

## Debtors' cartel collapses bankers' political control

by Robyn Quijano

The month of May 1984 ended with the world's financial wizards in a state of uncontrolled panic. On May 11, fifty-three years to the day after the collapse of the Vienna Kreditanstalt bank, the near bankruptcy of the United States' eighth largest bank, Continental Illinois, touched off the banking crisis of 1984. And it took not a single default on the part of an Ibero-American nation.

While the Federal Reserve Board poured unlimited funds behind the failing bank, wholesale dumpings of U.S. securities, stocks and bonds, and bank paper began in Europe, in a wave of liquidation that one London banker claimed contracted the Eurodollar market by \$50 billion.

Then on May 19, the presidents of Mexico, Brazil, Argentina, and Colombia released a declaration simultaneously in their four capitals inviting all of the nations of Ibero-America to participate in an emergency summit to jointly solve the debt problem. The interest hikes of the past two months and prospects of further hikes were particularly assailed. The social cost of the austerity conditions being demanded by the International Monetary Fund (IMF) was deemed intolerable: "We cannot accept such risks indefinitely."

These nations, representing \$231 billion in debt, stated that they would not allow themselves to be "forced into insolvency." The militant tone, which fired away at the creditors for purposefully creating intolerable conditions, sent a quick panic through the international banking community. Mexico and Brazil had rebelled—the nations with the largest populations and the largest economies, the nations which had submitted their economies to an IMF dictatorship designed to wipe out the considerable industrial development these

nations had achieved during the last decade.

The time for concerted action had come. As Lyndon LaRouche had written to his friends in the governments of Ibero-America in his *Operation Juárez* report back in August 1982: "We face a brief interval in history, during which the monetary policies of the postwar world can be reversed. It is a period not unlike the bankruptcy of the Lombards during the 14th century. These evil wretches have brought their own international monetary order into a state of general collapse; so, like the political heirs of Dante Alighieri before us, we must seize this moment of crisis in the enemy's ranks, his moment of gravest, most critical weakness and vulnerability, to destroy him before he is able to consolidate his institutions of world power on a new basis. It is possible to win, if we act quickly, and in concert."

### An irrational system

The authors of the debtors' cartel still insist that it is not a cartel, and that they have joined into a common front of debtors to force lower interest rates "in order to pay, not *not* to pay." But it is the fundamental irrationality of the current monetary system, designed to destroy the productive capacity of the developing nations, that those who treasure their national sovereignty are now determined to end. The threat that interest rates could reach 19 or 20%, which could cost Ibero-America over \$24 billion in additional interest costs this year, sent the continent's leaders into their current battle formation.

One European banker privately cried, "the idiots at the IMF and the World Bank got us into this." Headlines blared terror at the potential joint action of the debtors. Everyone



NSIPS/Bob Ingraham

*Banks are in a panic over the debtors' cartel and the near-bankruptcy of Continental Illinois bank, America's eighth-largest. Shown is a demonstration by the National Democratic Policy Committee in San Francisco.*

agreed that the fuse of the debt bomb was finally lit. While it was an open secret that the Swiss and London Bankers were the instigators of the U.S. banking crisis, now the uncontrollability of the situation began to dawn on everyone. "It's like a mafia hit list," cried one London banker. "Which bank will go next?" Events moved swiftly:

- On May 24, Manufacturers Hanover Trust's certificates of deposit were not being traded any more on the London-based Eurocurrency markets. Tremors of collapse were felt across the Atlantic. Wild rumors began spreading about the vulnerability of Bank of America, Citibank, Chemical Bank, and Irving Trust.

- On May 28, vice chairman of the Federal Reserve Preston Martin tried to calm the market by declaring a policy which a Belgian think-tanker described as "lend, lend boldly, and lend some more."

- On May 29, Bolivian President Hernan Siles Zuazo announced that he had suspended the payment of interest on foreign debt as long as his country's productive machinery was in a state of recession. The powerful Bolivian labor federation had demanded the moratorium as one of the conditions for normalizing the country's economic activities, which had been paralyzed by protests against new and drastic IMF measures imposed on April 12. Bolivia, whose export earnings barely reach \$800 million a year, paid \$650 million in debt service in 1982, and was scheduled to pay \$800 million in 1984.

Bolivia made the decision in the context of its full support for the May 19 debtors' call of the four presidents. While Bolivia holds only \$3.9 billion in debt to the private banks, less than 2%

Siles Zuazo to act for the survival of the nation was read as "dangerous defiance" by the world banking community.

- On May 30 the London Stock exchange began to collapse, losing nearly 40 points in two days. The losses were the worst in 10 years for shares in London.

