Locked into blocked accounts?

Volcker is moving his plan for equity grabs through the U.S. cabinet at top speed.

A plan to lock U.S. banks into "blocked accounts" denominated in Brazilian cruzeiros, Mexican pesos, and other domestic Ibero-American currencies has become a subject of U.S. cabinet meetings, and will be announced as official U.S. policy in January, sources close to Federal Reserve chairman Paul Volcker say.

The plan, called "deposit arrangements," is being promoted by Volcker and Henry Kissinger. Banks would accept interest payments on existing loans in domestic Brazilian and other currencies *on a permanent basis*. Large British and U.S. banks would turn these to political advantage, and use them to buy up debtors' industry and resources.

Secretary of State Shultz, Volcker, and Donald Regan have put the plan through for "staff studies," one source close to Volcker said. There will be a full cabinet meeting on the plan on an "urgent basis" the first week in January. An administration representative may announce the policy in a speech in January.

Henry Kissinger himself briefed a meeting of the Council of the Americas' Latin American Debt Commission at State in mid-December on the need for new action on Latin American debt. Kissinger said that "the IMF quota doesn't solve anything, and people at least now admit that the emperor has no clothes," according to one attendee. Kissinger "will use Central America to dramatize the much larger problem of Latin American debt."

"Reality is catching up with people, and everyone now knows that the Brazilian package won't work. We're in a calm before the storm now, but Brazil II won't last. The money will run out after Mardi Gras in March or May, and we can't just reschedule again," the source said. "There is a big shift in Washington and New York to the view that we must now look at a very serious restructuring of the debt," the Volcker source said. "People now realize that ad hoc reschedulings have only made the situation worse."

Regional-bank members of the Brazil consortium—kept in the dark by the lead banks—are aghast at the plan. "We can't handle equity management in U.S. companies. How the hell could we manage Siderbras [the Brazilian state steel company]?" one regional banker told *EIR*.

The plan was put out by Sir Peter Leslie at Barclays Bank in London and his consultant, former British Labour Minister Lord Harold Lever, and is supported by BIS chairman Fritz Leutwiler. After discussions at the BIS level, Fed chairman Paul Volcker has collaborated with Deputy Treasury Secretary R. T. McNamar and Commerce Secretary Malcolm Baldrige on it.

Their strategy is restructuring existing debt and using it as a political lever over debtors.

Large multinational banks with diplomatic and strategic interests in Ibero-America will have no objection to being locked in to blocked accounts, using them to buy industry and banks in the debtor nations. Medium-sized and smaller banks will be stuck, however.

In the private sector, the scheme has become the policy of the "inner circle" of the Institute for International Finance (Ditchley Group) led by Barclays, Morgan Guaranty, Chase Manhattan, Bank of America, and Security Pacific.

"For some time now, Security Pacific and Bank of America have been arguing that we can't just keep rescheduling Brazil, but the New York banks were insisting it would work out," a top administration source said. "Now the New York banks have realized it won't work, and that it is going to really hurt their balance sheets if it is not dealt with. Chase Manhattan and Morgan have agreed with the Californians on the new approach.

"I had lunch with a Chase director last week. 'We can't keep having crises every six months,' he said. He wants to do a 10-year stretch-out of all the Brazil debt, not just what's due now . . . the whole $90 billion. The idea of serious restructuring has even been incorporated in the Brazil package. A number of banks, led by Security Pacific, made their agreement to contribute to the $6.5 billion in Brazil II conditional upon a private agreement by the Brazil Bank Coordinating Committee to put together a long-term strategy for Brazilian debt. [Citibank Latin senior vice-president and committee chairman] Bill Rhodes sent out a telex yesterday saying that he has agreed to do the study. Morgan and Chase are pushing him."

At a recent briefing in Washington on debt management by executives of Morgan, Manufacturers Hanover, and Bank of America, "we were not even briefed in any detail on such a thing," one regional banker complained to *EIR*.