Bankers plan resource grab against debtor nations

by David Goldman

Reports Aug. 25 that Brazil will suspend all grain exports, an evident defensive measure against economic warfare, correspond to indications that the country has ceased to use export revenues to pay bills and is re-accumulating reserves, and also to semi-public preparations by the Brazilian military to ration oil and other scarce imported materials in event of a total credit cutoff. In private discussions, the same bankers who insisted only weeks ago that the Brazil situation was under control and that a debtors' cartel was unthinkable now state that a controlled moratorium, with painful write-offs, is the best scenario they can hope for.

Following Michigan National Bank's $5 million suit against Citibank over a Mexican loan, the major commercial banks have concluded that a moratorium is an unavoidable fallback option, as Chase risk analysis chief Francis Mason suggested to *EIR* in a July interview; otherwise, the consortia will break up. A moratorium would trap the smaller, reluctant creditors in their present positions.

Executives at Citibank, whose Latin America chief Bill Rhoades manages the creditors' consortium, now argue that a "Polish solution" will emerge in the Brazilian case. The Polish government accepted a lien on its coal exports for the duration of a long-term debt stretchout agreed between Citibank and Deutsche Bank on behalf of the creditors. The bankers want Brazil's Carajás iron ore project and similar concessions.

Two things must be viewed separately in this conjuncture. The first is American commercial bankers' illusions that a long-term stretchout will be available at this point, along with asides from Bank of England officials that the IMF may back down from some of its most extreme demands upon the Brazilians. Fritz Leutwiler, Bank for International Settlements president, dispatched this one Aug. 22, saying, "I also claim to have a heart. But with heart these problems will never be solved, also not with money and more money. Realistic economic measures are required. To say that these countries should not be treated with toughness is grotesque," said Leutwiler, in an interview Aug. 20 with the Zürich *Tagesanzeiger*.

Leutwiler added that debtor countries must "discipline their economies, check growth, bring down inflation, and reduce government deficits." But the creditors will have to pay too, debt write-offs and lower interest receipts."

The 'privatization' of economies

The second issue, a more important one regardless of whether some stretchout is jerry-rigged in October, is the "privatization" of the economies of the developing sector. IMF statistics reveal that about one-quarter of world trade is already conducted outside of the control of governments. The bankers' plan would wreck the ability of developing nations to use their exports to fund industrial development, and turn their remaining assets into loot for private banking networks who manage the "illegalization" of the world economy.

According to the IMF, $180 billion of international payments cannot be accounted for by government agencies' official statistics; most of this represents hidden investment income, phony insurance and shipping fees, and other forms of flight capital. Add to this $150 billion of international narcotics traffic and $50 billion of illegal arms traffic, and the sum of illegal world trade exceeds one-quarter of total world exports!

Short of foreign exchange, Brazilian industrialists have to pay double the official rate to get black-market dollars for needed components and materials. A quarter billion dollars per year of black-market Brazilian coffee is now exported through Paraguay, as well as a comparable amount of gold panned from the Amazon.

EIR's gold columnist Montresor revealed last week that unreported gold sales may well add 50 percent to the estimates of gold market supply this year, including gold lent or sold by hard-pressed European and Ibero-American central banks, as well as gold smuggled out of Brazil, the Soviet Union, and other producing countries.

This is the scenario projected by Swiss banker Leutwiler at a secret bankers' meeting May 26 in Geneva, reported exclusively by *EIR*. The major Swiss banks and trading companies agreed that a collapse of Third World finances would enable them to pick up the pieces in the form of raw-materials barter agreements.

Citibank is not negotiating on behalf of the shareholders and depositors of the commercial banks whose capital is compromised two to three times over in Brazil; these represent only one of the constituencies which Walter Wriston and Edward Palmer must answer to. The major commercial banks are not institutions with a coherent outlook, but hotels of a sort, with different rooms occupied by different private interests. Wriston's alliance with the Oppenheimer-Engelhard interests at the Minerva holding company, created in Bermuda following Anglo-American's 1981 merger with Dominion Trust, and former Citibank international department chief George Vojta's seconding to Phibro, the world's largest raw materials trader, and thence to Nicholas Deak and Co., indicates the other sort of relationship in which the banks are involved.

From the standpoint of the European commercial and central banks, the debt issue has already been decided.

The head of international affairs of a central European central bank, who is a member of the board of his institution, gave the following interview on condition that he be allowed to retain his anonymity.

EIR: The Brazilians have just declared a partial moratorium.

A: If you don't have money, you can't pay.

EIR: Why don't you convince your colleague Leutwiler of that?

A: Leutwiler understands it, he just does not like it. But see, you can't get anything where there is nothing. We have a saying in German that goes "Where there is nothing, the emperor has lost his right."

EIR: So you think the Third World debtors are just not going to pay?

A: All I can say is that you can't push them beyond certain limits, there is a limit to permissible squeezes. Even Brazil with their dictatorial government cannot do that. Brazil can't afford to pay their debt. They can't squeeze more.

EIR: What is your estimate of the size of the hammer needed to get that simple truth into your colleagues' skulls?

A: Tremendous size. We don't have the hammers big enough to do this at present.

EIR: Are they totally stupid?

A: Well, they live in "Alice in Wonderland." It's unbelievable what these people don't understand. Look, almost all debtors would like to pay their debts. They can't. It's no joke to default or declare a moratorium. But if they do, what are we creditors going to do?

EIR: Yes, what?

A: Nothing. Nothing we can do. The central bankers will frown and huff and puff, and do nothing. Look at Leutwiler, he makes all these stern and serious speeches, then the Brazilians don't pay and what does he do? He allows them to not pay.

EIR: What if Brazil defaults?

A: We won't call it a default.

EIR: What if Brazil calls it a default?

A: We'll claim that they're bad translators. Anyway, the creditors speak of retaliations. Let them try to retaliate: ostracize one whole continent? This is ridiculous.

A senior administration official concurred, saying, "Everybody is looking for a *deus ex machina* to come up with some money for Brazil. Even if they get the IMF money in mid-October, that money will just go straight to the Bank for International Settlements; where are they going to get the $3.5 billion they need to get through the year? Do you think the banks are going to hand it over? Brazil is $2 billion in arrears already, and the regulators are going to have to start classifying, or explaining why not, by the end of next month. The Brazilians are going to have to move from the moratorium on official debt they have declared and the de facto moratorium they have in place on private debt, to a full moratorium. This could mean a generalized banking crisis."

The moratorium the bankers envisage, however, is likely to prove illusory; forcing the Brazilians into a long-term stretchout collateralized by raw materials depends on the credibility of the International Monetary Fund and the U. S. economic "recovery," the last cards which Brazil's economic majordomo, Sr. Delfim Netto, has to play in the internal political game in Brazil.

The floor managers of the IMF bill in the House already believe that the United States may never make its promised $8.4 billion contribution to the IMF, due to inability to reconcile House and Senate authorization bills tangled with various crippling amendments, not to mention flaking-away of support for the IMF during the present congressional recess. In any event, there is no prospect that the bill will be in place in time for the IMF annual meeting the end of September.

Also, the spurious recovery—the housing component of which has already apparently collapsed—will be stinking noticeably by October, with declining auto output and reductions in building-materials and similar categories of production. If the deal is not cut in October, it probably never will be. The question is less whether a stretchout will succeed, but whether it will lead to an end to nations' remaining control over their economies.