The IMF, the Bank for International Settlements, and the July 15 conspiracy

by David Goldman

Rumors of Brazilian and Argentine debt default swept all major markets July 7, sparking an $18 rise in the price of gold and a 10-basis-point widening of the spread between Treasury bill and Eurodollar interest rates (reflecting quality concern among major participants). In addition, Reuters reported from Paris at *EIR*'s deadline that ongoing meetings of the Organization for Economic Cooperation and Development (OECD) in Paris were "overshadowed" by concerns over the Brazilian debt, especially in the light of Brazil's failure to come to terms with the International Monetary Fund.

At one level such rumors may be dismissed as atmospherics, but only by reference to the unpleasant fact that Brazil and Argentina are already in default, the former to the tune of over $2 billion with respect to commercial bank creditors alone. Since the banking world has chosen to ignore the default—the equivalent of leaving the corpse of a deceased loved one in its favorite rocking chair in the living room—reports of Brazilian "default" have the impact of a rumored obituary.

Should the bankers call the Brazilian debt into default, as they may under the well-recognized rules of the game, they abandon hope of collecting more than a fraction of the $100 billion Brazil owes them through seizure of Brazil's assets abroad, ships in foreign ports, and so forth. They would also trigger defaults on an additional $200 billion of Ibero-American debt. It is not surprising that the bankers have not acted, instead holding their breath until Brazil can come to some form of general agreement with the International Monetary Fund, now acting as the general negotiator for the creditors in the Brazilian and other cases.

As matters now stand, either the Bank for International Settlements—the Swiss-based "central bank for central banks"—or the U.S. Treasury itself may pull the plug on Brazil July 15, the new deadline for Brazil's $400 million repayment to the BIS. The system of "bridge loans" to Brazil collapsed in May, when the IMF—citing non-compliance with IMF conditionalities—refused to disburse a scheduled $411 million loan installment to Brazil, preventing Brazil from repaying a similar amount to the BIS. The BIS (under impetus from the U.S. Treasury, which underwrote $500 million of the loan) extended the deadline to June 30. As the IMF team in Brazil returned without agreement in late June, Brazil again missed the payments deadline, and the BIS issued a further extension, to July 15.

Brazil's present chances of reaching agreement with the IMF are nil, according to sources on the Fund's Executive Board. The IMF, rather than easing conditionalities (at the expense of its tough reputation) to avoid going down in the flames of a Brazilian debt moratorium, has taken a literalist stand with respect to its conditionalities, making demands which the Brazilian government cannot accept and still remain the Brazilian government.

At the point of default July 15, the BIS may well invoke the guarantee clause embodied in the original loan, which makes the Treasury liable for $500 million of the original $1.3 billion lent by the BIS. The Treasury will then hold $500 million of defaulted Brazilian paper, becoming the senior creditor of Brazil, and drastically altering the creditors' equation. According to senior U.S. intelligence sources, the Treasury has attached two-man teams to all U.S. embassies in South America, preparing a general "contingency plan" to locate and seize the assets of defaulting debtor nations, on the scale of the November 1979 Iranian assets seizure.

Sources close to the chairman of the Bank for International Settlements, Swiss National Bank president Fritz Leutwiler, say that Leutwiler wanted to force Brazil into open default on June 30, but was dissuaded from doing so by the providers of the loan, including the Fed and the Bank of England. July 15 may be a different story: it is going to be hard to postpone matters for a third time.

IMF Managing Director Jacques de Larosière, a former French Treasury official with ties to Genevan banking circles, appears to have arranged it this way. Under the rules the Treasury has set for itself since the September 1982 annual meeting of the International Monetary Fund, it cannot cooperate with refinancing operations that are not sanctioned by the IMF. The IMF, in turn, has insisted upon "conditionalities" that no country could meet; in negotiating a change in Brazil's already repudiated conditionalities, de Larosière appears to have negotiated in bad faith. After the IMF staff officials responsible for the negotiations told both the Brazilians and the U.S. Federal Reserve staff that the IMF would make every possible effort to avoid confrontation, de Larosière suddenly stiffened the IMF's negotiating position in late June. "It is almost as if the IMF were grasping at straws to prevent an agreement," a senior U.S. administration economist commented.

