Green light for moratoria?

Federal Reserve Chairman Volcker means to bail out the banks, but he's left his flank exposed.

A new Federal Reserve ruling which would postpone writeoffs of bad loans to developing nations until the loans have been delinquent for one year will enable debtors to declare a one-year debt moratorium, *EIR* founder Lyndon LaRouche pointed out March 31.

Senior Federal Reserve regulatory officials say that Chairman Paul Volcker, Comptroller of the Currency C. Todd Connover, and the FDIC plan a set of "new accounting rules" which are meant to let Morgan Guaranty, Citibank, and the other big U.S. banks cook their books and avoid taking immediate losses on their hundreds of billions in loans to the Third World.

The Fed maneuver is an attempt to disguise the general insolvency of the big America international banks, and tide the banks over in the hope that the governments of the debtor countries can be crushed militarily and politically, and the debt collected somehow a year hence.

As I first reported in this column on March 23, 1982, Federal Reserve Board Governor Henry Wallich has for some time planned new accounting regulations, worked out with the Swiss-based Bank for International Settlements, for penalty losses.

The major aim, Fed officials tell me now, will be to "make a distinction between old debt, and new debt." The Fed is carrying out the idea being promoted by Lazard Frères banker Felix Rohatyn and the British banks, that some $300 billion in short-term, unpayable "old debt" owed by LDCs and Eastern Europe should be "segregated off" from new credits.

The eventual scheme, which Rohatyn dubs a global version of his New York Municipal Assistance Corporation, is to have the IMF or a new IMF-linked fund take the old debts off the hands of the banks, as was done in New York, and issue them IMF or global MAC-styled bonds in exchange. Then the IMF would be able to foreclose on the debtor nations and demand harsh austerity. The banks, theoretically, would be free of the threat of debt moratorium.

With prospects for the Rohatyn and similar schemes stalled indefinitely by the hostility of the Reagan Administration (among others), the Fed has no short-term proposal but to pretend the problem does not exist, i. e., to abandon the usual standards of accounting for losses and push write-offs off for a full year.

Presently, "non-accruing loans," those upon which interest is not being earned, are not written off. At the moment, most U.S. bank loans to Poland, which have not paid interest regularly for over a year and a half, as well as U.S. loans to Mexico, which have been behind on interest payments for six months, and Brazil, behind for three months, are not classified as losses.

Instead, they are allowed to be kept in the category of either unclassified (good) loans, or are perhaps classified as merely "substandard," and no losses are taken.

Under the new regulations, one-year interest delinquent loans would be classified "doubtful," and the regulators would demand the banks begin to write off 10-20 percent of the loans' total value a year, reducing the value of the loan to 50 percent of current value within five years.

At the moment, the Fed official admitted, Poland and Zaire are about the only countries in a full one-year interest delinquency. Since the regulations are not yet out, no U.S. bank has even been asked to write off any Polish debt, he said, although another Fed official told me that the West German government has begun forcing banks to write off all of their Polish debt at 20 percent a year.

"Mexico could get into this in July or September," he noted.

New lending is to be turned over to the IMF. "The main effect is to limit new lending to IMF participation loans," he said. "Banks will only want to loan in future where the country has agreed to an IMF program. If a country is unwilling to make adjustments, why should we encourage further lending?"

However, governments in the Third World interpret all this in a way Volcker never intended, Fed officials worry, because the bottom line is that the Fed is being extremely lenient on what is written off. Third World governments may well respond to the measure by declaring debt moratoria for the same one-year term.

Now, they will know that their U.S. bankers will not be penalized, nor run the the risk of being charged with having caused the financial collapse of America. Without this new regulation, huge chunks of American banks' debts would be charged off against banks' stockholders capital starting now, leaving many major banks insolvent.