

A New York banker described the way this swindle works: "The Cayman Islands (the Bermuda Triangle of illegal bank operations -ed.) are now as big as its parent, the \$400 billion Eurodollar market. Loans used to be made for the transport of goods. Not anymore. I give a loan to Brazil, the Brazilian central bank prints Brazilian cruzeiros to that amount for use inside the country, but no goods are imported or change hands internationally. Then Brazil puts the money in the Cayman Islands and it gets to Mexico, and nobody knows where it ends up." For every deposit in the Cayman Islands, the banker said, more than \$20 in loans are paid out.

Simultaneously, Federal Reserve sources report (unsuccessful) frantic behind-the-scenes attempts by Fed chairman Arthur Burns to get European central bankers to agree to a formal commitment to bail out banks going under due to Third World defaults. These activities are in flagrant defiance of White House policy. As a high Treasury official insisted, "These banks went in to make a profit and they are going to have to take the risk. If they think that this Administration is going to bail them out, they're crazy."

The official complained that none of the countries threatening to stop debt payments has yet tried to obtain money by throwing itself at the mercy of the International Monetary Fund, the world's monetary policeman. The IMF lends money to bankrupt governments who agree to let IMF butchers take them over and run austerity programs. But certain European representatives have quietly sabotaged IMF plans to bail out the creditors of Chile and Argentina.

If the bankers manage to carry the Cayman Islands fraud through much past the June 30 end-of-quarter payments date, the world money market will be swamped with speculative money as a result. The immediate consequence would be a world hyperinflation duplicating the 1923 inflation in Weimar Germany on a global scale.

Certain pro-Atlanticist European spokesmen argue that "it is more costly to let the Eurodollar market collapse than to bail it out," as a British government spokesman argued. Apart from the British government, which still acts as host

for most Eurodollar operations, no reasoning capitalist could buy this self-serving nonsense. The immediate effects of world hyperinflation, triggered by the papering-over of Third World debts coming due, will be just as devastating for world production and trade as a deflationary collapse of the Eurodollar market. As a number of Third World governments are now considering, the "alternative" of inflationary bailout has the extreme disadvantage of leaving the most important Atlanticist institutions intact.

If the bankers manage to carry the Cayman Islands fraud through much past the June 30 end-of-quarter payments date, the world money markets will be swamped with speculative money, leading to world hyperinflation duplicating 1923 Weimar Germany on a world scale. Certain British self-delusions notwithstanding, the immediate effects of world hyperinflation, triggered by the papering over of Third World debts coming due, will be as devastating for world production and trade as a deflationary collapse of the Eurodollar market. As a number of Third World governments are now considering, the "alternative" of inflationary bailout has the extreme disadvantage of leaving the most important Atlanticist institutions intact.

Options For Third World

Like the Atlanticists, the Third World countries are also facing a branch-point. International political support for orderly debt moratoria and the International Development Bank is crucial to enable, for example, Peru's leaders to opt for debt moratoria. The Ford Administration attitude ("let 'em default") represents no alternative to Schachtian austerity.

In fact, the Ford Treasury official who rejected bailing out Wall Street simultaneously complained that none of the countries threatening to stop paying debt had yet tried to get money by throwing itself on the mercy of the International Monetary Fund. The IMF lends money to bankrupt governments — debt moratorium à la Argentina — who agree to let IMF butchers take them over and run austerity programs.

Exclusive Interview

Wall Street in Panic Over Third World Debt Problem

NEW YORK, June 26 (NSIPS) — The following interviews were conducted this week by phone here and in Washington. The statements by these "experts" in Third World financial matters reflect their panic over the potential outcome of the June 30 rollover crisis — especially as it pertains to Latin America in general, and Peru in particular.

Interview with Peruvian Financial Expert at a Major Wall Street Investment Bank

Reporter: Will Peru receive the \$450 million debt refinancing loan the country is reported to need to stave off a default?

Banker: No one (in the banking community) not already on the hook in Peru will touch it, but the pressure on the banks is

getting heavy. The banks involved in Peru will have to shell it out.

Reporter: Is there pressure in Peru for a debt moratorium?

Banker: Yes. The word is that the Peruvian Consejo de Estado (cabinet) voted up a debt moratorium one month ago which was overruled by the President. You realize the implications for the U.S. economy of such a move. Just to give you one example, Citibank made over 75 per cent of its earnings overseas last year, and it wasn't in Western Europe, except Italy.

Reporter: What about threats by the U.S. Treasury and some of the banks that if Peru and other Third World countries

don't comply quick with austerity proposals then credit will be cut off, the plug will be pulled?

Banker: Are you kidding? I wake up at 4:15 AM every morning and worry about this. The biggest thing preventing Peru from declaring a debt moratorium is their concern to preserve their rating at the credit window and the fact that the window is still open. The minute the window is closed, they'll declare a moratorium and ten countries will follow. Do you know what that would do to the U.S. banks?

Reporter: So the banks will have to come up with the \$450 million?

Banker: That's right.

Reporter: How long can this continue?