De Larosière, who works closely with Bank for International Settlements chairman Leutwiler, appears to be doing his best to push through the "zero option" Leutwiler has defended, in various private speeches and in a March interview with *EIR*: to force the crisis now and let the American government take its lumps in the process.

In any case, the net effect of the IMF's tough stance is to push the United States towards confrontation with the Ibero-Americans, which has been the core of the central European position from the beginning. Swiss National Bank consultant Karl Brunner, the leading figure in the monetarist "Shadow Open Market Committee," has led a small guerilla war against U.S. congressional approval of an $8.4 billion quota increase for the International Monetary Fund. *Wall Street Journal* editor Robert Bartley, former Treasury Secretary William Simon, former Chase Manhattan Bank chairman George Champion, former Treasury official Paul Craig Roberts, and a number of other figures associated with the Swiss-based Mont Pelerin Society have been working with Brunner against the quota increase. It is not so much that these gentlemen object to the IMF, but that they want to force a crisis between the United States and the major debtors.

Another factor is the Swiss ties of the leading Treasury officials responsible to manage the debt problem, Undersecretary Beryl Sprinkel and Assistant Secretary Marc Leland. Sprinkel is Milton Friedman's virtual alter ego, a Mont Pelerin Society ventriloquist's dummy. Leland, the former personal lawyer of Geneva's Edmond de Rothschild (and Guy de Rothschild's son-in-law), entered government service as a protogé (during the Vienna MBFR talks) of Fred Iklé, the Swiss-American Defense Department undersecretary for policy.

The Treasury Department, despite protests from most of the rest of the government (and even from Paul Volcker's Federal Reserve), has tied American policy to the ridiculous presumption that a combination of economic recovery and IMF conditionalities will cure the debt problem. This sort of thinking has dug American banks in deeper. In restating the Treasury's "what me worry" attitude before a National Foreign Trade Council press conference last month, Secretary Donald Regan told *EIR* why joint renegotiation of debt moratoria by Ibero-America was unthinkable. "Why, these countries would never get another loan!" Regan said.

The Treasury position comes down to 1) pushing Ibero-America into default, and 2) declaring economic war upon defaulting nations. At this point, Fed Chairman Volcker will, "under compulsion," leap in to save the banking system from collapse, and buy up a large portion of the banks' $300 billion outstanding Ibero-American loans—a sum about twice the size of the Fed's balance sheet.

Both Ibero-America and the United States, barring a political deal above the heads of the Treasury, Fed, and IMF, will lose their shirts under this arrangement.

Brazil's 'consensus' likely to surprise the creditor banks

by Mark Sonnenblick

If Brazil frustrated its foreign creditors during June, it may exasperate them in July. Take the case of Chase Manhattan senior vice-president Francis L. Mason. On June 2, Mason promised *EIR* economics editor David Goldman that Brazil will "play a little brinksmanship for a few days" with the IMF and then both sides would back down, with Planning Minister Antonio Delfim Netto forcing through radical austerity. Mason chided Goldman that anyone who has "the idea that there are some military guys who can put a gun to Delfim's back is ridiculous."

The military stopped Delfim from "biting the bullet" on austerity, and by June 28, Mason had changed his tune. In an agitated discussion with Goldman, Mason predicted, "The chances of a Brazilian debt moratorium are greater than 80 percent, probably close to 100 percent. . . . There is already an ultra-nationalist reaction in Brazil," Mason added. "There will be a change in government. Delfim Netto will be out. It's really a shame; it will be straight military and more authoritarian than today."

Mason's case is indicative of the confusion permeating the highest levels on Wall Street. He is the head of risk analysis for Chase Manhattan and one of the key figures in the formation last year of the "Ditchley Group" creditors' cartel. He is also chief negotiator for all the banks with Venezuela.

No one, in or out of Brazil, can safely predict what will happen there in the coming months. The wild back-room intrigues over chosing a successor for President João Figueiredo provide fertile soil for many surprises. And all Byzantine scenarios for succession in 1985 have been spoiled by General Figueiredo's coronary troubles.

On July 14, Figueiredo will relinquish the presidency to civilian Vice-President Aureliano Chaves, while he undergoes a full examination in Cleveland. The air force minister believes Figueiredo requires a bypass operation which would put him on the sidelines and Chaves in the saddle for two