Click here for Full Issue of EIR Volume 4, Number 20, May 17, 1977

Dollar Credit Structure Begins To Crumble

BANKING

Following the failure of the Carter Administration to impose its economic policies at the London summit of Western heads of state, a generalized crisis of confidence has erupted in the dollar-based world financial markets. Carter's setback in London makes virtually certain that — barring a Carter-provoked thermonuclear conflagration by summer — there will be a collapse of the New York clearinghouse banks, presently faced with imminent defaults on about $20 billion in principal repayments due from ailing Third World and European countries during the second and third quarters of 1977.

In London, Carter was rebuffed by Western European and Japanese governments in his efforts to achieve two objectives deemed absolutely essential for propping up about $250 billion in speculative international loans held by the New York banks: first, the creation of a $20 billion bail-out fund at the International Monetary Fund; and second, international acceptance of Carter's energy austerity deindustrialization program designed to channel every available drop of world liquidity into debt service payment.

As U.S. Labor Party chairman Lyndon H. LaRouche reemphasized this week, the inability of the Rockefeller-dominated New York banks to refinance this debt dictates a chaotic Eurodollar market collapse in which there can be "no middle ground — only winners and losers." Representatives of major European banks and industry, who choose to be on the "winning" side, are already considering subscriptions to the private-sector International Development Bank proposed by LaRouche last week.

Cries of Panic

While the hapless IMF Director Witteveen, whose failed months-long organizing effort to put together the $20 billion bailout facility prefigured Carter's London fiasco, renewed public calls for a revaluation of the yen and deutschemark, private bankers last week began to emit cries of panic. *London Times* correspondent Vogl reported the bankers' growing anxiety this week in a dispatch from Washington, noting that these bankers now believe that current international official attempts to deal with financing the debt and balance of payments surpluses of the world are "insufficient," and are convinced that "critical international difficulties could arise before long" as a result. "The commercial banks have been bailing out the international monetary system for too long already, and can't do it for much longer," an unnamed chairman of one of the largest U.S. commercial banks told Vogl in a burst of "sour grapes."

Elsewhere, the Italian financial daily *Il Fiorino* reported on a "smoke-filled room" of New York bankers pasting together yet another bailout scheme — this one a "consortium bank" to reschedule the currently unpayable debt of countries in difficulty into long-term debt on the basis of a $10 billion fund, which can then be used to generate up to $100 billion more credit!

Highlighting the increased muscle of the international pro-development forces that have so far stopped the bailout scheming dead in its tracks, Iraqi officials this week called on Arab governments and the Europeans alike to refuse *any kind* of IMF bailout. IMF officials and other New York bank representatives have continued a last gasp effort to press behind the scenes for some form of the stalled "Common Fund" swindle that topped the list of the bailout recipes several months ago.

Turkish Default

Heading up the list of near-term default candidates, now that the banks' bail-out has flopped, is Turkey. The Turkish newspaper *Cumhuriyet* reported this week that rumor is circulating among London financial circles that Turkey will not be able to repay its short-term debt and may be forced to declare a debt moratorium. Turkey's short-term debt — which takes the form of foreign-held "convertible Turkish lira deposits" — amounts to $2.1 billion, with the bulk of this falling due in July. The Turkish foreign exchange reserves necessary to cover these debt obligations are shrinking fast, and at last count amounted to less than $500 million — not enough to cover even one month's imports. According to *Cumhuriyet*, a panicked Citibank, one of the major holders of the Turkish lira deposits, is monitoring Turkey's reserves on an *hourly* basis.

Admitting that the country is on the verge of default, a New York Federal Reserve official revealed that the Fed has prepared a "confidential" internal report on the Turkish situation, outlining the steps which the Turkish government must take in order to "qualify" for bank rescheduling of the maturities of the short-term debts. These include a 50-75 percent currency devaluation, import austerity, and "other steps we are not at liberty to tell you about now." These are all measures which could not conceivably be implemented, no matter what the outcome of Turkish elections scheduled the first week of June — unless there is a military coup.

Egypt, with at least $20 billion in total foreign debts, is also poised on the brink. According to the French financial daily *Les Echos*, an Egyptian debt moratorium may be discussed at this week's meeting in Paris of Egypt's creditors, including representatives of European and Arab governments, the World Bank, and IMF.

