Debtors' cartel formed . . . to bail out banks

by Valerie Rush

The U.S. Treasury Department pulled a last-minute emergency bailout of U.S. banks out of the hat just hours before the March 31 accounting deadline would have forced those banks to classify up to $10 billion worth of outstanding loans to Argentina as "non-performing."

The emergency package involved a short-term $500 million credit line to cover a portion of the overdue interest Argentina has been refusing to pay the banks since President Raul Alfonsín took office last December. Cementing the bailout scheme was an Argentine pledge to reach an agreement with the International Monetary Fund at the earliest possible moment.

Contributing to the emergency loan are 11 of Argentina's major commercial creditor banks *plus* fellow debtors Mexico, Brazil, Venezuela, and Colombia. Mexico and Venezuela will each lend $100 million, and Brazil and Colombia will contribute $50 million apiece. The Argentines themselves will kick in $100 million from their own reserves, the creditors a final $100 million.

The U. S. Treasury has agreed to provide $300 million to repay the contributions from Argentina's fellow debtors. The U. S. commitment will be met only *after* Argentina signs up for a new International Monetary Fund austerity program. Thus Mexico, Brazil, Venezuela, and Colombia will find themselves allied with the IMF in forcing Argentina to destroy its economy, if they ever are to be repaid their $300 million.

'Defusing the debt bomb'

The involvement of major Ibero-American debtors in the bailout scheme has been hailed by creditors as an unprecedented breakthrough in the international debt crisis; one banker cited by the *New York Times* said triumphantly, "this defuses the debt bomb," i.e., potential concerted action by the debtors to demand general restructuring of their obligations.

Bankers had watched anxiously throughout the previous week while the Ibero-American debtor nations used the ongoing tour of the region by Mexican President Miguel de la Madrid as an opportunity to denounce unfair loan conditionalities and high interest rates, and to urge increased unity of action to resolve their common debt problem. They did in fact unify—but to back the very institutions which have been looting their economies and undercutting their sovereignty.

According to unconfirmed reports, Mexico played a major role in pulling the other debtor nations behind the bailout scheme in the name of stabilizing Argentina's new democracy. Mexico herself has been courting unprecedented social and economic chaos by shutting down large parts of her industrial base, slashing wages, and driving many Mexicans below the subsistence level through adherence to IMF conditionalities.

Mexican Finance Minister Jesús Silva Herzog, who has worked closely with his Argentine counterpart Bernardo Grinspun throughout the past weeks, has been invited to address the April 1-3 meeting of the Trilateral Commission in Washington, D. C. The commission convenes for tea at the White House on April Fool's Day.

Can the deal stick?

The International Monetary Fund strategists symbolized by Henry Kissinger are ecstatic at the gross display of cowardice by the Ibero-Americans. Chase Manhattan executive vice-president Francis Stankard, for example, burbled to the *New York Times*: "This is unquestionably the most constructive action ever to date in the international debt situation."

Yet things may take an unexpected turn. First, the emergency bailout set a precedent for viewing the Ibero-American debt in global terms, both on the part of the creditors and now also on the part of the debtors. This precedent could be used by the debtors to exact major concessions from the creditors in the near future—*if* they decide to fight. The economic crisis across the continent will not allow the debt question to be pushed into the background.

Second, there is little reason to believe that the March 30 emergency deal with Argentina will stick. The paper shuffle to cover up at least $3 billion in arrears was intended as a short-term bridge until the Argentines submit to an IMF "reorganization." However, their government's pledges notwithstanding, the Argentine people are in no mood to sign away their country.

President Alfonsín's frontal assault on the Armed Forces since taking office has earned him the enmity of nationalist military layers, while his unsuccessful war against the Peronist trade union movement has intensified labor's resistance to the government's austerity policies. The executive of the CGT labor federation recently warned of "a social explosion of unforeseen consequences" if any government deals with the IMF.

