U.S. congressmen collude with Ditchley on IMF banking controls

by Kathy Burdman

Congressional allies of the Swiss-based Bank for International Settlements have produced legislation this month which if enacted would grant the Federal Reserve and the International Monetary Fund unprecedented powers over U.S. banking.

As one House Democrat's aide said, "All we are really doing is giving tremendous new power to the IMF." Bills have been or are now being drafted by John Heinz (R-Pa.), William Proxmire (D-Wis.), Fernand St. Germain (D-R.I.), Charles Schumer (D-N.Y.), Bill Bradley (D-N.J.), and Jack Kemp (R-N.Y.).

The legislation is shaped to blunt anger in the U.S. population against the IMF. Voters are irate at a bill submitted to the Senate by President Reagan to expand U.S. quota contributions to the IMF by $8.6 billion. All the new bank regulation legislation will "amend" the IMF quota bill. The Proxmire bill has the best chance of being attached to the IMF quota legislation, *EIR*'s sources report.

Publicly, much of the legislation is being sold as "anti-bank" and even "anti-IMF," so that Congress may be seen "penalizing the banks" as a condition for giving the IMF money. Representatives of the Ditchley Group creditors' cartel have denounced the legislation, claiming it would limit bank lending.

Fed Chairman Paul Volcker and other BIS representatives have also publicly attacked some of the bills. "There is danger of over-reaction" against the banks, Volcker told the Senate Banking Committee on Feb. 21.

So much for public relations. The truth is that the Swiss gnomes' "Cooke Committee on Bank Regulation," under instructions from the Bank for International Settlements, has been calling for increased control over U.S. banks' foreign lending for the last year.

Furthermore, every last piece of this legislation has been written by the aides to the congressmen in question in collaboration with the Cooke Committee, the Fed, and/or IMF Managing Director Jacques de Larosière himself.

The Ditchley bank's opposition is a sham. In fact, the Ditchley banks have set up the entire debate. Their endgame is the plan of Britain's Sir Harold Lever and New York banker Felix Rohatyn for what Rohatyn calls a "global Big MAC"—supranational cartelization of bank lending (see article, page 10).

The Brer Rabbit tactic

Ultimately, the banks want the IMF or some other global Big MAC institution to be created to take over their $700 billion in bad Third World debt, as Rohatyn's Big MAC took over New York City's bad debt. The banks want the U.S. government to guarantee the process, so they have overseen bills which would "force" banks to perform what Rohatyn calls "a stretch-out." "Please don't throw me in the briar patch," the bankers say.

The idea is to transform the banks' bad short- and medium-term debt into 25- to 30-year paper. That in itself is in fact a necessary move to avert world financial collapse, as *EIR* founder Lyndon H. LaRouche, Jr. has stressed for the past five years. The diametrically opposite nature of LaRouche's "Operation Juárez" proposal for debt reorganization and the "global Big MAC" approach becomes clear when the question of new credit is raised. Whereas "Operation Juárez" prescribes vast new issuance of gold-backed financing for production and trade in tangible goods, the proposals from the Ditchley Group et al. foresee brutal austerity and deindustrialization of "North" and "South" alike.

The banks are actually playing upon the fact that their loans to the Third World are bankrupt. "This is not a mere liquidity crisis," said an aide to Rep. Charles Schumer, who is working closely with the banks. "That's ridiculous. Every one of the 500 members of Congress knows perfectly well that this is a solvency crisis of the entire debt system. So there is going to be a big fight over exactly what will be done to the IMF quota bill. We need a new system entirely, a new Bretton Woods. I'm proposing to write an article entitled: 'Don't Roll Over—Stretch Out!' "

An aide to House Banking Committee Chairman Fernand St. Germain is even briefing Congress on the danger of a debtors' cartel arising in the Third World to try to motivate the Rohatyn plan. "There is a grave threat of a debtors' OPEC," he told *EIR*. "What if they say, 'We don't pay unless you stretch the debt out over 25 to 30 years? That's the possibility we face. We have to have legislation ready."