- The *Financial Times* reported the following day that British banks were worse off than Continental Illinois or Manufacturers Hanover. An article on the Bolivian debt moratorium, "Two U.K. banks head loan exposure," stated that Midland and Lloyds "have a proportionately greater loan exposure to Latin America than any of the large U.S. banks. This finding counters the widely held view that the U.S. banks are the most vulnerable to the Latin American debt crisis."

By month's end the political fiction was over. The bankers' power to dictate the terms of the dismemberment of the economies and nation states of the developing sector was tottering.

Fritz Leutwiler, head of the Swiss central bank and the Bank for International Settlements, famous for his insistence that the IMF's harsh austerity be enforced even in "countries where the standard of living is below the minimum subsistence level," had a change of heart. The *Wall Street Journal* of May 28 reported Leutwiler's statement that it would be "counterproductive" for the United States to pressure Argentina to go to the IMF. The *Journal* attributed his magnanimity to his apparent "fear of an Argentine default."

The old fiction that the bankers held all the cards has been brutally assailed by reality. The *London Times* editorial of May 31, "Can't Pay, Won't Pay: The New Hardline," demonstrates how this reality is sinking in: "In an international

debt crisis, there is always the risk that debtor governments will move from the position where they insist that they cannot meet their obligations . . . to a simple refusal to pay. Bolivia is the first debtor country to do so and Argentina may not be far behind. The lingering fear . . . is that Argentina may infect Brazil and if Brazil succumbs, the system could slide into a financial morass taking banks with it."

The Bank of England, reported the *Daily Telegraph*, "is holding urgent talks with the big four clearing banks to hammer out a new approach to the international debt problem. . . . Parallel talks are believed to be taking place in Washington and New York between representatives of the Fed and leading U.S. banks as well as in Germany and other major countries. Top British bankers believe that an initiative aimed at easing tension by providing interest relief to hard-pressed debtors, particularly in Latin America, could be announced within a fortnight." Bankers have been terrified by "a growing mood of defiance among some debtors, notably Argentina," stated the *Telegraph*.

### Defiance or responsibility?

Sebastian Alegrett, the permanent secretary of the Latin American Economic System, was in Mexico during the last week of May, meeting with the finance and foreign ministers to coordinate the debt summit which will take place in Bogotá on June 14 and 15. When asked if the new debtors' pact was a challenge to the big creditors, he replied: "Not for a moment has anyone thought of this joint action as defiance, or any such thing. The action of Latin America is very solid and very responsible. . . . The formation . . . of this common front of Latin American countries, will of course require joint planning to save us from . . . the continuing interest hikes that our nations are not in condition to tolerate."

For the creditor nations, who will be meeting at the London summit of the "big seven" industrialized nations on June 7, "solutions" to the current crisis have to come this week. Japanese Prime Minister Yasuhiro Nakasone promised Brazilian President João Figueiredo, who was in Tokyo on May 27-28, that he would bring the concerns of the Ibero-American presidents to the London summit.

The Federal Reserve's revving up of the printing presses and Fritz Leutwiler's new-found softness on the IMF question are intended in part to bust up the debtors' cartel by wooing Ibero-America's debtors with special deals and threats, forcing a return to "case by case" treatment of the debt.

After the announcement of the debtors' pact, the Ditchley group—the creditors' cartel that had heretofore managed to blackmail the continent into submission—held an emergency session, and bankers, IMF officials, U.S. ambassadors, and European diplomats all made pilgrimages to the presidential palaces of Ibero-America. Argentina's presidential residence, the Pink House in Buenos Aires, has been the scene of frantic visits by the IMF technical team, Citibank Vice-

President William Rhodes, and U.S. Ambassador Frank Ortiz.

But another important visitor was at the Pink House during the last week in May, ex-President Isabel Perón, the leader of the Peronist movement.

It is broadly recognized that the Peronists have a virtual veto power over the economic policy of President Raul Alfonsín, if the nation is to remain governable. Hectic negotiations have taken place in the last days and press reports mooted an imminent deal with the IMF. But by June 1, the fact that Argentina was bargaining from a position of strength became obvious. The *Journal of Commerce* reported on June 1 that the IMF agreement was in "deep trouble." The *Journal* blamed the trade unions, which have "blasted the government several times for trying to reach an accord with the IMF."

The views of Mrs. Perón's advisers on the question of the

## Argentine Peronist leader calls for debtors' cartel

*One week after Argentina's Oct. 30 presidential elections, Juan Gabriel Labake addressed an open letter to President-Elect Raul Alfonsín. Labake is a leader of the "Orthodoxy and Loyalty" faction of the Peronist Party, which has distinguished itself by calling for Argentina to play a leading role in unifying Ibero-America on financial and economic policies. We publish here excerpts from his letter.*

Buenos Aires, November 8, 1983

Dr. Raul Alfonsín  
President-Elect of the Nation

Dear Sir:

In my opinion, the Oct. 30 elections were a major triumph for the Argentine people, who thus once again regained their fundamental rights after almost eight years of dictatorial injustice. . . .

