BIS presses its farcical debt-reorganization plans

by Kathy Burdman

In a series of private meetings at the Bank for International Settlements in Basel, the Swiss National Bank in Berne, and at the Mont Pelerin Society Annual Meeting in Berlin, a consensus was reached during September to prepare for a possible "global debt reorganization," participants have told *EIR*.

Politics, it seems, has replaced bank accounting in the BIS's chambers as the topic of the day. The political refusal of Mexico, Brazil, and other Ibero-American nations to submit to drastic austerity being demanded by their creditor banks has challenged the entire post-war control by the BIS over the world monetary system. To maintain their "aura of power," the central banks of the BIS are now ready to do anything—lie, cheat, fudge, and roll over—to prevent Mexico and others from declaring a debt moratorium.

That is, once the Third World has been "staved off" from its political challenge, under the BIS scheme, nations will be divided from each other, the momentum for debt moratoria will be blunted, and the BIS will still control the system. Should this particular political fiction prevail, a new depth of credit cuts and living standard reductions will not be far behind, under the momentum of the advanced-sector economic collapse.

'LaRouche's solution not the only one'

"We must agree to renegotiate the entire debt" of Mexico and others, one participating economist told *EIR*. "If they refuse austerity programs now, we renegotiate anyway, to avoid a total non-payment where the banks will have to write it off as a total loss. Renegotiation is better than nothing. We must stave them off from defaulting, at all costs."

"We must prevent a collapse of the international banking system," a top BIS official added bluntly.

By refusing to negotiate an agreement for domestic austerity programs with the International Monetary Fund, and by demanding instead new credits for trade and development, Mexico, Brazil and others have won a certain political victory, the economist said. "We can't force them to give in to the IMF now," he said.

There is also rampant fear at the BIS and in the City of London that *EIR* founder Lyndon H. LaRouche, Jr., who has widely circulated a plan entitled *Operation Juárez* for world debt reorganization, may take over all such negotiations unless the BIS has something to offer. "*Operation Juárez* is an expert view on what might be done to solve the Third World debt crisis," one Lloyds banker in London told *EIR* at the end of September. "But Lyndon LaRouche's solution is not the only one."

The basic idea behind the new BIS debt reorganization was publicly outlined by Henry Kissinger, a self-avowed asset of the British elites, in a speech Sept. 21 before the Quadrangle Conference at Washington's Georgetown University. "The imposition of IMF conditionalities may be a cure worse than the disease," he stated, "they may bring about revolutionary conditions. Some kind of new financial structure, something like the [1944] Bretton Woods understanding, must emerge."

Kissinger's statement represented the political debate which took place days before at the BIS, the participating economist told *EIR*, at which a three-step procedure to "stretch out the debts" was detailed:

"One, stop offering countries like Mexico cash up front." The BIS does not believe that when a country stops paying its debts, it should get a roll over right away. He stated, "The BIS thought the Fed was over-hasty" in lining up a $2 billion credit plan for Mexico in August.

"Two, before any money is paid, take the hard line and first demand more concessions on a change in domestic economic policy by the debtor," he stated. "We must make it plain that they must agree to domestic austerity, and to implement an austerity program written by the IMF."

"Three, renegotiate the entire debt."

This boils down to two bluffs and a retreat, as the reader will have noticed by now, for the first two proposals have already been rejected by Mexico and other nations! Asked just what the BIS will do if nations continue to resist, the economist admitted that all that is under discussion is a huge bailout of the Eurodollar market banks, through a regulatory ruse to allow debtors to "stretch out" payments vastly.

"If they refuse the IMF, if they refuse austerity—we go ahead and renegotiate anyway," he stated. "They are not paying a cent now. We have no choice but to get as much austerity as we can, and then restructure. If they refuse the IMF, we're stuck."

The actual renegotiation will be purely accounting science-fiction, to allow banks to maintain the "present value" of unpayable loans to Mexico and other nations on their books, as 100 percent good paper, he said.

"First, we take all the debts due immediately, the debt of six-month to two-years maturity," he said, which in the case of Mexico, for example, would be some $8 billion in short-term debt and $11 billion in principal payments due in 1982-83. This sum "is then stretched out to be paid over a 10- or 20-year period." That is, instead of paying $19 billion in the next fiscal year, Mexico would only pay $1 billion.

