New York Banks Put Bail-Out Issue On The Table

BANKING

It is now widely admitted on Wall Street that the biggest problem facing the New York banks is how to enforce payment of the billions of dollars owed by the Third World and "weak" European countries, while "the likelihood of default intensifies." The banks would like to be more selective in their lending, but if they are, debt roll-overs would be greatly restricted, resulting in a shock wave of defaults.

The editorial in the March 6 *New York Times* unequivocally entitled "Bailing Out Our Banks Abroad" reveals how Chase Manhattan and related interests want to solve this problem: international institutions such as the International Monetary Fund (IMF) should intervene to back up the New York banks and bail them out through imposing "discipline, pressure and guidance" on the Third World.

The *Times* editorial, following a call made last week to the same effect by David Rockefeller, minced no words: "Normally a banker can tell his client to tighten up, and work with him to clear his debts. But the kind of strict corrective policy that would satisfy a banker could produce street riots in a poor country, and add political and diplomatic problems to those of economics. In any case, the worldwide problem is fast outrunning the private bankers' capacity to cope.... The developing countries owe a total of more than $75 billion (more competent cources estimate their total debt at around $180 billion — ed.) and they will have to spend 15 percent of their exports just in servicing their debts.... Few American banks have the social and political expertise to devise the proper stabilization policy for their debtors. Nor should they; that is dangerous ground, especially where nationalist passions run high. Egyptian crowds rioted when the subsidies for food and fuel were removed, and the prices on bread, rice and cigarettes shot up. That action, threatening the regime of President Sadat, was imposed by Egypt's creditors, the International Monetary Fund, the World Bank and creditor Arab states. If American banks had demanded such action, United States diplomacy in the Middle East could have been seriously impaired."

The *Times* further demanded that the international agencies take over the policing of the economies of the debt-ridden countries, not as a solution, but as "an indispensable beginning." Similar calls were issued this week at the annual banking symposium of the Financial Analysts Federation in New York, where the banks were urged "to be more selective and lend primarily to those countries with an internal sense of discipline and a commitment to import substitution," as reported by the March 10 *Journal of Commerce*.

If such an intervention of "international institutions" to back up the banks is urgently demanded by New York, it is because the inflationary budget of the Carter Administration and Euro-Arab moves out of the dollar-denominated paper are pushing up the short-term interest rates in the U.S. This in turn dries up the source of cheap short-term money for the New York banks. Between $50 and $100 billion of defaulted LDC paper is now being refinanced by international banks. This huge overhang, which exceeds the capital of many of the banks involved, depends on interbank funding, usually through offshore branches. A significant rise in the cost of short-term money would jeopardize the entire operation. Without the prompt intervention of the so-called international institutions, the New York banks would be ruined.

The problem remains for Wall Street to catch Arab and European funds in the international institutions, and to compel the Third World to accept their intervention. An international memorandum is presently being circulated at the World Bank by Robert McNamara, calling for a spectacular increase in the capital of that institution (see interview below) which would greatly increase its lending ability. But such countries as France, Japan and Great Britain are strongly opposed to his proposals. Second, the World Bank operations would be linked to labor-intensive projects, which means that the World Bank cannot be used as a short-term bailing-out institution. Other ways must be urgently found to rescue the bankrupt New York banks.

The first available option is, of course, the IMF, which has been referred to both by Chase Manhattan's David Rockefeller, Federal Reserve Chairman Arthur Burns, and the *New York Times*, the latter demanding that the Arabs contribute two-thirds for a $20 billion IMF fund "to bail out the banks." U.S. officials further disclosed March 9 that "wealthier countries," such as Saudi Arabia, Kuwait and West Germany are being pressed to contribute toward "a substantial and rapid increase in the lendable resources of the IMF." IMF managing director, Johannes Witteveen, is presently negotiating this proposed increase "with the support of the Carter Administration," according to the March 10 *New York Times*. IMF officials believe that an outline of the plan for a new credit line will be ready for the next meeting of the IMF's governing Interim Committee of Finance Ministers, April 28 and 29, just before the May 7 U.S.-European summit in London. On March 9, Treasury Secretary Michael Blumenthal confirmed the plans of the Carter Administration when he told a Congressional subcommittee that the U.S. would contribute to "world stability" through its support for international institutions like the IMF and World Bank. Reportedly, U.S. officials want the new IMF credit line to be "substantial" and the figure $12 billion has repeatedly cropped up.

