Banking by Kathy Burdman

Volcker's regulatory plans

He proposes that the Swiss run U.S. lending, as part of international credit controls.

Federal Reserve Chairman Paul Volcker told the Senate Banking Committee April 11 that he endorses the idea of the United States joining the Swiss-based Bank for International Settlements. At hearings called on the legislation now before Congress proposing that the U.S. grant an $8.6 billion bailout to the International Monetary Fund, Volcker responded to the Morgan Guaranty-authored Percy Amendment to the IMF quota bill, which calls upon the U.S. to join the BIS.

"For more than 20 years, the Federal Reserve has been a regular participant at the BIS," Volcker said. "We would of course be glad to examine the matter again, consulting with the Secretary of State and the Treasury, *and* our central banking colleagues."

Volcker proceeded to present legislation authored by the BIS to regulate U.S. banks' world lending, which will not only slash credit to the Third World but cause large losses at U.S. banks.

The proposed law also states that the IMF should set up "limits" on how much countries can borrow, both Third World countries, and big countries like the United States. The alternative would be to shelve old unpayable debt and issue low-cost long-term credit for production and industrial investment, contrary to IMF dogma. The wealth generated would redeem old debt.

Manipulating the anger of Americans at the idea of bailing out the IMF to the tune of $8.6 billion, Volcker proposed that the U.S. banks agree to "take their licks" along with the taxpayers, and take some losses on their Third World debt.

The plan, written by officials of the BIS and Bank of England, would kick U.S. banks in the teeth. Fed officials estimate that the BIS regulations could force large American banks such as Citibank to take more than $350 million in losses, one third of the bank's annual profits.

Volcker, along with U.S. Comptroller C. Todd Connover, and FDIC Chairman William Isaac, presented the Senate with a "Joint Memorandum on a Program for Improved Supervision and Regulation of International Lending," a five-point program, of which two points are most important:

Under Point 3 of the memo, banks must set aside "special bank reserves" for bad loans. This is the euphemism for "writing off" Third World debts. Although the Fed originally proposed to do this after an LDC missed interest payments for a year, the new proposal is to categorize a loan as bad if:

a) "full interest payments on indebtedness have not been made in more than six months" (the Senate may reduce this to three months); or

b) "The IMF or other suitable agency's programs had not been complied with and there is no immediate prospect for such compliance"; or

c) "terms of restructured indebtedness had not been met for over one year"; or

d) "no definite prospect exists for orderly restoration of debt service."

This would mean that the IMF has the right to call the question and demand that U.S. banks write off the Third World, very soon.

The second key point, Point 5, states that the IMF should set up "limits" on how much countries can borrow. It calls for the Fed to "increase cooperation with foreign bank regulators [i.e., the BIS] and the International Monetary Fund." The Fed will work with the others to set up an information pool to "pool all information on the countries."

The other three points would call upon banks to establish uniform accounting for fee income; "strengthen the government's examination" and evaluation of foreign loan risks; and require "increased disclosure" on foreign loans.

"The key thing is the role of the IMF, which hasn't received much publicity," one Washington banking expert said. "The U.S. is really calling here for a new role for the IMF, a new order in which the IMF is going to be policing all world lending markets. The Fed is calling for the IMF to commence routine monitoring of all borrowings, not just of countries which have borrowed from the IMF, but of all member countries of the IMF. This is new. And the IMF will report these numbers to private financial markets. So that means they will be telling the private banks exactly whom to lend what to."

If it becomes law, this agreement would amount to the beginning of "international credit controls" on world lending through the BIS, a Fed official confirmed April 13. "Other BIS central banks" are working on "similar plans to limit international lending," he stated, and once these are all put into place, there will be international credit controls.

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