The Argentine economy is out of control. Inflation continues to rage at a rate of 600% annually, eating into whatever salary increases have been granted. Industrialists subject to price controls cannot begin to meet production costs. Every major sector has been slammed by strike actions demanding wage increases and an emergency economic program to meet the present crisis. A further turn of the screw under IMF "reorganization" could trigger civil war, with sweeping and unpredictable results.

CREDITOR STRATEGY

'They will try to walk on water'

This March 30 interview with a source close to Federal Reserve Chairman Paul A. Volcker was provided to EIR *by a journalist.*

Q: I hear something really big is up on Argentina.
A: I don't think this is going to be resolved by the end of the month. . . . I think it's going to be a clear indication that there is a round of new debt issues coming up that are going to address different issues than have been addressed in the past. That's what this is the beginning of. People think it's an accounting problem, that if Argentina and the IMF come to an agreement we can solve the thing, but I don't think so.

Q: When are they going to consider that Argentina should have paid but didn't?
A: Argentina was supposed to have paid as long ago as October. The point is—and this has nothing to do with the regulators, but the regulations, which say that if the banks have not been paid interest in over 90 days, [the loans] are non-performing, unless they fall under the condition that they are either in process of being paid or well collateralized. Now if some magician out there can convince the regulators that those conditions apply, the banks don't have to write those loans off.

Q: Who's the magician? Who could do that?
A: Let's say the IMF said, "We've struck a deal with them, but it's going to take a week for us to disburse the funds and them to pay interest, but don't worry, they're in the process of repayment."

Q: Do you think the IMF is going to do that?
A: No, I'm just saying this is the only way around the 90-day limit. . . . If some time between now and the 10th of the month, someone struck a deal that indicted the banks were going to get paid, then it would have to happen.

Q: What about Regan? Is he going to give Argentina a bridge loan?
A: If he was, I wouldn't be able to talk about it.

Q: He told Manufacturer's Hanover that he wasn't, but he told some people very high in the administration that he was. Or at least, he said that he wanted to.
A: There are people who think that it is not a wise idea, like those who know that the law requires it to be a "bridge" loan and not a "pier." If you keep walking on a pier, you'll get wet. On a bridge you get to dry land at the other side. . . . Funds are available for bridging. The way we've done it for Brazil and Mexico, they were always a bridge to future bank or IMF loans. . . .

In the case of Argentina, if they have not reached some type of agreement with the IMF and with the banks, then we're going to have a tough time convincing Congress, if not the people in the administration, of the problem. The Congress is saying, "Why are you giving Argentina the money—the banks don't want to, and there's no clear indication that the banks are going to?" They haven't said it yet because they haven't been asked, but people in the administration object to using ESF [Treasury Exchange Stabilization Fund] loans. There are obvious problems: you won't get the funds back, so it is not a bridge. I don't think a bridge loan will be forthcoming.

I think they are going to wait and see what happens, Manny Hanny be damned; and Manny Hanny may very well be damned at the rate things are going. . . .

Q: But no bridge loan.
A: The feeling now is: The markets haven't reacted, maybe we can resolve this in the first few weeks of April; let's not panic.

Q: But you said there would be no bridge loan because it would be a "pier."
A: Well, if it's a choice between either a cliff or a pier, maybe they'll take the pier. At least they can walk on water for a little while. . . .

Q: Argentine finance minister Grinspun said he was going to club with Brazil, Mexico, and Venezuela and present the banks with a $250 billion lump sum to deal with.
A: I think people are confident at this point that Mexico and Brazil won't be foolish enough to throw their lot in with the Argentines. They're very much content with letting the Argentines set the precedent, and then seeing if they can get a good deal.

At this point, I think they'd like to see the Argentines be successful, but they don't want to suffer any consequences the Argentines may face in the outcome. . . . De la Madrid will be in Argentina on Monday. See what they have to say to each other. He was in Brazil Wednesday and Thursday. My boss was down there at the same time. . . . Basically we don't have any real problem with De la Madrid.

Q: What is he saying?
A: Oh, trade, El Salvador, debt problems. We don't see a problem with the debtors' cartel. An Argentina is acting on its own.