occur through the high rates of technological progress. Not only is that proper monetary policy, but it is the only acceptable basis for establishing a massive exchange of credits among capitalist, socialist and developing nations.

In making this commitment, Chairman LaRouche stipulated that his service to the new bank would continue only as long as he was not called to serve his country as President. In practice, the impeachment of the present U.S. Administration will most probably not be completed until Autumn 1977 or slightly later. The intervening months will therefore be adequate time for establishing the new bank, and for building into the bank the elaborated policy-framework needed.

In releasing this information today, Chairman LaRouche emphasized that such an unusual advance announcement of pending actions was politically necessary. Although governments and other relevant institutions will not — with some few important exceptions — act to initiate a new monetary system now, it is urgent that they be informed of the nature and shape of developing alternatives, so that governments, bankers and industrial interests can begin adjusting their postures and financial positions accordingly.

EXCLUSIVE

What Carter's Summit Failure Means To The New York Banks

SPECIAL REPORT

As Jimmy Carter comes unsmiling out of the London Economic Summit of heads of state, with his attempt to organize European and Japanese support for some $150 billion in Third World bank debt a complete failure, the New York bankers will be heading into the most traumatic days of their careers.

Less than one week previously, the same nations flatly refused to contribute to David Rockefeller's proposed $20 billion slush fund at the International Monetary Fund; they repeated that refusal at 10 Downing Street. Neither will Japan and Germany in particular inflate their economies to pass the Third World an extra $20 billion in commodity revenues as requested by the U.S. Treasury.

As a result, the estimated $20 billion in Third World principal payments due between March and October of this year simply cannot be refinanced. They will be defaulted upon, along with perhaps another $15 billion in interest payments due over the same period. The bulk of this default will fall squarely on the New York banks' some $100 billion in Third World debt — poor odds for survival.

In fact, some U.S. regional bankers believe that it won't even take a Third World default or two to start the coming chain reactions. They say that the failure of any major bank to continue to simultaneously plug holes in the numberless dikes in their Third World, European, real estate, tanker, commodity and foreign exchange lending operations could trigger a bust directly at the bank level. In this case — with Citibank often cited as a candidate — bank depositors, especially the increasingly pro-gold Arab countries, would lose confidence in the bank and a series of others and begin unstoppable withdrawals.

This report will detail the dependence of the New York banks on, and the full extent of such speculative loans, including those to the Third World, and pinpoint the nature of the defaults.

The Debt and the Dollar

The dependence of the New York banks' operations on speculative international lending, loans made to finance deficits and generally recirculate past debt obligations, is immense, as is show even by official figures. Federal Reserve figures for the top nine New York clearing house banks alone show that from January 1976 to January 1977, foreign branch deposits of these banks rose by nearly $13 billion, while domestic deposits dropped by over $7 billion, a net swing in favor of foreign operations of over $20 billion. During that time, foreign deposits went from 48 percent of nine banks' *total deposits* to 55 percent, or $87.84 billion out of their total $161.3 billion deposits. The real figures, taking Swiss and other European banking estimates, put the total extra-U.S. lending of all New York banks on the Eurodollar and Bahamas market at something close to $250 billion.

Similarly, international profits have been the decisive factor in the *earnings* of the New York banks, whose ability to at least maintain stockholders confidence as corporations is especially crucial now — one really sharp drop by a major bank stock could also blow the whole game. While the reported international earnings of the six largest New York banks rose from $141.1 million in 1970 to $611.2 million in 1975, for example, their domestic earnings slipped from $465.3 million to $407.7 million, or only 40 percent of the total. Citicorp, the largest New York bank, had a stupendous 70 percent of reported earnings from its international business in 1975, and there are estimates of 75 to 80 percent in 1976.

Furthermore, these foreign operations of the New York and other U.S. banks have critically undermined the U.S. dollar. During the period since especially 1973, debt caused U.S. agricultural and capital goods exports to drop precipitously to the Third World and, secondarily, to Western Europe and Japan as raw materials prices rose, leaving the U.S. with a merchandise trade deficit of $10 billion in 1976 and $20 billion in 1977, at current annual rates. The U.S. trade surplus with the Third World of capital goods and agricultural products exported minus raw materials imports slipped from $8 billion in 1975, the latest issue of Morgan Guarantee's *World Financial Markets* reports, to a *deficit* of $8 billion at annual rates so far in 1977 because of the "acute and well known financial pressures" on Third World.