"Second, we take some of the interest due this year, and capitalize it, grant new loans to help pay the interest," he said. That is, instead of Mexico having to pay its $10 billion in interest due over 1982-83, perhaps $5 billion would become a 20-year loan, and the payment reduced to the remaining $5 billion.

Thus, instead of Mexico having to pay a total of $29 billion in interest plus short-term and long-term debt principal, the BIS scheme would reduce current payments to $6 billion, for example, over the period of a year.

The reader might protest that this is "book cooking," and that the loans are no more payable than before. The reader is correct. "But there is no one to stop the BIS from doing this, since they *are* the regulators," the economist laughed. "If we can reduce the principal payments, and thus ensure some sort of regular flow of interest payments, then technically that means that the loans are 'paying' loans, and may be valued at 100 percent."

The case-by-case gambit

The BIS hopes to conduct these stretchouts on a "case-by-case" basis, playing Third World nations off against each other, he confirmed.

"We're already doing this all over the globe," a top Citibank official told *EIR* Sept. 30. "We're restructuring all of Mexico's loans, giving them time to pay. Mexico is too big to force it to go to the IMF. We don't mind if they refuse. We can roll it over now. After we finish with Mexico, we can get on with the job of restructuring the biggest debtors of the Far East."

If it becomes necessary, the BIS may even agree to joint negotiations with debtor countries, but only if the BIS, and not Western governments, controls the meeting, the source said. "Governments are irrelevant. They are in no position to do anything. It is a matter between the private banks, and their regulators, the central banks, how to handle these loans. The U.S. Federal Reserve and the other central banks of the BIS will do it all."

The Fed and the BIS are ready to change the accounting laws of the United States, he said, to begin further reducing the debt threat to banks by forcing bankers to *write off* the debt of countries like Mexico altogether. In this "worst-case scenario," the bank would declare a large percent of the loans in fact to be "bad" or non-paying, and would have to take a loss on the bank's profit accounts for that portion. In the write-off case, he said, the trick is to reduce the banks' profits from each bad loan slowly enough, over a period of years, so that it does not collapse the bank (see *EIR*, Sept. 28). The BIS economist cited the example of an Austrian bank which, with the BIS's blessings, was recently allowed by the Austrian central bank to take "billions" in bad loans to Poland and other East bloc nations, and write them off over *fifty years*. Writing it all off this year would have "wiped out the capital of the bank," he said, but writing off one-fiftieth was manageable.

The Fed's new rules

Without the oversight of the U.S. Congress, the U.S. Federal Reserve has already issued a set of "new principles of accounting," *EIR* has also learned, which codify the new BIS approach. The idea, a senior Fed official told *EIR* in an exclusive interview, is "to write off the debt in an orderly manner, to prevent it from becoming a systemic problem for the banking system." The new Fed accounting scheme, issued to banks in late September by Fed Supervisory Director John Ryan and U.S. Treasury Comptroller C. Todd Connover, has the following provisions:

1) Gradual write-off of loans to "countries such as Poland whose loans go into 'non-accrual status,' " the Fed official said. If Mexico and Argentina do get a total rescheduling, he said, the Fed may actually force major U.S. banks to declare some 10 to 20 percent of the loans "unpayable," and write them off over 10 to 20 years. This would mean, the Fed estimates, that perhaps some $10 billion in totally worthless Mexican and Argentinian paper might have to be written off over the next decade.

That would cost the U.S. banks as a whole perhaps a $1 billion profit reduction in 1982-83, which the Fed considers "a manageable amount." "Some banks [i.e., Chase Manhattan] have written off as much as $250 million in the Drysdale bankruptcy alone," the Fed official said.

2) Increased penalty reserves. The Fed will force banks to take additional funds out of profits, and set them aside as "penalty reserves" which can be put back into profits in case of future write-offs. Such a new reserve levy of 1 percent, for example, would cost U.S. banks perhaps $100-$200 million if implemented.

3) Increased capital-to-asset ratios. Banks will be required to hold a higher percent of equity capital to total loans (assets). Citibank today for example has only $5.5 billion in capital to its $120 billion assets, a below 5 percent ratio. Higher capital will give banks more to write off loans against.

4) Flat country limits on how much a bank can lend to a given country, and other strict lending limits, the Fed said.

"The idea is to reduce the bank's exposure in the Third World," making them less vulnerable to debt moratoria, the Fed source stated.