Creditors' cartel moves into Phase II of global Big MAC

by Kathy Burdman

Since December, the leading international banks of the Ditchley Group creditors' cartel, Morgan Guaranty, Chase Manhattan, and others, had stubbornly refused to complete the $5 billion jumbo loans due from the banks to Mexico and Brazil as part of each country's current agreements with the International Monetary Fund. Both countries were pushed to the razor's edge of default (see article, page 7).

Asked why the banks were playing so close to the brink, one Brown Brothers Harriman partner said it really had nothing to do with press accounts that smaller U.S. regional banks were reluctant to kick in their share of the loans. "We'll give them the money when we have to" he said. The creditors want to break the countries further and be "quite sure that the IMF austerity conditionalities are actually being carried out."

"Look at Mexico, for example," he said. "They've promised the IMF to cut their government spending, to let the peso devalue, to cut exports. But my information is that they are not doing nearly as much of this as we would like. In particular, their government spending still seems to be pretty much out of control." The IMF staff itself meanwhile has produced a secret study stating that Brazil's wage controls must be toughened before any renegotiations of its debt can proceed.

The Rockefeller commission

To force the issue, a Commission on Latin American Debt was established in New York on Feb. 24. Society President Russell Marks told a journalist on Feb. 23 that the banks are now going to cut back, and that Latin America will have to implement drastic austerity programs. Public-sector industries will have to be shut, cities are "overpopulated" and will have to send half their populations back to the countryside, budgets will have to be slashed, and currencies will have to be put under controls, he said (see interview below).

The "Commission on Latin American Debt and Governmental Politics," sponsored by the Americas Society, will be under the de facto chairmanship of David Rockefeller, a Society source said, "but we wouldn't want it known as the 'Rockefeller Debt Commission.' " The "initiative" for the Commission "came from the Ditchley Group" banks of the creditors' cartel, she confirmed. Prominent U.S. members of Ditchley will run the commission, including Chase vice-chairman William Ogden, the head of the Ditchley Group in the U.S., and Robert Lindsay, vice-chairman of Morgan Guaranty. The commission will be a bankers' political action committee, a Rockefeller aide said Feb. 18, to force "both the Democratic and Republican Party platforms for the 1984 presidential election campaigns" to endorse plans for "a uniform policy on dealing with the Latin American debt."

On Feb. 25, the first part of the chicken game came to an end. At New York's Plaza Hotel, 600 international bankers and Brazilian officials signed the $5 billion jumbo credit. From Mexico City, Mexican Finance Minister Jesus Silva Herzog announced the same day that the Mexican loan had finally been completed.

Bretton Woods is dead. . .

This particular event was only Act I in a drama planned to demonstrate that the old Bretton Woods monetary system is indeed bankrupt. Spokesmen from Venice to New York have called for serious discussion to begin on the need for a "new Bretton Woods" agreement, as Lazard Frères banker Felix Rohatyn advocated in a Feb. 28 *Business Week* article.

Some Ditchley bankers, especially the more stupid among U.S. commercial banks, still uphold the fiction that the current system is not bankrupt. "There is a liquidity problem with the debts of Latin America, but not a permanent solvency problem," William Ogden told the founding meeting of Rockefeller's new debt commission Feb. 24.

But the real controllers of Ditchley are now openly calling the bankrupt system what it is. In a Feb. 25 interview, an aide to Carlo DeBenedetti, leading Venetian-controlled financier, chairman of the Olivetti Corporation, and international director of Morgan Guaranty in New York, commented on Mr. DeBenedetti's repeated statements in the European press that over $1 trillion in international debt is about to collapse.

"Mr. DeBenedetti puts strengthening the IMF as number-

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one priority. The point is, you have these silly U.S. banks talking happily about a $7 drop in oil prices," the aide said. "Then Mexico will lose income, and come running to the banks for more. At that point, there will be the proof that a private system cannot handle the debt. "There are many proposals, many plans and mechanisms. But they do not matter, so much as that this point be made."

