# Volcker's biggest fraud: the new debt gambit

by Vin Berg

Federal Reserve chairman Paul Volcker, who has been instructing his statisticians to lie to make a depression look like prosperity, has now imposed on the Office of the Comptroller of the Currency a shift in bank regulatory procedures designed to make the bankrupt financial institutions of New York appear bastions of liquidity. In the process, Volcker has put Comptroller C. Todd Connover in a position that could land him in jail; he has put the entire U.S. banking system in violation of the U.S. Constitution; he has put the U.S. dollar in a position of greatest vulnerability to collapse; and he has authorized the wholesale looting of America's principal allies among the debtor nations of Ibero-America, while placing them on the verge of repeating the hyperinflation of 1923 Weimar Germany.

This past December, as *EIR* reported, the Fed and the Comptroller, in both joint and separate communications with major New York banks, informed them that they could accept payments on Ibero-American debts in "soft currencies." Although the debt of Brazil, for example, is denominated in dollars, Brazil, which can't possibly earn enough dollars to meet its usuriously pyramided obligations, may now pay in Brazilian cruzeiros; by implication, Mexico and Argentina may pay in pesos, Venezuela in bolivars, and so forth. The local currency payments are to be placed in blocked accounts with the debtor nation's central bank.

Under a part of the plan championed by Commerce Undersecretary Lionel Olmer in discussions with nervous regional bankers, these accounts will be made negotiable—they can be used for equity investments in the debtor-nation, or marketed at a discount to another institution interested in local investment. Meanwhile, the "soft-currency" payments will be counted as "current income" of American banks by the regulators.

What this signifies is clear when one considers that, by U.S. law, any debt which is more than 90 days in arrears on *dollar* interest payments must be declared "non-performing," and the debtor must be declared officially in default. At present, when the debtor in question is Brazil, the loss incurred in writing off such loans by Citibank, for example, would mean that Citibank, too, is bankrupt.

As of Dec. 31, 1983, Brazil, using a grab-bag of accounting tricks, was able to keep its interest payments arrearages at 88 days—just under the default limit. But since then, Brazil's arrears have risen toward 120 days. Moreover, a $6.5 billion "jumbo" loan to Brazil arranged by IMF officials is almost certain to fall through. Therefore, Citibank and other New York financial institutions heavily exposed in Ibero-America are officially bankrupt by all laws of the United States come the March 31 bank examiners' visit.

Volcker's high interest rates drained debtor nations of capital and destroyed the terms of trade and terms of financing the trade upon which Ibero-American nations depended to earn the foreign exchange for debt service. So, Volcker placed pressure on Connover, who has fiduciary responsibility to the depositors and stockholders of America's banks, to hide the fact that those banks are legally dead in the water because none of their Ibero-American "assets" is performing.

Volcker's idea was to make the debtors print mountains of their own currency to meet their obligations. Those foreign currency payments would be treated as if they were as good as dollar payments; by introducing a new regulation or two, and introducing some sophistry in compliance rulings on old regulations, "soft currency" payments could be used to hide the fact that countries like Brazil were way over the arrearage limit on their debts when accounted in dollars.

There is a very good reason why foreign obligations to

American banks are denominated in dollars, and by all banking regulations consistent with the sovereign economic power granted by the U.S. Constitution, must be paid in dollars. As a congressional source put it, "Any regulation which allows the banks to accept foreign currencies for dollar obligations means that the foreign monetary authorities have the ability to create dollar liquidity."

Nevertheless, as of now, a reportedly very nervous Connover has capitulated to pressure from Volcker and Federal Reserve Governor Henry Wallich, the putative author of the regulatory hoax. Step by step, the Fed has maneuvered debtors and their American creditors into an illegal, insane arrangement:

On Dec. 15, 1983, the Office of the Comptroller of the Currency issued an "Inter-Agency Statement on Examination Treatment of International Loans" on behalf of the Treasury, the Fed, and the Federal Deposit Insurance Corporation. The very circumspect document established a new category of so-called "Other Transfer Risk Problems"—bad loans Volcker et al. would consider good loans. The document did not spell out the "soft-currency" payments idea. "They would never put that in print," explained a source close to Volcker. "They simply said they would interpret the term 'full servicing of interest payments' flexibly."

