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The United States and the IMF

Banking legislation in Congress centers around heightened powers for the Fund and the BIS.

Two bills pending in the U.S. Congress, if enacted, would abrogate control over the U.S. banking system to the British-run International Monetary Fund (IMF) and the Swiss-based Bank for International Settlements (BIS). Moves to this effect are taking place under cover of the scheduled increase of the U.S. quota contribution to the IMF.

The bills, which have been passed by both houses' banking committees, were written by British authorities. Bank of England chief regulator Peter Cooke was the real author of the House Banking Committee bill, a source close to House Banking Chairman Fernand St. Germain (D-R.I.) revealed May 12. Cooke, along with BIS officials, consulted with the Senate bill authors as well.

The Senate Banking Committee passed the Amendment to the Bretton Woods Agreement (S.695) on April 29, and the International Recovery and Financial Stability Act of 1983 (H.R.2930), was passed by the House Banking Committee on May 9. Both bills will be debated by the full House and Senate, with the ultimate aim of combining them into an "Omnibus IMF bill" at an upcoming House-Senate conference.

On top of authorizing $8.4 billion in cash to the IMF, both versions of the bill would violate the U.S. Constitution. Under Article I, Section 8 of the Constitution, only the Congress has the power to regulate the currency and credit of the United States. Further, under Article II, Section 2, the President has the sole power to make foreign policy, with the advice and consent of the Senate where treaty arrangements are involved. None of these powers may be legally given or delegated to a supranational body.

The bills will give the IMF credit controls over U.S. banks' lending to foreign countries, a measure which would cripple American export industry and employment. Comptroller of the Currency C. Todd Connover has pointed out that this will "set U.S. foreign policy." Both bills incorporate the April 7, 1983, "Joint Memorandum" on bank regulation by Federal Reserve Chairman Paul Volcker, Connover, and FDIC Chairman William Isaac.

Under the proposed legislation, the Fed and other U.S. regulators must classify U.S. banks' loans as non-performing when the IMF says so. U.S. regulators shall declare a loan to a foreign nation bad when "the IMF adjustment program has not been complied with, and there is no immediate prospect for compliance," the Senate bill says.

The IMF is given the power, via the Fed, to require U.S. banks to take major losses on such foreign loans. Once the debtor fails to meet IMF demands, U.S. authorities must force the bank to write off the loan. Each year the bank must set aside 10 percent of a bad loan's value as "special reserves" or "penalty reserves."

The House bill calls for every country which must reschedule its debt to be written off when "there is a substantial likelihood that such debt cannot be expected to be repaid on its original terms and conditions, without additional borrowing or major restructuring." If the House bill becomes law, some $30-$50 billion in U.S. loans to Mexico, Brazil, and other big debtors could be subject to write-offs, forcing a $3-$5 billion loss for U.S. banks.

The IMF is also given authority by both the House and Senate bills to set up "limits" on how much countries may borrow. "The U.S. is really advocating here a new order in which the IMF will be policing all world lending markets," a consultant for the Bank of England who helped write the bills explained. "This calls for the IMF to commence routine monitoring of all borrowings . . . of all member countries of the IMF."

The IMF shall act "as a center for the collection and exchange of information on monetary and financial problems," the Senate bill says. This confidential information shall be provided "publicly" for deliberation "upon which international borrowing and lending decisions are taken."

In addition, the Fed and other U.S. bank regulators are mandated to turn substantial control over U.S. banking to the BIS. Section 208b of the Senate bill requires that "the Federal banking agencies shall consult with the banking supervisory authorities of other countries to reach . . . the adoption of consistent supervisory policies with respect to international lending."

Title IV of the House bill gives Congress's General Accounting Office the auditing power to force the Fed to "cooperate with international lending supervisors." Title II states: "the President shall encourage the industrial nations to begin the promotion of effectiveness and consistency of regulation and supervision of international banking activities."

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