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Collapse of Third World Debt Threatens Banks in Early 1977

INTERNATIONAL LIQUIDITY

Dec. 29 (NSIPS) — Unless the Wall Street banks carry out their stated intention of placing Schachtian controls on the world economy by mid-1977, the $300 billion mountain of Third World debt will destroy them. This is not the public estimation of the *Washington Post* and other leading Wall Street-associated journals, and the underlying motive for Wall Street's commitment to an early confrontation with the Soviet Union.

Developing countries racked up this enormous debt burden in two stages: first during the great commodities boom of 1971 to 1974, and second after the Rockefeller oil multinationals forced the quadrupling of oil prices during the end of 1973. Most of this debt is short-term loans, renewed (or "rolled over") continuously, from the unregulated chain-letter swindle known as the Eurodollar market. Less than $100 billion of the debt is long-term government to government loans, usually from the United States and other industrial countries to developing countries for aid purposes. The core of the $300 billion is about $75 billion in 5 to 7 year loans to the Third World from Eurodollar banks. Of that principle amount of $75 billion, a tremendous $17 billion in loan amortization comes due next year, in the estimate of the Swiss Bank Corporation.

Virtually none of this lending has affected the actual economic development of Third World countries. In consequence there is no basis for any of it to be repaid. During the pre-1974 years of commodity boom, when the prices of the raw materials which the developing sector exports doubled on the world market, Third World countries contracted a huge volume of debt through the following swindle. As the paper value of their exports rose, Third World countries' credit rating rose, and they increased their borrowings. They then re-deposited most of the loans in the Eurodollar pool they had drawn from, providing more funds to their bankers. This, in turn, led to more loans to commodity speculators, more jumps in commodity prices, and more loans to Third World countries. Through this mechanism, a miserably poor country like Zaire managed to borrow over $8 billion from the international banks, while the price of its single export, copper, rose from 66 cents a pound to almost $1.40 a pound at its early-1974 peak.

But when commodity prices collapsed (following the wave of industrial shutdowns over 1974), the rate of lending to the Third World *increased*. With the collapse of their export earnings due to the end of the commodity price bubble, and the 400 per cent rise in oil prices, the Third World was now desperate to keep its head above water. By official estimates, the Third World was short of cash for even limited import needs by $35 billion during 1975 and $30 billion during 1976; the actual totals are about half-again that much.

To finance these massive deficits, the international banks issued short-term loans at a stupendous rate; these total over $100 billion. About half these short-term loans represent a pure bookkeeping trick in which no money changes hands; as interest payments on the total outstanding debt came due, at the rate of about $20 billion in 1975 and $30 billion in 1976, the banks merely issued new short-term loans to cover the interest payments.

The Rubber Band Snaps

But this rubber band has been stretched to the point of snapping. During 1977 at least $17 billion of long-term credits are due for repayment. By the method banks use to "cook" their books and cover up total illiquidity of their loans to the Third World countries, payments schedules are all-important. Banks can declare profits and dividends against scheduled income. If the scheduled $17 billion in cash income fails to come through next year, the entire bookkeeping swindle will come apart, and banks will be unable to meet their liabilities to depositors. On top of the $17 billion, the Third World's deficit during 1977 is projected by international agencies at $33 billion. This adds up to a net financing requirement of $50 billion in new cash (excluding the gigantic burden of short-term debt and its interest). By Morgan Guaranty's estimates, this is double the ante for 1976. There is absolutely no way — as David Rockefeller insisted in a Paris speech early this month — that the banks will be able to find the $50 billion. As for the world's erstwhile central bank, the International Monetary Fund, only $7 billion in loans issued from the Fund this year. And the IMF has absolutely no cash left for further lending.

Worries About Mexico, Brazil

Meanwhile, the two largest Third World debtors, Mexico and Brazil, are bankrupt by any reasonable accounting standard. Mexico currently pays more than half of its total export earnings out as debt service; Brazil pays 46 per cent of its export earnings. Wall Street sources are terrified that both countries will default

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when major repayments come due for Mexico in the first quarter of 1977, and for Brazil in the second and third quarters of 1977.