On Dec. 23, a Federal Reserve memorandum concerning rules for implementing a new Regulation K, Docket No. R-0498, was issued, and went into effect Feb. 1. Henry Wallich held a closed-door meeting with New York bankers Feb. 9 to explain the memo's meaning. According to a source present at the meeting, Wallich told the bankers:

> Debtors may pay the interest on their debt in soft currencies. The regulators are willing to account the loans to be performing loans, and will not account them to be non-performing. . . . As long as the central bank of the debtor country guarantees that the payments made in soft currencies will be transferred into dollars at some future date, then the system will work.

In plain English, Fed and other regulators are willing to violate the law on the 90-day arrearages limit.

Also on Dec. 23, Connover sent a letter to Citibank's in-house law firm, Sherman & Sterling:

> It has been agreed by the parties involved that the restructuring of private and public sector Brazil debt . . . would result from the original obligors on the loans meeting their financial obligations on those credits by paying cruzeiros to the central bank to the account of the foreign creditors. The central bank is committed, by the deposit agreement, to convert the cruzeiros into specified foreign exchange deposits payable according to an agreed schedule. . . . The OCC has historically distinguished between loans and deposits, subjecting only the former to the provisions of 12 USC, Section 84. In light of the characteristics and context of these deposits, the OCC sees no need to depart from this traditional distinction in the present situation.

Thus, Brazilian debtors may pay cruzeiros into blocked accounts at the Brazilian central bank. These will then be called "deposits," rather than "loans." OCC regulations requiring that "loans" be declared "non-performing" if not accruing dollar interest payments for over 90 days, do not apply to "deposits." Therefore, there's no problem!

## Toward the Vail Plan

Citibank chief Walter Wriston is among those who appears to think there *is* a problem. "This is all fine for people like Wallich and Olmer to talk about," said a British banker. "Of course they do not have stockholders and depositors to think about." In Citibank's case, an enormous share of the bank's dollar income depends on Brazilian dollar debt service.

The currency repayments, sequestered in blocked accounts, are certain to depreciate rapidly on the international market—totally undermining the asset base of the American banking system, however "strong" the dollar were to apparently remain.

A pocket calculator shows, for example, that even if Brazil were to crank up its printing presses and create cruzeiros in an amount doubling its present money supply, it still wouldn't meet its debt obligations. The debtor-nations are thus placed in the position of Weimar Germany, hyperinflating its money supply to meet Versailles war reparations. As this procedure makes the local currency increasingly worthless—and with it, U.S. banks' "current income"—the economy of the debtor nation will become increasingly dependent on a black-market dollar economy increasingly dominated by the one dollar-earning "growth industry" left untouched by Volcker policies and the International Monetary Fund: illegal drug traffic.

This corresponds to the "free enterprise" rhetoric contained in the recent Kissinger Commission Report on Central America—a section of that report which Kissinger notably emphasized should govern all economic policy toward South America, too. It was, after all, Kissinger and his economist, Alan Greenspan, who first outlined the ultimate goal of the Federal Reserve's current regulatory hoax at meetings in Vail, Colorado last August.

Kissinger's "Vail Plan" proposed that, since Ibero-America's debts were patently unpayable, "debt for equity" should be the approach. In return for lower interest rates and stretch-outs, debtor nations could be induced—or brutally pressured—to eliminate their highly restrictive laws on foreign investment. Local currency paid into blocked accounts in the name of the creditor could then be used by the creditor or an entity to which the blocked account was transferred to "invest" locally. The model for Kissinger's plan is the British East India Company's method of turning indebted countries into British colonies. Through the blocked-accounts scheme, Brazil's leaders will print masses of Brazil's money, hand it to Brazil's creditors, and then watch the creditors buy Brazil.