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A new set of basket cases?

The rumors that Portugal, Argentina, and Ecuador are facing debt crises have an ulterior motive.

The U.S. Federal Reserve will sponsor two days of secret talks designed to impose "common lending rules" on international bank loans at a meeting of 100 central bankers on Sept. 27-28 in Washington. According to the West German sources who leaked the existence of the conference, the meeting, which convenes a day before the IMF's annual conference, is motivated by the alleged anarchy of lending to Poland, lending performed by banks under widely differing guidelines and rules. The Fed ostensibly seeks to establish integrated, harmonized precepts for "proper banking conduct."

This is the latest phase of the Fed's efforts to gain control over all Eurodollar lending internationally. Earlier, the Fed, in collaboration with the leading New York banks, collapsed the rescheduling arrangements previously agreed upon between Poland and the European banks that hold the bulk of Poland's debt By citing Poland now, the Fed is indicating clearly that it intends to use the leverage provided by U.S. banks' share of Eurodollar lending to compel the European banks to accept Fed-dictated "rules and guidelines."

This threat is made more credible by the reports received from New York banking sources that several LDCs that have not been in the news are actually in shaky shape and could go the way of Bolivia and Costa Rica, both of which have suspended payment of principal on their debts and entered negotiations to reschedule their debt service payments.

According to a high-level New York bank economist, the "known problem cases" such as Bolivia, Zaire, Turkey, or Poland, may not pose a serious problem because the banks dealing with them have long ago prepared themselves with credit lines against any tightness in the interbank markets that might be touched off by the Oct. 1 switch to "same-day payments." Several "surprise situations" only now coming to light, for which no preparations have apparently been made supposedly include Portugal, Ecuador, and Argentina.

Investigations by *EIR* have failed to turn up any objective basis for this assertion. A major West German bank had received word that "Portugal's credit standing has dropped very fast in the last few weeks," but found this "hard to understand," because Portugal's rising cost of oil imports and the deleterious effects of a drought on both hydroelectric production and agricultural exports, all had been foreseen. Portugal's strengths include a very sizable gold reserve (almost $10 billion at today's price) and its imminent entry into the European Community, which would support Portugal should it get into real financial trouble.

Some New York banks agreed that they had seen nothing justifying loss of confidence in Portugal. The country's 39 percent debt-service ratio (debt payments to exports) is high, but the economy has been growing at better than a 4 percent rate, and an improvement in the weather will help it greatly.

All evidence points to efforts emanating from locations in New York, probably including the Fed, to create an artificial loss of confidence in order to shore up Fed demands for worldwide credit "guidelines."

At bottom, there definitely *is* a "Third World debt crisis," caused by the extremely high amount of Third World paper that exceeds any reasonable expectation of countries' abilities to repay. The general practice is to continue rolling it over until more general solutions can be found. The Bolivian, Argentinian, and Costa Rican cases show that virtually any situation can be "managed" if the desire exists.

Bolivia, widely publicized in the press including a scare article in the *Los Angeles Times* erroneously asserting that Citibank and Bank of America were about to walk away from several hundred million dollars in bad debts, had bounced several multimillion-dollar checks before suspending all attempts at payments last month. Nonetheless, the banks think a suitable rescheduling will be achieved.

Argentina has a potentially more disastrous situation because it involves tens of billions, but there is confidence in the government's ability to maintain payment schedules, despite its $14 billion debt service, which is more than 50 percent larger than total export revenues. And Costa Rica, which suspended some payments two weeks ago, is not causing undue concern.

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