The key to Argentina's new place in the world is breaking our dependence on the so-called "Western bloc" in order to return to Latin America's fraternal embrace and gain regional unity and integration. . . .

The foreign debt is the main weapon by which the North Atlantic powers now keep us dependent. . . . However, the moment we unite with our Latin American brother countries to jointly renegotiate our debt, the weapon becomes ours and the problem that of the creditors. The whole world knows this, and our people rightfully want it.



IMF are also out in the public domain. Juan Labake, a member of the liaison committee which attended the meetings between the Mrs. Perón and President Alfonsín, wrote an open letter to Alfonsín after the Peronists lost the election last fall (see box). In the letter he called for unity in the national interest and laid out a program for joint renegotiation of the debt among all of the nations of the continent, and a common market to allow for growth and development. He specifically attacked the IMF and the policy of usury, and its intention "not to collect the debt, but to maintain always a decisive domination over us."

Labake continued: "Needless to say my proposal means finishing off the present international economic system, based on the IMF and the all-embracing power of the private banks. This whole system is on the verge of collapse; it only needs

a little push. The whole world would thank us. What's required is agreement between the governments of nations to which the creditor banks belong and the joint Latin American bloc to lay the new bases of commercial and political relations.

"I understand that we are both under tremendous pressures for us not to take this decisive step. I'm sure they are thinking of giving special advantages to Argentina if we abandon the common Latin American front. But it is worth stressing that the key to our national liberation is not getting a percentage point lower interest or two or three more years to pay, but rather taking advantage of the debt to forge our unity with Latin America and break out of the trap of the IMF and the Bretton Woods system."

This is the new political reality the bankers are facing. The aura of power that kept nations begging for credits that

Latin American unity to renegotiate the debt can be obtained. You could say that the idea has already matured in every brother country on the continent. The idea is also spreading that our nation should take the lead on this issue. If we unite, we can win tolerable conditions for payment. Under present conditions, with seven-year maximum terms and 13.3% interest, no Latin American country, really no Third World country, can even pay interest—even when it complies with the IMF's demands for recession, low wages, and hunger. . . .

The more the debt increases due to unpaid interest and principal, the easier it is to demand new concessions from us each time we must refinance the portions due. The military government found this out when it refinanced the debt of Aerolineas Argentinas. Who knows what they will demand from us next? What I propose to you, Dr. Alfonsín, is that we Radicals and Peronists join in a patriotic agreement to unite all the Argentine people behind a first indispensable step toward liberation: the joint refinancing by Latin America of all our foreign debts to obtain reasonable conditions that will allow us to pay.

Conditions in tune with the cold reality of our economies are: a nominal term of 20 years with no less than a 5-year grace period, interest set at only 1% higher than U.S. domestic inflation. That is to say, in this year when U.S. inflation will be almost 3%, Latin America would pay no more than 4% interest. I realize that these conditions seem utopian, but they can be obtained, and, besides, we don't have any choice. . . .

It is useful to keep in mind that if we don't get these debt refinancing conditions, many Latin American and Third World nations will suffer from hunger, recession, and unemployment until one declares a cessation of payments and explodes the entire financial and economic system. This scenario is sufficiently probable to make the creditors and the govern-

ments of the Western powers think twice. Our aim is not to stop paying the debt but rather to obtain conditions under which we can actually pay the debt, the real debt of course, without repudiating our fundamental right to fully develop ourselves as a people and a nation. In this way they can collect, but if we go on as we are now, the ship will sink and the crew with it.

This debt action would provide the extraordinary event we need to get moving on the road to Latin American unity and integration and national liberation of our republics. The brotherhood forged between us by joint action on debt would open the door to forming a Latin American Common Market, to creating a regional political body—perhaps an organization of Latin American nations—and even a reciprocal defense treaty for Latin America. . . .

It has been announced that Dr. Raul Prebisch will have a major role in dealing with our foreign debt and directing our economy. If that is true, then we have little hope left of seeing the fulfillment of what I propose here. . . .

He is visibly and forcefully working to impose on the world the so-called "Rohatyn Plan." This plan drawn up by Felix Rohatyn of New York's Lazard Frères investment house calls for forming a new super International Monetary Fund made up of and dominated by the private bank creditors of the Third World countries. This private superbank would take charge of collecting debts and sanctioning those falling behind. It would offer marginally better conditions on terms and interest rates than those today, but always on the basis of squeezing the maximum profit from each country at the price of our suffering unemployment, recession, and hunger. . . .