The Commission on Latin American Debt has been set up to make just this point. Public statements by Chase's Mr. Ogden aside, the aim of the commission, said Americas' Society President Russell Marks, is to demonstrate that the current system is not working, because "excessive foreign borrowing" by Ibero-American and other Third World nations has led to economic collapse in these countries. "We want to bring everybody into a new system," an aide to the commission

. . . Long live the new Bretton Woods

The Bretton Woods system *is* quite definitely bankrupt. Negative-growth economic policies have made it impossible for the Third World and other nations to pay more than $700 billion in foreign debt.

As a matter of fact, the system has collapsed so far already that world trade is no longer even being financed through the private banking system. Phibro/Solomon and other trading houses are already in business to discount the Third World debt held by U.S. multinationals. This "frozen sovereign risk paper at big discounts" has become a major business, one trader told *EIR*. "Take Brazil: there are many multinationals who have subsidiaries in Brazil. But they don't want to invest more dollars directly. They sell their current obligations to a trading company for cash; the trading company sells the paper to European or Middle East investors with a guaranteed return; and the swap is unwound years later."

The new system the Ditchley Group creditors' cartel has in mind, however, would attempt to effect the exchange of debt to head off a debtors' cartel without a system for new development credits. It is doomed to fail, but would destroy dozens of nation states in the process.

The centerpiece of this new system is to be some form of "global MAC," as Felix Rohatyn wrote in *Business Week*, a corporation to take the world under receivershp just as Rohatyn's Big MAC took New York City under receivership."

"The reality of the situation is that a significant part of the approximately $700 billion now lent to the Third World and Eastern bloc will come back, if ever, only over a long period," Mr. Rohatyn told readers bluntly. "Instead of maintaining the fiction that these are short-term, high-interest loans, it might be better . . . to *stretch out* existing loans to 25 to 30 years at much lower interest rates." Under Big MAC in New York City, the debts which the city could not pay were swapped by the banks to MAC. MAC then functioned as a creditors' collection agency, appropriating a line of revenue "which the city could not touch," as Rohatyn put it, to back up the debt. The city's economy was destroyed.

Rohatyn now proposes that the IMF set up a "Global MAC fund" from which it will issue the banks $300 billion worth of long-term bonds. The banks will then place with the IMF $300 billion of their short- and medium-term loans. The banks will be rid of the loans, although they'll earn less on the bonds, and the "debt bomb" threat by any debtors' cartel against the banks will be greatly reduced. The global MAC would "establish a revenue stream," Rohatyn writes, by stealing Third World countries' revenues from "sales of their commodities or other kinds of income in a way that would service their long-term bonds in an orderly manner."

The IMF will then be in the position of "enforcer," and governments who back it will have to send in the troops to collect on the new IMF bonds if countries don't pay. Or, as one lawyer recently suggested, multinational banks who finance Third World countries' exports could simply "sequester" portions of the countries' earnings before the cash ever reached home, on behalf of the IMF.

There is already a fight about the Rohatyn plan inside the Reagan administration. Treasury Secretary Donald Regan, holding to the line that the current Bretton Woods system is fine, denounced the Rohatyn plan at a Washington meeting Feb. 25. "I don't usually use nasty language, but I must say I think it's abominable," he stated. "I do not think that we should be loaning money to debtor nations at 6 percent. You don't get loans at 6 percent. We should instead use the mechanisms of the IMF."

However, White House Council of Economic Advisers Chairman Martin Feldstein reportedly favors the plan, and has brought collaborators of Rohatyn onto his staff. At the Rockefeller Debt Commission's founding meeting Feb. 24, he took issue with Regan's ideas on interest rates for Third World loans, stating that in fact "these countries cannot pay market interest rates" and should be given cheaper credits.

'Labor and public sectors have to bite the bullet'

From an interview with Russell Marks, president of the Americas Society, provided to EIR:

Q: You believe the very system of foreign borrowing itself is the cause of the problem in Latin America?

A: Yes. These nations have borrowed too much. . . . The borrowing itself created the problem. The countries tried to develop too rapidly beyond their means. And now the danger is that when they are forced to cut back to meet the new realities, there will be political disorder.

