Banking Kathy Burdman

First Chicago next to go?

Volcker enforces domestic bank losses, but with Kissinger's help, covers the Latin American hole.

Stocks of the major money center banks collapsed on Oct. 3 after First National Bank of Chicago announced a $70 to $74 million loss for the third quarter, compared to a net profit of $49.1 million in the same quarter of 1983. The loans admitted bad were largely in U.S. energy and agriculture, with one large Mideast shipping loan written down.

This was predicted in *EIR*'s Confidential Alert of Sept. 5, which noted that although U.S. banks had "come back" during August, the third quarter would see renewed bad losses and more depositor "walks" out of major institutions. On Sept. 11, it was noted in this column that Manufacturers Hanover itself in New York had actually suffered a hushed-up deposit outflow in August.

Stocks of major banks fell $1 and $2 a share, led by First Chicago. Citicorp, Citibank's parent company, fell $1 after Dean Witter analyst Lawrence Cohn cut his third-quarter earnings estimate for the bank to $1.50 a share from $1.85 a share. Manufacturers Hanover, which many thought would take big losses in Argentina, did not announce any losses, but fell by $1¾. Chase Manhattan fell $1⅜, Bank of America fell $1⅛, and Bankers Trust and Morgan slumped as well.

All this despite the fact that not one bank has bitten the bullet on the Latin American debt crisis! In fact, a secret attempt at bailing out Argentina is now under way, despite the fact that the country did not pay some $1.6 billion in debts due by the end of September last week.

That is, Federal Reserve Chairman Paul Volcker and the other regulators have decided for now to force the banks to continue to take large domestic U.S. losses, but to cover up the worst of the huge international bad loans, at least until December, and perhaps until next March. First Chicago continues the pattern established in the Continental Illinois bankruptcy, of writing off domestic loans only.

Apparently Volcker is working with those British and Swiss bankers who are willing to keep deposits in the U.S. banking system for now. But they have demonstrated in the Continental Illinois bankruptcy that they can bring down the U.S. banking system and run Reagan out of office by pulling out deposits, anytime they want to.

At this writing, no major run has begun on First Chicago's deposits. However, although First Chicago chairman Barry Sullivan said that "a provision of this magnitude is a one-time event," First Chi's troubles have just begun.

Meanwhile, Argentina failed to go bankrupt on Sept. 30 because the New York banks bailed it out after Henry Kissinger's lunch for President Alfonsín on Sept. 26, a top banker associated with the New York Council on Foreign Relations (CFR) said Oct. 4. Kissinger plans to postpone the Latin American debt crisis until after the election, which translates: after he has consolidated his grip on Reagan. So, Citibank and Chase Manhattan loaned Argentina $1.6 billion to keep the country's debts current. The report was confirmed by the Argentine daily *Clarín* on Oct. 1.

Argentina was given a roll-over until Jan. 15 of one $750 million loan due Sept. 15. In addition, Argentina owed $950 million in overdue interest payments on Sept. 30, of which the country only paid $100 million. But based on Argentina's new IMF agreement, the banks, on Kissinger's urging, agreed to give Argentina a short-term "bridge loan" for the remaining $850 million. And U.S. banks avoided taking big Argentine losses.

The entire charade, however, is deliberately scheduled by Kissinger to come apart at all seams later. While it could do so at any moment, collapsing the U.S. banking system, the CFR banker said Kissinger's timing is for a blow-out at the end of the March 1985 quarter, right before the IMF holds its big April meeting on Kissinger's plan to expand the IMF into a one-world government.

"Argentina will get some money from the IMF during the fourth quarter and make its debt payments through December, but by next year it will be clear that they are out of compliance with their IMF austerity guidelines," the banker said. "They can't meet the conditions the IMF is demanding. Then the IMF will cut them off, and by the end of the first quarter 1985, Argentina will be in trouble all over again."

Brazil's debt will blow out at the same time, he predicted. "Brazil will be the Argentina of 1985. Their IMF program is over at the end of December and they will be unable to pay their interest. They have a new government coming in next year and by the end of the first quarter it will be unable to pay the interest.

"People who think the debt crisis has gone away are wrong. We will see it in the first quarter of 1985, a repeat of 1984"—when Continental Illinois collapsed.