This "IMF option" is nonetheless said to be a pill too bitter for Europeans to swallow. According to sources at the World Bank, the sums mobilized through the IMF would not be massive enough to solve the problem of the New York banks because of European and Arab foot-dragging. A leading bank analyst also stressed this point: "The problem is that the IMF and World Bank are seen by the rest of the world as too American-dominated.... What is needed is a new world agency along the lines of Kissinger's International Resources Bank (IRB)." He believes that "Arab and European countries would fall for this because they have got their own stake in avoiding a Third World collapse." As for the Third World sector, it will be lured into this IRB-type arrangement because they would "feel satisfied with an increase in the prices of their commodities."

Saving the New York banks, no matter how, will be the major subject this weekend in Washington at a secret meeting of high officials preparing the agenda for the industrial nations' summit, including representatives of the seven countries attending the summit, the U.S., France, Great Britain, West Germany, Italy, Canada and Japan. There is no doubt that the Carter Administration wants to rally the Western world under the banner of Chase Manhattan next May.

World Bank On Rockefeller Options

The following is an interview with a source well-informed on the activities of the World Bank:

Q: Is it confirmed that a capital increase is presently planned at the World Bank?
A: A decision to that effect has already been taken by the member countries last year. It will be a 15 percent to 20 percent increase in the present $30 billion World Bank capital.

Nonetheless, there is something more. An internal memorandum is being circulated by Mr. McNamara (head of the World Bank — ed.) calling for a much more spectacular increase. The proposed figures for the new World Bank capital are $60 or even $90 billion — twice or three times more than today.

Q: What does this mean in terms of lending capacity?
A: This would mean a capacity to borrow multiplied by two or three, and if the World Bank manages to raise the money, its lending capacity would go up from $5 to $6 billion per year to $10 to $20 billion per year. These are of course approximate figures, but they give a fairly good idea of what Mr. McNamara is up to.

Q: Do you believe it will work?
A: I am pretty much convinced that it will not work. McNamara has lost political credibility. His proposal is strongly opposed by such countries as France and Japan. Moreover, the World Bank loans are to be linked to "projects in the Third World, as defined in the McNamara plan. Now, the World Bank is not an institution flexible enough to bail out the indebted Third World countries on the basis of short-term needs. I mean that the World Bank cannot be used as an intermediary to channel liquidities to the Third World countries for payment or roll-over of their debts to the New York banks.

Therefore, both for political and practical reasons, the McNamara proposal would not work as such and something else is needed to bail out the underdeveloped nations, and you know very well that this means nothing else than payment of the billions of dollars owed to the United States commercial banks.

Q: What are the other options?
A: First of all, I see the International Monetary Fund (IMF). Through the IMF, funds are directly lendedunds are directly lended to the Third World countries to help them pay their payments deficits. It would be the best practical way to solve the problem of the New York banks. The IMF structures are more flexible than those of the World Bank. But there is still a political problem. Both European and Third World nations see the IMF as too much U.S.-dominated. And the Arab countries prefer to keep their own funds under their control, they are reluctant vis-a-vis the IMF.

Q: What else do you see?
A: There is definitely the $20 billion "safety net" within the framework of the Organization for Economic Cooperation and Development (OECD). This of course would only help the sick men of Europe, and something else would have to be worked out for the Third World. But as far as Western Europe is concerned, the OECD "safety net" is already accepted by such countries as France, Great Britain and Italy. The Europeans like this idea for two reasons. First, they would be happy to see their case separated from that of the Third World. Second, they think they would be able to have more control over the fund if set up within an OECD framework.

As for the U.S., you know that the Ford Administration was reluctant. But the soft Carter Administration is willing to go ahead with the safety net. Brzezinski is very favorable to this proposal, which he sees as the basis for "trilateralism." The Arabs could probably be lured into financing the safety net, notably the Saudis and Kuwaitis because they see in it a way to assist their industrial oil customers.

Q: What is your conclusion?
A: All options are still open. I see an OECD approach for the European countries (Great Britain, Italy, etc...) and some sort of new thing for the Third World, let's say something like a "new IMF."