Since "expansion of U.S. exports to these countries... may not occur" because of the less developed countries' credit crunch, Morgan summarizes, the only way to avoid serious weakening of the dollar is for Japan and Europe to also run deficits by cutting down exports and stockpiling Third World commodity imports at 100 percent inflated prices. Then all currencies will be equally rotten, runs the argument. But Japan and Germany have already refused.

International Bank Debt: How Much is There?

The New York banks' own speculative international loans total $250 billion. Some $176 billion of this is to near-bankrupt borrowers already in or near default. The numbers need to be put in perspective to see their effect on the world banking system and economy; it is more the shaky base of an inverted pyramid than the tip of an iceberg.

The size of the total net world dollar credit sector is approximately $820 billion, derived from highly conservative estimates of $350 billion net Euromarket credits, plus $150 billion net minimum Bahamas-Cayman credits, plus U.S. M-1 (the liquid U.S. domestic credit market), now at $320 billion. Immediately, this puts the speculative Euro-Bahamas portion of the market at 61 percent of the total. (Common estimates for the totally unregulated and illegal Bahamas-Cayman Island bubble run to $300-400 billion, bringing the speculative portion to 70 percent of the total.) *U.S. banks have at least $350 of the $500 billion conservatively estimated Euro-Bahamas total — or more than the U.S. money supply.*

Fully 71.4 percent of that $350 billion, then, is crammed onto the books of the New York banks. Under these circumstances, the smallest default, the slightest failure to juggle dozens of holes in credit dikes smoothly, any noticeable fall in confidence leading to Arab or other withdrawals, even small ones relative to the particular bank or banks' total deposits, could topple the whole $820 billion pyramid and the rest of world credit with it, short- and long-term.

...And Just What's Illiquid?

Third World Debt is the largest single explosive factor in the entire mess, now estimated by honest U.S. banking sources at over $300 billion. Of this, some $100 billion is owned to governments and international government agencies, and $150 billion to commercial banks on the Euro-Bahamas circuit. *New York banks have at least $100 billion of that.* As will be documented below in individual cases, *most* of these countries are close to bankruptcy in *entirety*, and are already in default on some 10 percent of their loans, in the average case.

OECD Debt: The total estimated published foreign currency term debt (those over one year) owed to commercial banks by Turkey, Portugal, Italy, Britain, and France alone is $109 billion, almost entirely in dollars. These are the major OECD (semi-industrial and industrial nations) *so far* identified as potential near-term defaulters. *New York banks have at least $50 billion of that.* Outright defaults in this group would only occur in conditions of extreme (but quite possible) credit crunches from the banks' side, or extreme (heretofore undemonstrated) courage on the European's side. However, *capital flight* caused by a political collapse of confidence in all these extremely shaky governments is an immediate potential trigger for a bust.

REITS: The total outstanding loans to Real Estate Investment Trusts by U.S. banks is $24 billion, much of it already defaulted loans by the banks' real estate investment subsidiaries which have been juggled onto the parent bank's books for cosmetic purposes. *New York banks have at least $20 billion of that.* Bankers Trust, according to Federal Reserve sources, has fully 1.2 times its shareholders' capital sunk into REITs, while most other New York banks are into REITs by at least as much as their capital.

Tanker Loans: Total "endangered species" commercial bank loans to financially unsound or defaulted tanker and shipping companies amount to $35 billion, according to industry sources. *New York banks have at least $6 billion of that,* with Chase Manhattan, the bank that brought you the 1973 Oil Hoax, carrying an estimated $2 billion in bad tanker loans itself.

Foreign Exchange, Commodity Speculation, and other obscenities too numerous to list add up to billions of dollars of additional bad risks on the books of especially the New York banks. World copper stockpiles alone, for example, amount to over $3 billion, and if stockpiles begin to be sold off, their value could collapse to half that in a week.

Thus the most conservative estimates reveal the New York banks to be the proud possessors of some $100 billion in Third World, $50 billion in OECD, $20 billion in REIT, and $6 billion in tanker-related debt, all of it questionable at best, for a total of $176 billion, or 71 percent of their entire Euro-Bahamas speculative paper.

How The Third World Debt Bomb Will Hit

The urgency of the Third World debt, as the most illiquid edge in the total situation, was underscored by officials of the Bank for International Settlements in Basel, Switzerland last week when they put out the word that, without the major new financing which was killed at the International Monetary Fund meeting, the $20 billion in Third World principal payments coming due between March and October simply cannot be met. Already, according to the BIS, a full *one third* of bank loans made to the Third World are never paid out as cash to the borrowers, but go directly to refinance previous loans.