Q: So you will be studying the kinds of conditions which will make countries creditworthy?

A: Yes. . . . The banks will want to be sure that each of the debtor nations have a strategy for dealing with these problems before extending them any further credits.

Q: What are the problems?
A: They are numerous and immense, and they will involve extensive sacrifice in a troubled world.

First of all, as a result of excess foreign borrowing, the public sectors of Latin American nations have grown rapidly at the expense of the private sectors. The public sectors have been getting preferential treatment. . . .

Second, excess foreign borrowing has caused a general collapse of Western Hemisphere trade. Each country, to meet the debt payments, is being forced to cut its imports and expand exports. . . .

Third, excess debt is causing more antagonism between Latin American countries. . . . Argentina and Chile could easily go to war, more because of their domestic economic troubles caused by the debt crisis than for any real foreign policy reason. Venezuela and Colombia have a similar dispute which could flare up.

Q: What about labor and wages?
A: Yes, we have the problem of labor unions and wages. . . . The days of high income, due to large foreign borrowings, are now over. So wage structures may have to become more flexible. . . . There will be a more antagonistic relation between labor unions and governments. . . .

Many of these countries have borrowed to import food and not spent money on domestic agriculture. The agricultural labor force as a result migrated in major part to the cities . . . a mass army of unemployed. They will have to move back to the countryside, and this is very destabilizing.

The cities have first of all become too big. . . . Now these workers will have to move back out of the city into the countryside, where there is nothing for them to do.

Then you have the even worse problem of inter-country flow. There have been very large flows of Colombians into Venezuela . . . and now it's over. These people could soon be under pressure to return home, especially the illegal immigrants. . . . There was also a large flow during the heyday into Mexico from Guatemala and El Salvador. Now that may have to be reversed.

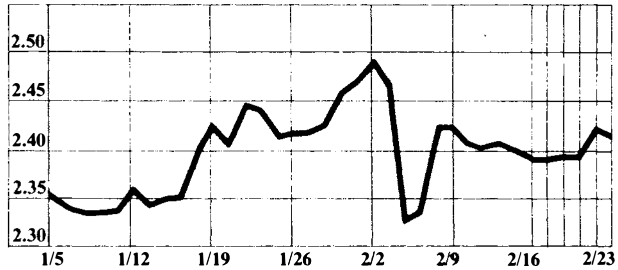
Q: What about the countries' domestic budgets?
A: This is the worst problem. They must be cut, and cut drastically, they can no longer spend beyond their means. But the question is, is this domestically manageable by these countries? Or will it give rise to totalitarian regimes?

The worst subsidy of all, which must be cut first, as I said, is these public-sector companies. . . . Now if you shut parts of this down, and some of this will have to be done, they are going to have mass layoffs and production shutdowns. . . .

Currency Rates

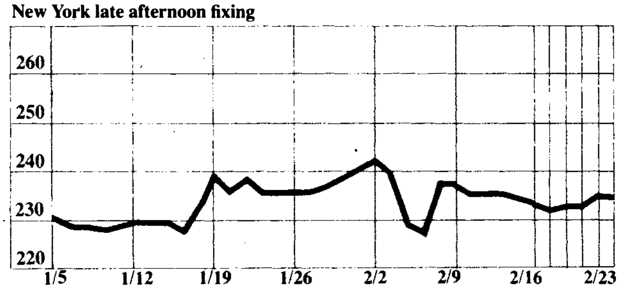
The dollar in deutschemarks

New York late afternoon fixing



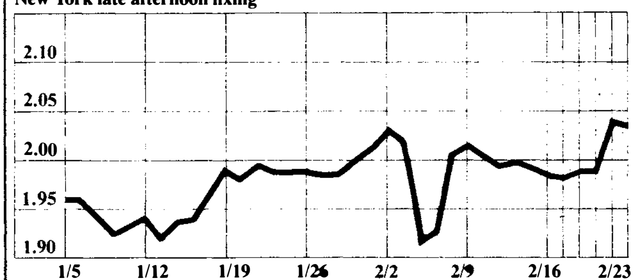
The dollar in yen

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing