Banking by Kathy Burdman

BIS's 'innovative' asset snatch

The BIS and U.S. Treasury want to lock the banks into equity assets in the Third World.

At two separate world banking conferences this month, Bank for International Settlements chairman Fritz Leutwiler and Bank of England spokesman Lord Harold Lever of Britain spoke openly for plans to turn uncollectable Third World debt into equity ownership of assets in debtor nations. The statements were the first such official comments on the "equity" plan, which would destroy the national sovereignty of debtor nations who would be forced to sell their patrimony to private foreign companies.

The plan to exchange debt for equity, often denominated in the currency of the debtor such as Brazilian cruzeiros or Mexican pesos, is being pushed by Citibank and Bank of America, who want to take over these countries. It has also scared the pants off of many U.S. regional banks with loans to the area, who "certainly don't want to be locked into cruzeiro assets," as one Midwestern banker said. "I'm in business to finance trade, not become a Brazilian steel magnate."

Leutwiler, addressing the Dec. 5 Philadelphia conference on international monetary affairs sponsored by former IMF director Johannes Witeveen's Group of Thirty and the Global Interdependence Center, was characteristically blunt.

Plans for the banks to exchange the debt for ownership of the Brazilian state steel company or the Mexican state oil company Pemex should proceed, he said, under which "debtor countries would sell some of their assets to their creditors. For countries with large endowments of natural resources," he said, "or with profitable state-owned enterprises, this is a worthwhile option. It would underline the willingness of the debtor countries to come to grips with problems."

Unless such plans are implemented, there will be debt moratoria, he threatened. "It is sometimes argued that it is in no country's interest to repudiate its foreign debt, so the country that would default would have little to gain and much to lose. . . . The resulting strangulating effect would be devastating. It seems fair to say that no rational country will default. Unfortunately, people in governments do not always behave rationally. We're reminded of this every day."

Leutwiler was echoed Dec. 6 by Britain's Lord Harold Lever, addressing the London Annual Conference on World Banking of the Financial Times. Unless the so-called "Lever plan," under which debt is exchanged for assets, is implemented, "there will be another debt crisis."

Lever demanded that "Western governments," i.e., the U.S. Treasury, pay up to support his new plan for an export development fund, under which all future export credits to the LDCs would be backed by the mortgaging his title to domestic mineral rights and national income generally. "The action taken so far to ease the LDC debt crisis is only a repair job," he said. "What is needed is a program to deal with future payments imbalances and shocks to the system, which would provide an organized flow of funds to help the LDCs grow and achieve political stability."

Speaking with Leutwiler in Philadelphia, U.S. Deputy Treasury Secretary R. Tim McNamar made an incredible set of proposals for asset grabbing, the first ever from the U.S. government officially. In his speech, "The International Debt Problem: Working Out a Solution," he called for an "equity workout."

"Today at the end of 1983, we find ourselves in a transition to Phase III, a new beginning for the world financial system . . . the time for an orderly workout of the debt problems in the coming years . . . debtor countries will begin to develop special arrangements to overcome individual problems.

Debtors should mortgage future export receipts," he began. "For example, some may wish to utilize discounted prepayments for marketable commodities, in order to balance seasonal or irregular cashflows.

Or, the debtors can mortgage their exports—their food production and natural resources."Others may wish to consider issuing bonds that are indexed against future currency devaluations or backed by future exports, e.g.,
others may shift to bonds, the face value of which is tied to an export price. So-called 'petro-bonds' have been discussed for some time. Perhaps in time, a Nigeria, Venezuela, or Mexico may consider issuing these to retire currently outstanding medium term commercial bank debt.

"My point is, that during the coming years, it is reasonable to anticipate a wide variety of new and innovative financing ideas from the debtor countries."

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