European Banks Also Threatened

As the deepening Swiss banking crisis and the failure of two major Norwegian tanker firms this week

© 1977 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

illustrates, the failure of Western European governments so far to present any coherent alternative to Carter and Rockefeller is threatening to drag European banking and credit systems down into the whirlpool created by the New York banks' demise.

On May 10, three top executives of the Swiss Credit Bank — one of the three largest Swiss banks — resigned in the aftermath of revelations that its Chiasso branch had lost $100 million as the result of highly suspicious Eurocurrency market speculations. Reflecting a panicky scramble for liquidity in the wake of the Swiss crisis, Euro-Swiss franc interest rates for three-month money have shot up from one to nearly 5 percent in the last week.

The *Journal of Commerce* in New York reported this week that a second wave of bankruptcies is underway in the world tanker industry, with $35 billion in loans at stake, of which at least $6 billion are held by the New York banks. The first wave involved several spectacular failures, including the dissolution of the huge Colocotronis shipping empire. The second wave began with the virtual bankruptcies of two Norwegian firms: one, Fearnley-Egger required major refinancing, while the chemical carrier Stolt-Nielsen was bought up by British Petroleum. According to the London *Daily Telegraph*, BP's purchase of Stolt-Nielsen was a straight "bail-out".

At the Norrshipping Conference in Oslo this week, panicked tanker bankers lashed out at government subsidization of shipbuilding. Otto Norrland, tanker manager at London's Hambros bank, threatened that if the practice continued the banks will have to "reconsider their policy for shipbuilding and shipping finance" — a declaration of bankruptcy cloaked in bravado.

Dwarfing even the tanker crisis is the threatened bankruptcy of the French government. Despite a total foreign debt of $30 billion, *Business Week* reports that French companies will attempt to borrow another $15 billion on the international markets in 1977; a European IMF source recently predicted a French government default as early as this year. Following the unveiling of the government's "Barre Plan Two," entailing heavy new borrowing in France and abroad, the French stock market has headed into a major "crash," in the words of the West German daily *Die Welt*. On May 9 and 10, the French stock market fell 5.2 percent, having lost 22 percent since the beginning of this year.

U.S. Industrialists' Anomie

The summit failure, amidst growing concern that the U.S. is leading the world into another wild spree of double-digit price increases and double-digit interest rates, has also panicked Wall Street — sparking a 12 point drop in the New York stock exchange's Dow Jones industrial average May 13. The prevailing sense of anomie among U.S. business circles in the wake of the London summit was summed up well in a two-sentence *Wall Street Journal* editorial May 11: "Our leaders gathered in London over the weekend and pledged to cut unemployment while reducing inflation. Perhaps after their next summit they will tell us how."

Oil Fire, IMF Announcements Expose Uncertainty Of Currency Markets

FOREIGN EXCHANGE

Foreign exchange operations were quiet at the beginning of this week after the London summit, with a slow strengthening of the U.S. dollar in response to interest-rates rise and relief that action to revalue the mark and yen was not taken. But the underlying political uncertainty was suddenly exposed May 12, when the markets were destabilized in a few hours by the massive fire which broke out in Saudi Arabia's Abqaiq oil field the night before and a declaration made in the Netherlands by the managing director of the International Monetary Fund (IMF) saying that weak currencies should be devalued and strong currencies revalued.

Oil Weapon

The fire at Abqaiq caused a sudden dollar rush in the heaviest trading in more than three years on the Tokyo market. The dollar for overnight delivery closed the afternoon session of May 12 at 279.35 yen, a drastic increase from the 277.65 yen at the end of the day on May 11. Exchange officials said that the turnover totaled $ 469 million, and it was estimated that the Central Bank of Japan had to sell off between $170 million and $200 million mainly at the end of the afternoon, when the dollar rush threatened to get beyond control.

Toward the end of the day, there were rumors that the Arabian-American Oil Co. (Aramco) might be "forced" to halt the flow of more than half of the Abqaiq oil field's daily crude oil output capacity, a major source of energy for the whole Japanese economy. The Ministry of International Trade and Industry (MITI) reported that oil imports from Saudi Arabia account for 30.7 percent of the country's total annual imports.

Even if the fire is brought under control, as today's press announced, and the yen somewhat stabilized as a result, the blaze will seriously affect Saudi Arabia's oil supplies to Japan. Japanese businessmen and importers are already anticipating a considerable increase in oil prices throughout the world as a direct result.

Needless to say, the depreciation of the yen on the Tokyo market has nothing to do with the state of the Japanese economy per se. It is precisely and ironically on May 12 that the Japanese government has eased