The accompanying table shows the major debtors, including OECD countries, in default situations. For just the countries shown, the total of debt servicing payments which cannot be met for 1977, plus additional jeopardized loans, such as already-defaulted loans of $2 billion in Argentina and $2 billion in uncollectable "hot money" dollar deposits in Turkey, comes to $20 billion in defaults

Commercial Bank Debt And Coming Defaults - Third World And OECD Nations

In $ U.S. Billions
End April, 1977

Country	Term Debt (Over 1 Year) Total	Term Debt (Over 1 Year) To Banks	Short-Term Bank Credits	1977 Debt Service to Banks
Peru	5.	3.	2.	.7*
Mexico	27.	18.	14.	5. *
Brazil	30.	20.	10.	7. *
Argentina	0.	6.	4.	1. *
Chile	5.	1.	3.	.5*
Indonesia	16.	10.	4.	1. *
Philippines	6.	4.	4.	.5*
Rep. Korea	12.	6.	3.	1.
Zaire	3.	2.	5.	.3*
Egypt	20.	3.	1.	2. *
Algeria	8.	5.	5.	1. *
Subtotal	142.	78.	55.	20.
Turkey	5.	1.	2.	.5*
Portugal	3.	2.	1.	.5*
Italy	22.	20.	10.	3.
Britain	49.	45.	10.	7.
France	30.	30.	5.	4.
Subtotal	109.	98.	28.	15.
Total	251.	176.	83.	35.

* Debt service in this case cannot be met. The total unpayable debt service for these nations alone is $20 billion.

unavoidable this year. The following are the major blowout situations:

PERU, although not enough in itself to bring down a bank, is first in line for a default, with an officially stated $250 million in debts it cannot pay falling due next week. The country is not willing to accept the IMF's demands that it cut imports by close to $1 billion — by 25 percent — and has threatened to declare a debt moratorium. While the IMF may finally cough up a few hundred million dollars condition-free to stave off the chain reaction default Peru could trigger, this would hold things together for months only. In the broader context of the entire $27 billion such bad debt the IMF has to juggle, Peru will clearly never be able to pay its total $700 million in debt service this year.

MEXICO has an estimated $5 billion in debt service payments due in 1977, $3 billion in principal and $2 billion in interest on current account. The New York banks have promised that if Mexico cuts its trade deficit from last year's $2.85 billion to $800 million this year (which can be paid by tourism receipts), the banks will advance the country $5 billion in new loans to roll over the debt plus $1 billion for oil development. But the Portillo government, backed up by economists politically linked to former Mexican President Luis Echeverria, is refusing to cut imports, running the same trade deficit as last year. Seeing this, the regional and European banks already in Mexico are in turn balking at joining the New York banks in the refinancing consortia, and the entire $5 billion in planned rollover is headed for default.

BRAZIL's entire $7 billion in 1977 debt service payments is spinning toward a similar default. Chase Manhattan and Brazil's other major New York creditors and foreign companies are pledged to $8.5 billion in new loans and investments in 1977, down from over $11 billion last year, but only on the condition that Brazil wipes out its $2 billion 1976 trade deficit by speculative rises in the prices of coffee, and soybeans, whose combined exports were scheduled to bring in $7 billion. But this month, as coffee and soybean prices weakened 20 percent because of the collapse of demand, estimates for Brazil's exports fell by as much as $1.5 billion. Now the Brazilian press reports that corporations are selling out their Brazilian subsidiaries, and U.S. regional banks are reneging on loan promises. The entire $7 billion in debt service refinancing is already unmeetable, and the faster the coffee price price falls, the nearer crisis looms.

ARGENTINA and *CHILE* are already in default on at least $3 billion in old loans between them, and have a combined debt service due of $1.5 billion this year. The entire sum of $4.5 billion must be rolled over — but it cannot be. At least $1 billion in bad loans is still on the books of the New York banks from the $10 billion bankruptcy of *INDONESIA*'s state oil company, Pertamina, with another $1 billion in debt service coming up. *ZAIRE*, as is well known, has already defaulted on $1 billion and more is relentlessly coming due. In *EGYPT* and *TURKEY*, $1 billion and $2 billion of foreign banks' foreign exchange hot money deposits inside these countries respectively canot be repaid by the Egyptian and Turkish companies which borrowed them (see *Mideast Economic Survey*), while additional unpayable debt service comes due. *PORTUGAL* has told the U.S. Treasury that without an immediate IMF loan to cover its payments problems, $1.5 billion in trade and investment debt is in question.