Kissinger comeback triggers new debt crisis

by Kathy Burdman

If a portion of Argentina's $45 billion foreign debt is declared non-performing at the end of the first quarter, as Manufacturers Hanover President Harry Taylor threatened March 6, "Manufacturers Hanover itself may have to be merged to avoid further trouble," a top bank accountant at one of New York's Big Eight accounting firms told *EIR* March 15. The source said he had heard the rumor "several times now from very high-level people, and I'm beginning to be worried."

The money center banks calculate they can sustain a loss of $1.1 billion in Argentine interest payments, spread among 110 banks. Manufacturers Hanover, with $64 billion total assets and $1.3 billion in officially reported Argentine loans, would take a reduction in earnings of some $24 million if Argentina's loans were declared non-performing. Citibank, with what Merrill Lynch analyst James Wooden estimates as $1.2 billion in loans to Argentina, would be hit with a similar loss.

Taylor told the press March 6 that if they had to declare Argentine loans bad, the banks could handle the income losses as "not a crisis, but an irritation." Mr. Taylor apparently believes Argentina will back down and pay up; if he is wrong, his bank will be in more trouble than a mere $24 million income reduction would indicate, the accountant said.

The Federal Reserve's plan, if a run does develop on Manufacturers Hanover deposits or stock, would be to merge it and another large New York bank "which would be experiencing similar troubles" by that time, the source stated. "That way they could consolidate the debt and only have to deal with one bailout situation." *EIR* had previously heard that Chemical Bank is in similar trouble and a candidate for such a "regulatory merger."

Only part of this information has found its way into the markets. Bank stocks tumbled on Wall Street following Taylor's announcement. Manufacturers Hanover, the largest U.S. creditor, slid 1¼ points on March 9 before a slight recovery. Citicorp slipped by more than 3 points from March 8 to March 15, and Chase Manhattan and J. P. Morgan went down as well.

A "slow panic" has already begun on the Eurodollar interbank market, a source at Chase Manhattan told *EIR* March 15. Large international depositors and European banks are shying away from Citibank and Manufacturers Hanover CDs and other paper "because they don't trust them. There is a lot of money waiting this out." Eurodollar rates could rise and the dollar temporarily strengthen as investors seek liquidity in the crunch.

The Argentina showdown March 31, however, is only the start. If it blows up, the money center banks will pull the plug on Brazil, Venezuela, Mexico, and others across the continent as they did after the April 1982 Malvinas War. "Brazil isn't going to survive," as one banker told the *Wall Street Journal* March 12.

Only *Journal* readers were shocked by the crisis, for it was rigged by the money center banks themselves. Harry Taylor put the story in public spotlight when he called in the press March 6 to say that Argentina must pay on its $3 billion in interest arrearages or be declared non-performing. Under a front page headline "Argentine Loans in Arrears by $3 Billion," the *Washington Post* March 7 quoted Taylor that Argentina "has enough dollars to make the required payments" of at least $1.1 billion, which would bring the arrears back under the 90-day limit for lateness of payment under U.S. banking law.

Major banks calculate that either Argentina will back down and pay, or sign with the IMF and impose further depressionary measures. "Argentina, hardline? That's no problem as far as we're concerned," one banker laughed. "They have two faces: one for the press, and one for the banks. For the press, domestically [President] Alfonsin is talking about fighting the IMF, but moving to please the IMF." But if Argentina doesn't pay, "the losses can be absorbed," he stated.

British, Swiss play 'Kissinger card'

There is, however, an even bigger game afoot here, run out of London and Switzerland, in which the likes of Harry Taylor and Walter Wriston are mere pawns. The real decision to push Argentina to the wall was made by the major British and Swiss banks of the Ditchley Group cartel the week of March 5. The cartel members have no 90-day interest deadline to meet: they began writing down Argentine debt long ago. Ditchley founder Sir Peter Leslie of Barclay's Bank, the Bank of England, and Fritz Leutwiler's Bank for International Settlements told the Americans that Argentina would get not a cent in new money to pay its interest arrears, and that confrontation was desireable.