In a report issued last week, the World Bank, the sister institution of the International Monetary Fund, argued that the Third World debt situation was not as bad as it might seem, because inflation reduces the relative value of dollar debts with respect to the commodities the Third World exports. This is the proposed "solution" of World Bank president Robert McNamara, the old Kennedy and Johnson Defense Secretary, a close associate of the proposed Carter cabinet: world hyperinflation. The World Bank did not mention that inflation also raises the cost of Third World *imports*. But since they are commited to rapid reductions in the world population, they have no reason to consider how the Third World will manage to import food, let alone tractors.

Remarks on Illusions Concerning Feasibility of T-Ruble Convertibility

Exclusive to NSIPS

by Lyndon H. LaRouche, Jr.
New York City
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Recent policy statements released by the Council for Mutual Economic Assistance's IBEC discredit prevailing presumptions among U.S. banking and related circles, presumptions to the effect that such a potent option did not exist in practice for the CMEA at this time. This upsetting of earlier estimations among U.S. circles might be regarded as consistent with a current tendency to govern the affairs of this nation by a policy of successive strategic miscalculations.

The principal features of the CMEA system which had been adduced *to the consoling effect of proving that what has just happened could not occur* are the evidences to the effect that the CMEA financial and related operations are permeated with irregularities. These ostensible (sometimes very real) irregularities are cited to show that such problems must be corrected before TR convertibility could become more than an administrative technicality.

This cited sort of critical appraisal of the CMEA has two principal defects, one laughable, the other appropriate for systematic treatment. The howling irony in the rather self-righteous criticisms of the CMEA I have encountered from relevant USA sources is demonstrated by considering how the internal affairs of the principal lower Manhattan financial institutions must appear to an analyst advantaged by the relative objectivity of a Moscow office. The point for systematic criticism is the pervasive fallacy of composition which permeates the U.S. sources to which I allude collectively here.

In general, the conduct of the affairs of CMEA institutions is overall governed primarily by the kind of economic warfare environment in which those institutions operate.

Overall, from its beginnings the Soviet Republic has been dominated in its external and internal relations by its status as a besieged-garrison state. From the outset, Soviet foreign trade and financial operations have been governed predominantly by the view of these operations as governed twofoldly by economic-warfare policies, the economic warfare which has been predominantly consistent since Versailles on the external side and for which situation Soviet financial and trade activities are counter-measures on their side.

The relevant question evoked by the consequent irregularities in Soviet and CMEA practices is not whether these are irregularities arising from economic-warfare circumstances, bureaucratic ineptness, or otherwise, but the ability of the Soviet and CMEA system to maintain the elasticity-in-depth to sustain the disadvantages so incurred.

Second, in analyzing the Soviet and CMEA it is indispensable to emphasize that the very nature of the social-economic system assigns to short-term and intermediate-term developments and fluctuations a much, much lower order of relative importance that is appropriate for analysis of financial and trade operations in the OECD nations. Here, the elasticity-in-depth of the Soviet system becomes dominant. If the net effect after discounting short-term phenomena is to enhance the long-term elasticity or merely to "buy time" for internal development of greater such elasticity, the short-term problems are to be regarded as effectively smoothed-out.

Third, overlapping the two cited points, the essential economic data to be studied are a comparison of the real capital formation rates in the OECD and CMEA countries. Here, the magnitude of real capital formation is of relatively lesser importance than the net rate of new real capital formation (after replacement and maintenance). If the Soviet-CMEA rate is higher than the current rate of the OECD nations, the convertible ruble can operate at a decided advantage to the dollar at the TR-dollar interface.

Provided that the Soviets and CMEA restrict their indebtedness to the dollar and other OECD sources to short- and intermediate-term credits or to payment "in kind" from new production facilities created, provided that the net rate of real capital formation is relatively higher in the Soviet than in the OECD sector, the relative elasticity-in-depth of the TR ruble (under recently proposed terms) as a reserve currency for nested, multilateral trade-and-credit agreements is enormous with respect to the dollar.

The type of financier mentality most appropriate to