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Banking by William Engdahl

Banking on debts

Some little noticed aspects of those Third World loans are hinted at in a 1986 report.

With the recent news that J.P. Morgan & Co., the United States' third largest commercial bank, had set aside $2 billion more in a special contingency reserve for expected losses in its Third World lending, the incredible Third World debt tragedy opened a new chapter. Morgan is now 100% clear of future losses from its lending to developing nations. Citibank, the largest U.S. lender in absolute sums, with only a paltry 25% reserve setaside, is rumored to be ill-prepared to absorb future loan losses from that sector.

But what nobody is willing to discuss is why the tenacious New York money center banks have held on to their ludicrous claims on their debts. This is the subject of our short discourse.

I came across a report prepared by the staff of the Congressional Joint Economic Committee back in May, 1986. The study has been conveniently buried, but I think some of its comments warrant better treatment. Its title is, "The Impact of the Latin American Debt Crisis on the U.S. Economy."

This study notes the clear point that in its near-panic response to the 1982 "Third World debt crisis," the Reagan administration dumped its Milton Friedman-Adam Smith "free market" fundamentalism and moved to prevent a collapse of the U.S. banking system. That being so, what then? "The decision to intervene and avert a financial collapse was only a first step," say our staff investigators. "The second step should have been to consider—and minimize—the impact of the debt crisis on the U.S. economy."

But the second step was never taken. The October 1982 "Reagan economic recovery" was manipulation to prop up the banks at the expense of the rest of the world.

Does that mean that for seven or more years, we have been misled as to what the real point of the whole debt crisis has been? "It is now becoming clear," our study continues, *"that administration policies have gone above and beyond what was needed for protecting the money center banks from insolvency."* That's putting things mildly. Instead of looking to the national interest in maintaining export markets for U.S. industry and industrial jobs, the Reagan-Bush administration since 1982 has concentrated on helping the large money center banks such as Citicorp, Chase Manhattan, and Morgan to "improve their profitability." Yes, "the administration's management of the debt crisis has, in effect, rewarded the institutions that played a major role in precipitating the crisis and penalized those sectors of the U.S. economy that had played no role in causing the debt crisis."

The report details that the only beneficiaries of the administration's handling of the Third World debt crisis have been bank stockholders. It notes that "bank profits have grown steadily since the onset of the debt crisis. Between 1982 and 1984, after-tax income rose by $167 million at Citicorp, $99 million at Chase Manhattan and $144 million at Morgan Guaranty."

Calculating the costs of the Reagan-Bush administration's policy is not easy. But some rough calculations give an idea. Before the debt crisis, U.S. farm exports to Ibero-American nations were their fastest growing market, increasing almost 20% annually. In 1981 U.S. farm exports to all developing countries were just short of $17 billion. Ibero-America was the third largest U.S. food export market at that time, surpassed only by Western Europe and Japan. The Soviet Union was trailing behind. After the 1982 debt crisis, the IMF demanded debtor countries slash all imports in order to secure debt service to Citibank and friends. Today they have plunged more than 33%, and far below exports to Russia.

In addition, U.S. industrial exports of machinery and other capital goods to the economies of Ibero-America, have collapsed since the one-sided Reagan-Bush debt strategy was implemented. Ibero-American debtors generated 50% of their trade surpluses demanded by the IMF to pay debt service to the creditor banks by slashing purchases of U.S. industrial exports. One estimate puts U.S. job losses at 2 million industrial jobs since 1982 because of this looney policy. But the big banks kept booming.

With ruthless irony, it is the powerful Citicorp, the largest U.S. lender to Ibero-America, which is now the subject of growing rumors and worries. Citibank has forced the present disastrous policy onto Washington since 1982. Now Citibank is in the most dangerous position. It leads the list of domestic banks exposed to leveraged buy-out debt, it has a huge portfolio of loans tied to the shaky mortgage markets, and it is finding country after country simply unable to pay more on the fraudulent debts. Perhaps it's time for the concept of "national interest" to once again include more than a few New York banks.

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