As the London *Financial Times* editorialized March 13, "It would be a serious mistake . . . to arrange some last-minute short term credit lines to Argentina that would allow arrears to be reduced. . . . The price of missing the March 31 deadline is one which U. S. banks can reasonably afford. Canadian banks have already put Argentine loans on a non-performing basis."

The Swiss and British have in fact been made bold to force a huge new crack in the debt crisis and push Ibero-America to the wall by the return of Henry Kissinger to power in Washington. As the United States under Kissinger's advice backed up the British armada sent to defeat Argentina in 1982, the Europeans now believe Kissinger can pull Washington's might behind them for gunboat debt collection.

The point was made by the London *Economist* March 12 that "the Falklands campaign could not have been mounted, let alone won, without American help." The *Washington Post* confirmed the Swiss and British bankers' expectations with Pentagon officials March 7. The *Post* reports that Secretary of Defense Caspar Weinberger is a great friend of Britain, willing to loan the Queen U. S. aircraft carriers, spy satellites, fuel, Sidewinder missiles, mortar shells, and other equipment.

Debt for equity exchange

Kissinger's political strategy is to "Iranize" Ibero-America, forcing so much austerity that governments are toppled. As Kissinger put it last year, "Argentina is as unpredictable as Iran. . . . This is a country which will be dismembered at an accelerating rate." Kissinger reportedly told a client of his private consulting firm Kissinger Associates, "Sell everything that you have in Argentina and leave the country with your family. There, terrible things are about to happen."

The threats of bankruptcy issued by the Swiss, British, and New York banks—all clients of Kissinger Associates—have already caused a collapse of the Argentine peso by 10% this month, and by 50% since the beginning of the year, as capital flees the country.

The crisis is already spreading across the continent to Venezuela, Brazil, and Mexico. "New Crisis for Latin Debt," wrote the *New York Times* March 11, citing an "emergency," and noting that not only Argentina but also Venezuela have no intention of paying the overdue interest on their debt. "Can Brazil be Kept Afloat?" headlined the *Wall Street Journal* March 12. "June will be the end of the line for Brazil," which needs $5 billion to stay solvent, the *Journal* quoted a banker.

Even Mexico cannot pay now—as *EIR* predicted to a skeptical banking community last fall. Mexico, the star debt payer since the "successful" August 1983 loan package, "is talking about scrapping those agreements," the *Journal* reported.

Why would the European banks start such a fire? By destroying the continent's nationalist institutions, the London and Zürich Ditchley banks, with Walter Wriston and Harry Taylor in tow, will be free to implement the "Kissinger Plan," for an exchange of Latin debt for equity in the debtors' national assets. Kissinger formulated this at a Vail, Colorado meeting last August.

As the London *Times* editorial "Can Pay, Must Pay" said Feb. 27, either the debtors must grant the creditors equity, or the banks must write them off. The debtors must show "the encouragement rather than the discouragement of direct investment . . . [and] a readiness to provide collateral guarantees for loans in the form of public assets." It suggested that Mexico should exchange shares in Pemex for the debt, since "The value of Mexico's national oil company is at least twice the value of its external debt." Sri Lanka should hand over its "important rubber and tea estates," and so on.

Otherwise, "Sir Alan Walters, lately Mrs. Thatcher's economics adviser, has calculated that the nine largest American banks which carry most of the Latin American debt could write down the value of their loans by 25% without causing unbearable frictions in the American banking system," the City of London paper demands.

The Swiss and British are pulling a potential full-blown 1929 style global financial crisis for political reasons. To carry out their "New Yalta" deal with Moscow, the bankers want to collapse the U.S. dollar and make a Hoover lame duck of Ronald Reagan. Under the headline "Gnomes Who Hold Reagan's Fate: Foreign Speculation in the Dollar is the Key," the *Washington Post* March 11 openly bragged that "Swiss bankers, the Soviet Foreign Trade Bank in Zürich 'Wozchod Handelsbank'; the British government's British Petroleum Co., and the big 'money center' banks in London, Tokyo, Frankfurt, and New York . . . have the power to halt the American economic recovery."