EIR Economics

# Kissinger steers the latest creditor gambit

by Vin Berg

At the beginning of March, Ibero-America's largest debtor, Brazil, was headed toward almost certain default—with an international banking crash looming in its wake.

Brazilian arrears on interest payments were running up to six weeks over the 90-day limit set by U.S. bank regulations on "performing" loans. To get past the March 31 payments deadline, Brazil required every penny of a promised $6.5 billion "jumbo" loan. But private banks were refusing to disburse their $3 billion share unless the International Monetary Fund (IMF) gave Brazil a waiver on its largely involuntary violation of September's austerity letter of intent. No such waiver was on its way from the IMF without harsh new austerity commitments from Brasilia. March 31 seemed certain to bring on a major world banking crisis.

Instead, the month will end with Brazil having received all of the jumbo, paid up all its interest arrears, and, if official estimates are to be believed, even coming out with some positive reserves left over.

Nothing had changed with Brazil to warrant this sudden pouring of billions through its accounts. On the contrary, a high-level decision had been taken in London and Basel: Argentina, not Brazil, would be the March 31 focus of confrontation between creditors and debtors.

## A 'financial Malvinas'

To this end, Argentina is to be isolated from Brazil and other debtors, and crushed one way or another. If Argentina backs down come March 31, accepting harsh new austerity programs from the IMF, the country will be convulsed. If Argentina does not back down, but defaults, the country will still be convulsed, under conditions of a total international credit and trade cut-off.

The most exposed U.S. banks, like Manufacturers Hanover, will fall back on a "safety net" first proposed over a year ago by Henry A. Kissinger, and put in place for this occasion by Federal Reserve chairman Paul Volcker.

Argentina is being subjected to economic warfare. First, the Swiss risk-analysis firm BERI, and then the U.S. outfit Frost and Sullivan, recommended no loans or commercial transactions with Argentina whatsoever. Following those reports, the country has suffered a massive new inflation, a panic capital flight, and almost daily "bad press" in the United States, Britain, and Switzerland, keeping the capital flight under way.

The decision to push Argentina to the wall was made in late February by the British and Swiss banks of the Ditchley Group cartel. The Bank of England, Ditchley founder Sir Peter Leslie of Barclays Bank, and Fritz Leutwiler's Swiss-based Bank for International Settlements, told the Americans that Argentina would not get a cent in new money to pay its interest arrears. They demanded confrontation.

"It would be a serious mistake . . . to arrange some last minute short-term credit lines to Argentina to allow arrears to be reduced," editorialized the March 13 *Financial Times* of London. "The price of missing the March 31 deadline is one which U.S. banks can reasonably afford." A day earlier, London's *The Times* wrote: "Sir Alan Walters, lately Mrs. Thatcher's economic adviser and now in Washington, 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 friction in the American banking system. . . ." That was an announcement of a "financial Malvinas war."

## Kissinger's policy

What emboldened the Swiss and British in this risky decision is the return of Henry A. Kissinger to power in Washington, Kissinger's policies now dominate in the White House and State Department.

All principal points of Kissinger's policy are a matter of public record. First, he personally laid out the main points of the usurers' offensive now focused on Argentina in a Jan. 24, 1983 *Newsweek* magazine article:

> The first step must be to change the bargaining framework; the debtors should be deprived—to the extent possible—of the weapon of default. The industrial democracies urgently require a safety net permitting some emergency government assistance to threatened financial institutions. This would reduce both the sense of panic and debtors' capacity for blackmail.

This was Kissinger's answer, a little over a year ago, to *EIR* founder Lyndon LaRouche's 1982 "Operation Juárez" proposal, for a debtors' cartel to force formation of a new monetary system by threatening collective default.

Then, Kissinger's "Bipartisan Commission on Central America" recommended militarization of Central America, and linkage of all U. S. aid to "free market" measures—no restrictions on foreign economic holdings. Kissinger said flatly that this was meant for Ibero-America as a whole, not just Central America.

As *EIR* has reported, Kissinger's commission also presented a "secret" report to the Reagan administration, stating that the U.S. should use its military strength to crush all resistance to the IMF in Ibero-America. The term "communism" was used in place of "resistance to the IMF." The idea is to withdraw U.S. forces from Western Europe, as declared in Kissinger's March 5 *Time* magazine article, leaving those allies to the sphere of domination of the U.S.S.R., and send troops into Ibero-America against America's other allies.

Kissinger's "anti-communism," now exercised from a position on the President's Foreign Intelligence Advisory Board, is thus most useful to the Russian Empire. Kissinger's policies will plunge Ibero-America into "Thirty Years War" conditions, the "Iranization" of an entire continent.

## The 'safety net'

The "safety net" required to "deprive debtors of the weapon of default," proposed by Kissinger in *Newsweek*, is now in place. Fed chairman Volcker is preparing to intervene at the point of an Argentine default to force mergers between badly exposed financial institutions like Manufacturers Hanover.

*Thirty thousand Brazilian workers demonstrating last June against the International Monetary Fund and its wage-cut conditionalities.*

A New York financial source told *EIR* March 5: "I have heard this rumor several times now from very high-level people, and I'm beginning to be worried. The regulators would merge Manufacturers Hanover with another large New York bank which would be experiencing similar troubles. That way they could consolidate the debt and only have to deal with one bailout situation."

