Congress on this, saying it will solve all the debt problems. . . . But it's not a solution. It's just the beginning of what we have to do. We have a whole new round of measures to bail out the debt, and we don't want Congress involved at all."

The new measures include a second vast expansion of IMF resources and the abrogation of U.S. banking regulations. Volcker and Regan want the IMF to begin issuing some $12 billion in new SDRs as soon as the bill is passed, which is why Treasury insists on killing a resolution by Rep. Jack Kemp (R-N.Y.) granting Congress veto authority over all future issues of SDRs. "We don't want our hands tied for the future," the Volcker source said. The SDRs would be used to set up a new IMF "special fund" to guarantee or subsidize 50 percent of the interest payments of certain countries, starting with $3 billion to Mexico and $3 billion for Brazil, he elaborated.

Heedless of the sovereignty of the banking system of the United States, the source insisted, "We have to totally bend U.S. banking regulations." Once the IMF "interest facility" is set up, U.S. bank regulators will have to "change the way they treat" bad loans. U.S. regulators will be pressured to "treat the loans as if they were good" because the IMF is "guaranteeing" the interest—although much of it will never be paid.

U.S. Comptroller of the Currency C. Todd Connover is said to have threatened to resign over this question. "Volcker has been pressuring Connover to ease up on the banks but he's having a hard time with him," one administration source said. "Connover has a certain fiduciary responsibility to bank depositors. He could go to jail for lying to them."