

## Banking by David Goldman

### The flight-capital wars

*Brazil sprang the "Gebauer Affair" to turn the tables on the bankers.*

**B**razilian sources indicate that the sorrows of Antonio Gebauer, the former Morgan banker pilloried after \$6 million allegedly disappeared from his clients' accounts, resulted from a Brazilian government ploy to turn the tables on the U.S. Treasury. The Treasury and the commercial banks are using Ibero-America's continuing problem with flight capital to demand that these countries open their economies, privatize their state sector, and generally conduct a garage sale for creditors.

Brazil saw the chance to prove that the \$100 billion in flight capital lost by Ibero-America since 1980 was absorbed by the same creditors who are making these demands—putting the matter in a different light. Brazil is saying, in effect, "We weren't incompetent managers—you burglarized us!"

Gebauer's missing \$6 million allegedly turned up in a Morgan internal audit. It appears that the audit was prompted by complaints by Gebauer's clients in Brazil, who, in turn, were put on the spot by Brazilian authorities who had detected their illegal deposits at Morgan. Now, the Brazilian authorities are demanding full disclosure of Brazilian accounts at American banks, to the enormous discomfiture of the Treasury.

A Treasury spokesman was quoted in *O Globo* newspaper of Rio on May 28: "It is very unlikely that the U.S. government would provide Brazilian authorities with the names of Brazilian depositors in Morgan Guar-

anty Trust or any other such establishment in the United States, in case there were a formal request in that regard." He said that foreign depositors are usually not identified by countries, and that banking secrecy can only be violated in specific cases of things that are considered crimes in the United States.

That is, the Treasury has taken the same stance that the Swiss have against the United States, when the United States has sought information on criminals abroad!

Peru's President Alan García, whose debt-service limitation plan is under consideration throughout the continent, picked up on Brazil's action May 25, saying that all of Ibero-America's debt could be found in private bank accounts in the United States.

For the past several months, the Treasury has added insult to injury, demanding that debtor nations sell off national assets at prices low enough to attract capital back. Secretary James Baker had the following exchange with Sen. Richard Lugar (R.-Ind.) in the Senate Foreign Relations Committee May 20:

**Chairman Lugar:** "But how would you answer persons who would say that additional fresh money for Mexico which may be required during this calendar year, will be offset by capital that still seems to flow out of Mexico in very large amounts. On a net basis, are we assured that monies that are new and fresh are going to, on a net basis, stay and, if so, is there

enough reform at this point, in terms of the sale of the state-run industries or allegations at least of malpractice and the use of funds, to give you confidence in how we're proceeding there?"

**Secretary Baker:** "Mr. Chairman, I think the Mexican government understands very well that taking the easy course domestically might well result in an absence of new capital flows. It might not be sufficient to attract new capital flows. And until capital flight is reversed, I think frankly, the first threshold that has to be crossed by any country seeking to adjust through the adoption of growth-oriented economic reforms is to reverse capital flight. Until capital flight is reversed, there won't be additional lending. It simply will not—as far as private sector lending is concerned, it simply won't take place.

"And with regard, for instance, to Mexico, there has not been additional lending. I do believe that the government of Mexico understands realistically what is required, but the fact remains that it is exceedingly politically difficult to get there."

**Chairman Lugar:** "Well, that's true, but we're already at May and you're right, the additional capital has not been forthcoming, is there—how would we know that capital flight has stopped? . . ."

**Secretary Baker:** ". . . The question is whether or not they are going to take the reforms far enough. That will be the test of whether or not they're able to reverse capital flight and whether or not they're able to attract new private flows of capital."

The same week, Morgan published a study of flight-capital volume in Ibero-America. The Gebauer affair has, thanks to the Brazilian government, made clear why Morgan knows so much about the subject.