Europe Agrees, Bankrupt U.S. Means Moratorium

Oct. 8 (IPS) — Pure panic erupted this week in European and Japanese financial circles as U.S. Treasury Secretary Simon's Sunday proposal for a New York City debt moratorium rudely awoke them to the impending international banking collapse. Summing up European reaction, Dr. Kurt Richebächer, number two man at West Germany's prestigious Dresdner Bank, angrily told an interviewer; "Upswing? There's never been a chance for an upswing. If there was, (U.S. Federal Reserve Chairman Arthur) Burns' monetary policy killed it."

Fueling the panic was a fresh broadside of bankruptcies, New York bankers confessed their own illiquidity publicly while Chrysler Corporation and New York City threatened to follow W.T. Grant's down the hole.

"Few people understand how serious the situation really is compared to the 1930s," Richebächer continued. "Half the borrowers in international lending are uncreditworthy." Sources at top New York banks agreed that, indeed, these banks are now making loans to the Third World expecting to never see collateral returned — if only they can get the interest.

Already Third World organizing at the United Nations and in Europe forbodes a volley of debt moratoria in response. Under the circumstances, the Third World bloc's trade and development offers are ones that Europe and Japan cannot refuse.

Assistant Secretary of State Thomas O. Enders, asked in a telephone interview yesterday whether a coming crisis of confidence in response to Simon's idea might not destroy international credit flows and, convince the Third World that they have a clear road to moratorium, responded, "That's quite possible. It would probably convince them. It's a likely scenario."

Atlanticist West German Chancellor Helmut Schmidt, along with British and Japanese policymakers, are moving hurriedly under this political pressure. Last Thursday, Schmidt lectured the New York business community that the city debt crisis is shaking international capital markets far more drastically than did last year's Herstatt Bank collapse. On Friday, he flew to Washington to match raised voices with Federal Reserve Chairman Burns, demanding that currency markets be stabilized some way — any way. Present were President Ford and Treasury Secretary Simon. Simon's freak-out proposal the next day for a New York City debt moratorium was blasted over the front page of the Sunday New York Times.

Debt Moratorium? Delighted!

A high British economics official set the conditions for sanity commenting, "British financial circles would be delighted" with Simon's proposal. The source, who is close to the Labour Party's left-wing Tribune faction, saw the immediate need for orderly political agreements to stop the bust and further ccannibalization of industrial production. "There's been a lot of talk in the past week or two around here of the Kredit Anstalt collapse in Austria in 1931, the one that ticked off an international panic," he said.

Britain's Daily Telegraph noted this week that the British delegation to the upcoming Big Five international monetary summit will push for "assurance from the Ford Administration that it will take steps to protect the international banking system" from "a collapse of New York City's debt service program.

Among Schmidt's West German constituency, Dr. Richebächer's response was the norm. Number two man Bachenagel at the Swiss Banking Corporation bellowed "If you're talking to bankers about moratorium, collapse — you are responsible for a sharp drop in the dollar!"

Indeed, such a drop occurred this week.

The bankruptcy-a-day Japanese meanwhile abandoned all pretense of inscrutability. The Bank of Japan junked a two-year tight-money policy and flooded the banking system with a 33 per cent increase in lending this quarter. This would not suffice, insisted Soichi Yokoyama, President of the Bank of Tokyo, Japan's top foreign exchange bank. To avoid "a depression of the kind...of the 1930s" the world must print reams of money to avoid bankruptcies, "even at the risk of rekindling inflation." A top officer at a major Japanest bank in New York termed the Simon proposal "disastrous to the international money markets. Default would be equally disastrous because...in the strongest country in the world, it would destroy the idea that America is the exception to the economic crisis."

Reality Principle

But unprecedented public admissions by New York banks of their own illiquidity, along with fresh bankruptcies and a weakening of the dollar, is forcing capitalist recognition of reality. John Sullivan, Senior Vice President of Manufacturers Hanover confessed to several hundred members of the American Bnking Association annual conference on Monday that his lending officers are spending about 25 per cent of their time trying to recover bad loans. "The problems are of such magnitude," Sullivan added, "that we have found it necessary to hire or train specialists in various industries." His confession was prominently covered by the financial press.

More important, Sullivan revealed that on top of bad loans to retailers, municipalities, manufacturers, and real estate investment trusts, banks' loan losses **to each other** and to bank holding companies are the banks' biggest headaches. Manufacturers Hanover, the U.S. bank with the most such loans, has had to lure a "specialist" away from the Federal Reserve to deal with the situation.

Following last week's W.T. Grant's bankruptcy, and then the shutdown of a Kresge store under pressure from the U.S. Labor Party's boycott of the chain, auto surfaced as the next industry to go. Today the largest Chrysler dealership in St. Louis folded. Chrysler's British subsidiary, reporting losses of $23 million in the first half of 1975, has borrowed for the emergency from its parent company. Chrysler Financing Company, which funds the international group, was in turn bailed out this month with a $300 million credit to keep it from defaulting on some of its $1.6 billion in outstanding loans. The source of the transfusion? Manufacturers Hanover!