That bailout measures are prearranged was confirmed when Harry Taylor, Manufacturers Hanover's own president, was selected to call in the press March 6 to announce the bankers' hard-line toward Argentina. Either the country pays up in full and bows to the IMF, said Taylor, or the banks would write off that debt and take the losses. "It is true that American banks will be hurt. . . ." wrote the *Washington Post*. "But that would would only be the beginning. . . . As international credit was shut off to the Argentine economy, the effects would rapidly be visible in the commerce by which Argentina and many other countries . . . make their living."

If Kissinger and the bankers are willing to push Argentina over the edge, they do not want to have $100-billion-debtor Brazil join Argentina. Hence the sudden green light from the IMF for disbursal of the Brazilian jumbo, and the efforts of Secretary of State George Shultz and others to re-establish Kissinger's 1970s "special relationship" with Brazil. Hence, the appearance of sudden new political tensions between Argentina's civilian Alfonsín government and Brazil's military rulers, reported to *EIR* by a high-level Argentine source: "Alfonsín is making the classic mistake of viewing Argentine-Brazilian relations as a government-to-government matter, rather than nation-to-nation. The Brazilians don't like this." Such tensions, reportedly fostered by the Socialist International faction of Alfonsín's government, where Kissinger has friends, come at a time when Argentine-Brazilian unity would crush the usurers' strategy.

## Debt for equity

What is being held out to Brazil are easier terms, lower rates, and wider spreads, in return for adopting a Kissinger plan known as debt for equity. In August 1983 meetings in Vail, Colorado, Kissinger unveiled this arrangement, modeled on British East India Company methods of turning debtors into outright colonies during the 19th century.

Brazilian debt is denominated in dollars, but under the Vail proposals, could be paid in cruzeiros into blocked accounts at the Brazilian central bank. Made negotiable, these accounts could be marketed to prospective foreign investors—provided Brazil eliminates restrictions on foreign investment. Creditors would be positioned to buy up wholesale those industrial, agricultural, and mineral resources which could otherwise make Brazil a great world power in the next century.

"Brazilian law still favors loans over direct investments," the New York *Journal of Commerce* quotes a Bank of America officer in Rio. "He cited reports circulating among the banking community of pending legislative changes for the area. . . . One Brazilian banker estimated that debt-for-equity swaps could absorb up to a fifth [$20 billion] of the Brazilian debt."

Debt-for-equity amounts to: "Since you can't pay your mercilessly pyramiding debt, give us your country instead." From the standpoint of dollar-debt payments, "Brazil isn't going to make it," said one Wall Street banker. Behind the appearance of slightly more favorable treatment, Brazil is to be simply looted.

## Operation Juárez?

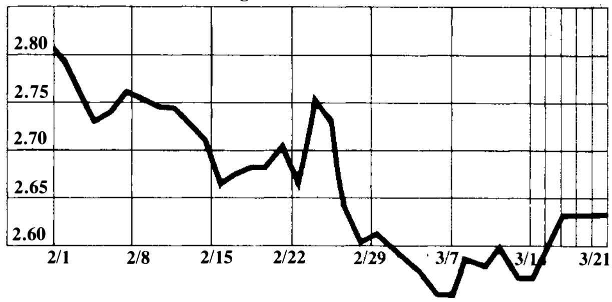
Should Kissinger continue to dominate U.S. policy, "positioning himself to become Secretary of State again," as London's *Daily Telegraph* mused recently, neither Argentina nor any other Ibero-American nation will survive the period immediately ahead.

But recently, in an interview with Mexico's *Excelsior* March 17, Colombia's President Belisario Betancur declared "United we can do it, alone we will fail. . . . We can present ourselves to the international financial community as one great Latin American nation that needs to refinance its debt." With those words, he became the first head of state to publicly endorse the "debtors' cartel" proposition contained in Lyndon LaRouche's "Operation Juárez" policy. He did so on the eve of a tour of Colombia, Venezuela, Brazil, and Argentina by Mexican President Miguel de la Madrid, for discussions related to continental economic integration along "common market" lines—the other major plank of Operation Juárez.

# Currency Rates

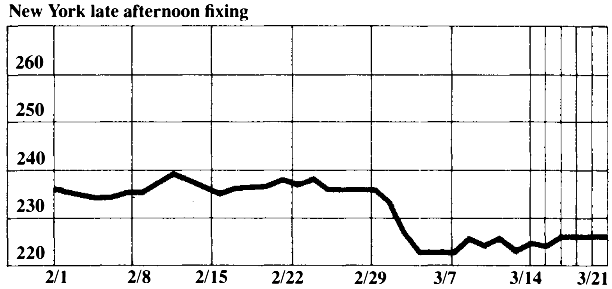
### The dollar in deutschemarks

New York late afternoon fixing



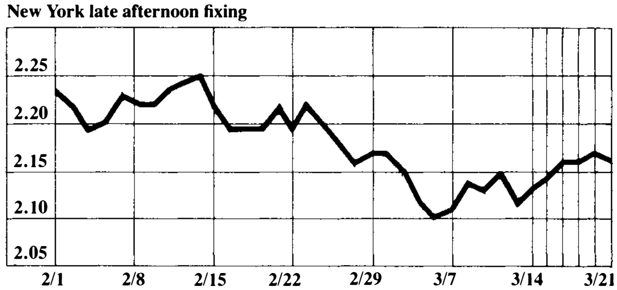

### The dollar in yen

New York late afternoon fixing




### The dollar in Swiss francs

New York late afternoon fixing




### The British pound in dollars

New York late afternoon fixing