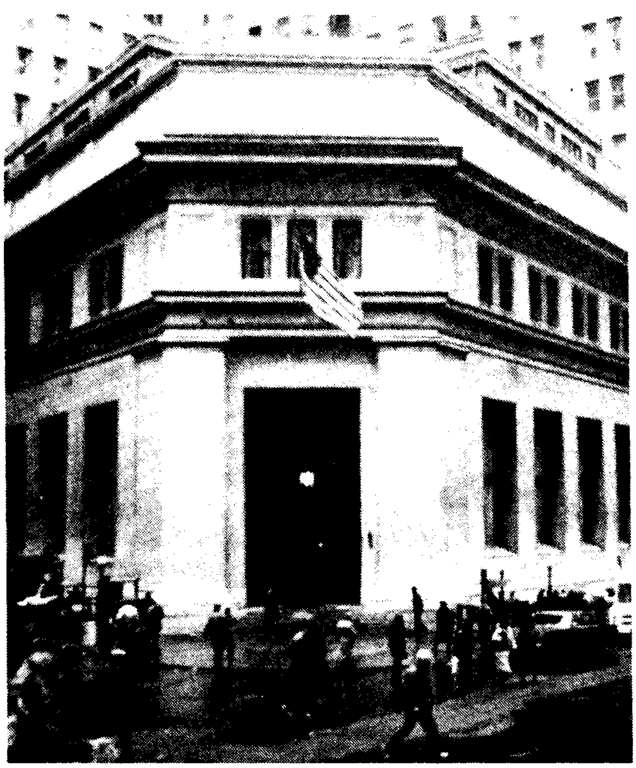
Legislative roundup

The list of bank regulation bills proposed for amendment to the IMF quota act now includes:

1) "The International Lending Reform Act of 1983 (S.502)," introduced into the Senate on Feb. 16 by Banking International Subcommittee Chairman John Heinz and William Proxmire. This gives the Fed and the IMF total control to classify Third World countries as to who should get credit and "set U.S. foreign policy," as Comptroller C. Todd Conover has charged.

Under the first of the bill's three provisions, the Fed would set true "country limits" beyond which a bank could not lend to a given country. Currently, while banks are limited to lending the equivalent of 15 percent of their capital to a given legal entity in Mexico, for example, many banks have over 100 percent of capital equivalent lent to the sum total of all their Mexican borrowers, public and private.

The Fed "will be given full discretionary authority to tell the banks what to do and set separate limits for each borrowing country," a Proxmire aide said. "Canada will be more creditworthy than Brazil, and banks will be given a much higher country loan limit for Canada than for loans to Brazil," he said. "The Fed will determine all of this based on information it gets from the BIS and the IMF."



Stuart Lewis/NSIPS

Morgan Guaranty's New York headquarters: a command center for "cracking down on the banks."

The second component of the Heinz-Proxmire bill is "penalty reserves," a plan put forward in March 1982 by Federal Reserve Governor Henry Wallich on behalf of the BIS Cooke Committee. Banks would have to set aside reserves to guard against defaults by debtors. Under the provision, a bank would lose the equivalent of $10 million in revenue for every $1 billion in loans which the Fed classified as substandard and reserveable—not a huge loss. If however, the IMF is involved in a loan consortium, as in Mexico and Brazil now, then the Fed will act as guarantor, Fed Chairman Paul Volcker told Proxmire in a private letter Jan. 7. So not too many loans will suffer this penalty.

2) Representative Schumer is writing a bill which goes far beyond Heinz-Proxmire, to mandate the Ditchley creditor's proposal for a "stretch-out" of the debt. "Proxmire's bill assumes this is a short-term liquidity crisis," said an aide to Congressman Schumer. "That's ridiculous."

Schumer is proposing what he calls "an IMF stretch-out," where the IMF and the country sit down with the banks, and the banks stretch out the short-term debt paper themselves into 25- to 30-year paper. Schumer endorses the idea of National Security Council economist Norman Bailey that to compensate the banks, the countries give them "exchange participation notes," mortgaging all the income of the country to those banks for the term of the newly stretched debt.

Schumer would like to have the IMF set up a Global Big MAC entity to intermediate, but is afraid it will be "too difficult to appropriate new funds for the IMF," aides say. "So the banks are to do it themselves."

"We'll tell the banks that they face strict, severe country limits, strict penalty loan loss reserves—or else," the aide said. "If that doesn't work, we'll propose to give the IMF only $1 billion now, and make the rest of the quota increase contingent upon the IMF sitting down with the finance ministers and the banks and coordinating long-term stretch-outs."

"Of course, we're going to work all this out in advance with the IMF," he confided. "Schumer is going to be meeting with de Larosière this week, we'll go right to the top. We'll only go ahead with this if the IMF agrees.

"I'm not so happy about it, but of course what we are doing will give the IMF a tremendous amount of more power," he concluded. "We need someone to coordinate this on the international level, and the IMF is the only game in town."

3) House Banking Committee Chairman St. Germain and Sen. Bill Bradley would like to go all the way for the entire Rohatyn plan, aides say. St. Germain is writing a bill which will coopt most of the Heinz-Proxmire bill with country limits and penalties for the banks, though they favor "disclosure" more than financial penalties. Bradley is writing companion legislation.