The Rohatyn model was dreamed up to collect New York City's debt to the banks. Thanks to it New York is paying its debt. Sure it is, but at the price of a drastic reduction in its investments in education, public health, mass transit, and the maintenance of streets and public buildings. . . .

did nothing but extend the life of their loans forever is crumbling.

### The Operation Juárez solution

Ibero-American nations have been negotiating for almost two years on the way in which the continent would be integrated to form a world power. At this moment they have managed to shift the balance in their favor in such a way that they now have responsibility for far more than the survival of their nations or even simply the developing sector as a whole. These nations must take responsibility for designing the world monetary system that will replace Bretton Woods and help save Western civilization.

Operation Juárez, the program designed by Lyndon LaRouche for a solution to the crisis that is unfolding today, has been studied by governments on the continent for nearly two years. Since the formation of the debtors' club it has been received with increasing interest, and an "Open Letter to the Presidents of Ibero-America," which backs the presidents' call and details the Operation Juárez program, has been published with endorsements from trade unionists, industrialists, and political figures. A half-page ad appeared in the Venezuelan daily *El Nacional* on May 27, calling on the presidents to implement Operation Juárez now.

Operation Juárez proposes the following ground-rules for debt renegotiation: "We propose to establish a mutually agreed cut-off date for further accrual of existing contracts of indebtedness of Ibero-American republics. After that date, no further interest payments will accrue on those contracts. Effective that same date, each of the debtor nations will deliver to the creditor banks a portfolio of bonds equivalent in total value to the accrued value of the previous debt contracts up to the cut-off date. The old debt is thus 'sold' for new debt. Unfortunately, more or less inevitably some banker of lesser intelligence will howl in protest: 'We are being cheated out of the interest income we would have received under the old contracts.' Such imbecilic gentlemen need to have matters explained to them in very basic terms: 'Try to collect old contracts, and you force us to default, in which case your banks cease to exist.' The advantages of the new arrangement may then begin to be apparent to even the most stupid among New York bankers."

Operation Juárez is based upon the immediate allocation of new credits for big infrastructure projects and the kind of development that will soon allow healthy economies to pay the debt, and will cause an export boom in the advanced sector.

As to the bankers currently hanging off the ledge, Operation Juárez makes the following offer: "We propose to them, to help to save them from bankruptcy, if they will only be collectively reasonable, with suitable help from their federal government." Such help, based on the American System banking principles of Alexander Hamilton and Mathew Carey, is the furthest thing from the "lend, lend, print, print" strategy now being followed by the Herbert Hoover-style imbeciles at the Federal Reserve.

# World financial

by Laurent Murawiec

One week has sufficed to turn the pontificating homilies of central bankers, the wizards of international money, into panicked about-faces. The spread of the banking crisis from Continental Illinois and Manufacturers Hanover to the whole top league of U.S. banks, and more recently to the British clearing banks as well as international stock markets, has intellectually devastated and concretely paralyzed the world of the controllers of international money flows, the collective of central bankers arrayed around the Bank for International Settlements.

The sorcerer's apprentices had hitherto been talking of "teaching a lesson to the U.S. banks," and rejoicing privately at the discomfiture of over-confident U.S. bankers, "who have not written off their dubious assets, have not set aside reserves nor prepared themselves for a shock," as the Swiss bankers' newspaper the *Neue Zürcher Zeitung* was writing with typical *Schadenfreude* (rejoicing at another's mishaps). But as of the end of May, a full-fledged panic has erupted in their ranks and those of the commercial bankers of major Western nations, and is raging among institutional and other investors terrified that a 1929- or 1931-style crash is underway.

### Manny Hanny left high and dry

On May 24, *EIR* found out that Manufacturers Hanover Trust's certificates of deposit (CDs) were not being traded any more on the London-based eurocurrency markets: The interest-rate penalty the bank would have had to pay was too high. Manny Hanny was being treated by the market as a mere Third World debtor. The disease then spread to other American banks' paper: "Faced with the serious crisis of confidence that affects a growing part of the U.S. banking system, international investors are not inclined to hold dollar-denominated paper," said one source.

"Manufacturers Hanover paper ceased being traded," the *Wall Street Journal* reported. "Most London-based banks and brokerage houses simply stopped making a market in the U.S. banks' short-term securities . . . there is no market because there are no buyers." A London broker added that "American banks just don't dare to offer their paper for sale for fear of being snubbed, which would make the matters worse."

Flight into "quality" increased, as investors switched out of bank paper (bank shares, notes, bonds, CDs, and deposits) and rushed headlong into Treasury securities. A growing gap