Banker: Do you know what the multiplier effect on the Euromarket is? Twenty is conservative. It's pure money creation. Used to be I gave a loan for the purchase of goods and services and countries used money for development. Now you give a loan to Brazil which deposits the money right back in Chase Manhattan in London, no goods change hands, and Chase loans it right out again to Mexico — ad infinitum. There are no reserve requirements, the whole thing is hot air. Now Brazil needs another \$5 billion this year, Chile, Argentina, Zaire... It frightens me. I tell you, I don't know how long it all can last.

Interview with Senior Bank Analyst with a major Wall Street Investment Bank

Reporter: How do you rate Peru's chances of getting the \$450 million loan?

Analyst: What choice do we have?

Reporter: Well, Ellmore Patterson, chairman of Morgan Guaranty bank told the American Bankers Association last week that although it is "distasteful," there might have to be some bankruptcies since the current rollover rate of money creation is getting way out of hand.

Analyst: Countries don't go bankrupt. Patterson was talking about domestic corporations, not international loans. There is no bankruptcy option for the Third World, only stretch outs or moratorium.

Reporter: But you can't get the rollovers indefinitely, it's become obviously unsound banking.

Analyst: We could if you'd stop calling so much attention to it! You're the ones making it difficult for us to do these rollovers. Excuse me, I have a plane to catch to Latin America.

Interview with Third World Specialist at European American Bank in N. Y.

Reporter: Will the banks insist that Peru enact severe austerity measures to get their debts rolled over?

Banker: The banks will say a great number of things but in the last analysis what else can they do? They have to watch out for the repercussions of these countries defaulting in lieu of loans. The Eurodollar market and the Bahamas offshore markets have many more billions in loans that they have created than most people realize, and no one can possibly predict the chain reactions a default would set off. No one really knows the extent of interconnections of loans.

Interview with top Latin American Officer at Citibank

Reporter: Will Peru be able to refinance its debts?

Banker: Peru is a wait and see kind of thing. Bankers are waiting to see what they can do with their huge internal deficit. The country has something like 15 per cent of its Gross National Product as a national budget deficit. They must cut the budget.

Reporter: But isn't this politically impossible?

Banker: That's an internal problem. All I can say is that

Peru has been spending tremendous amounts of money on expensive high-technology capital equipment, running up her debt. That's all right, but not together with these huge social service programs, food subsidies, equalization of income and so forth. We'll be damned if we'll finance that. They'll have to cut the budget.

Reporter: Don't you think it's a little risky to leave Peru no choice but a debt moratorium?

Banker: Look, Peru is an isolated case....there is no general problem. Look at Chile, it's doing fine. Chile is right on the road to economic recovery in my opinion. The \$125 million loan they just received was a good loan. Argentina, as well. It will take a while to get things in shape, but they're on the right track. They've pledged to reduce their government deficit.

A second interview was done later in the week with another Citibank official.

Reporter: What are your plans for dealing with Peru's debt problem?

Citibank: We can give Peru \$300 to \$400 million now for their balance of payments, but they'll be back again in 1977 for \$500 or \$600 million more, unless they make corrections in their political economy.... They need a realistic exchange rate (for their currency) is being kept frozen for entirely political reasons. They will (have to) devalue by 50 per cent.

Reporter: That would eliminate all consumer imports.

Citibank: I don't know about food, but the others, yes.

Reporter: The radicals in the Peruvian Army who are the ones with the guns are showing that they will not accept severe austerity conditions for debt rollovers. What would happen if they declared a moratorium?

Citibank: They have no alternative to the refinancing we offer, unless they default and that would bring deflation, a recession with internal inflation and a lot of social unrest. Their heads would get cut off, unless they go into some Cuban sort of arrangement. But, you know their borders are with Brazil, Chile, Bolivia, Ecuador ... they won't stand for that (a Peruvian debt moratorium).

Interview with top official at Manufacturers Hannover Bank

Reporter: I want to read you some quotes from a speech Fernandez Maldonado gave two days ago....

Banker: (Interrupting, hysterical) We know all about the Maldonado speech. We have a representative in Lima, so we are 'al corriente' (well informed). If you want a response, call Public Relations. Thank you, goodbye.

Interview with a high official on Third World finance at U.S. Treasury

Reporter: What measures have the Treasury or the U.S. Federal Reserve devised to deal with possible Third World defaults to U.S. banks?

Official: No measures at all; there will be no bailouts by this government of developing countries who won't pay their debts. Nor will there be any bailouts of the banks.

Reporter: But what about the likelihood of a debt moratorium, say, in Peru?

Official: Moratorium? All these countries are crying for a moratorium, they don't want to pay their debts. They have to bite the bullet, tighten up. Chile, Argentina have worked out ways to pay their debts. But these other countries are irresponsible. They won't even undergo the first tranche conditions of the IMF.

Reporter: But what about the effect of this on the U.S. banking system?

Official: That's the risk the banks have to take. They go in and make their profits, and when it comes to that, they take their losses. That's all there is to it....