Lines are drawn on the debt crisis

by Chris White

Hearings at the House Banking Committee, under its new chairman, Henry B. Gonzalez, another prominent Texan in what Washingtonians consider the charmed inner circles of political power, drew the lines on the world debt crisis.

Interesting though the content of the hearings was, reflecting a broader, deeper factional war within the ranks of the international financial elite and its technocratic managerial layers, the line-up there presented becomes yet more significant for three reasons: First, with developments in Venezuela, Yugoslavia, and Poland in the final week of 1988, the debt crisis has been put back on the front-burner of the international situation, and also as an East-West matter; second, because the debt crisis, and how to deal with it, has been slated as the leading agenda item at the Davos, Switzerland World Executive Forum, when this outfit will meet later in January to discuss policies for the year ahead; third, because of the deepening crisis atmosphere engendered by military deployments, and terrorist extensions and surrogates for military power, in the Caribbean and Mediterranean.

Two basic lines were presented at the Gonzalez hearings on the debt. The one represented most clearly was by William Seidman, the chairman of the Federal Deposit Insurance Corporation, but echoed by Robert Clarke, the Comptroller of the Currency. It is not clear if either of these luminaries will retain their position under what is being increasingly frequently called the Bush “re-establishment.” Whether they go or stay, their thinking can be assumed to represent the kind of continuity in policy that is otherwise typified by the role of Secretary of State-designate James Baker and his cronies in the doomed art of financial “crisis management.” The other view was put forward most succinctly by Harvard professor Jeffrey D. Sachs, and buttressed by the testimony of former Brazilian Finance Minister Bresser Pereira.

For the first of these two alternate views, there is no problem with the debt, full-stop. Seidman put it this way in concluding his testimony: “While large LDC [Lesser Developed Countries] debt exposure by some major banks will be with us for years to come, at this time we cannot foresee any bank failures resulting from LDC exposure alone. Thus, at this time, the LDC situation poses no discernible threat to the financial condition of the Federal Deposit Insurance Corporation.”

Seidman argued that since nine banks alone hold two-thirds of the outstanding $55 billion owed to U.S. banks, defined on the basis of the FDIC’s private definition of a debtor, and since those banks have re-capitalized and built loss reserves in excess of the outstanding amount, there is no threat. Remarkable, isn’t it, how some so readily deceive themselves for political expediency?

Clarke was more ambivalent, but on the same line: “LDC debt exposure of U.S. banks will continue to be a source of concern and a high priority for the Office of the Comptroller of the Currency. However, we have seen the exposure of U.S. banks to problems with their LDC loans significantly reduced over the last six years.” Clarke’s numbers, though, debunk Seidman’s bluff assertions. “As of mid-year 1988, 181 U.S. banks reported holding $280 billion in cross-border non-local currency claims of foreign borrowers. . . . At the same time, the aggregate primary capital of the U.S. banks with loans to troubled LDCs has doubled, from $58 billion to $117 billion.” Though the $280 billion exposure cannot be compared directly with the $117 billion in capital, the numbers do show that Seidman’s attitude is, let’s say, colored by overly rosy spectacles.
The Citibank question

Sachs, for the opponents of the official line argues that the Treasury Department is working together with Citibank to do an end run around debtors, other banks, and U.S. taxpayers alike. Sachs denounces Treasury’s failure under conditions of what he calls “misery and political instability caused by the debt crisis.” “The Treasury has failed,” he says, “because it put the short-term and narrow interests of a small number of U.S. banks above the interests of the U.S. banking system as a whole, and above the interests of American economic and foreign policy generally.” He charged that Citibank is the ring leader of a group of four or five banks, which, “backed to the hilt” by the Treasury, have “worsened the position not only of debtor countries, but also of the majority of U.S. banks, and the U.S. taxpayer as well.”

Citibank’s hard line, he says, is responsible for the collapse in the average value of commercial banks’ claims on LDCs. It is responsible for a back-door bailout of Citibank and its friends, facilitated by Treasury funds allocated through the World Bank, so that Mexico and Argentina can continue to make their interest payments to Citibank; it is also to blame for the hyperinflationary wreckage made of countries like Brazil, which have signed on for the Citibank-promoted, Treasury-enforced debt-for-equity and local currency conversion schemes. He shows that Brazil, by adopting this approach, has increased the costs of debt service tenfold, and generated uncontrollable hyperinflation internally. Bresser Pereira’s testimony buttressed the case put forward by Sachs.

Thus, one would have to conclude that the “everything is just dandy” approach recommended by Seidman and company, is in fact the stubborn insistence that Treasury continue to be permitted to support Citibank’s destructiveness, while providing taxpayers’ money through especially Republican crony Barber Conable’s World Bank, when the going gets rough. Sachs and Bresser Pereira are advocates of an alternate “securitization” scheme, under which a new agency would be created in either the World Bank or the International Monetary Fund, capitalized with about $26 billion from the advanced countries, secured against Third World foreign exchange earnings, which fund would be used to buy out existing debt, discounted to market value or thereabouts, in exchange for new 20-year bonds. This package was proposed, somewhat unsuccessfully for Mexico, at the beginning of 1988, and has been implemented in Brazil.

It doesn’t ameliorate the genocidal dictatorship over credit and economic policy which is murdering the LDCs and is responsible for depression in the advanced sector; it replaces Citibank’s dominance with the dominance of another financial group, identified with major insurance companies and the House of Morgan. In this sense, the Gonzalez hearings provided, again, the forum for another review of the split between Morgan and Citibank that first surfaced to the public’s attention more than a year ago.

The broader context was developed by C. Fred Bergsten from the bankers’ Institute for International Economics. Bergsten, a Trilateralist and former Carter administration treasury official, who warned that, with the U.S. running a minimal $120 billion per annum deficit in current and trade accounts, the country is effectively dependent on a subsidy provided by foreign creditors, of at least $10 billion per month; $150-170 billion is probably closer to reality, but the point remains the same. Should that subsidy dry up, then the dollar will plunge, interest rates will soar, and internal financial and monetary arrangements will come crashing down.

Contrary to Seidman and Clarke, and therefore also contrary to the Treasury and Citibank, Bergsten is reporting that the decisions on what to do about all this will ultimately not be made in the United States. Dependent as it is on its creditors for the funds which month by month keep the country going, the U.S. is also bound by the demands which those creditors impose.

The Morgan securitization plan put forward by Sachs and supported by Bresser Pereira, is not simply a technical alternative on the debt question, it is a political proposal to bust up the financial power center which for the past period has dominated world politics. To the extent that the U.S. administration continues through the Treasury Department to back the Citibank-promoted schemes, the U.S. is heading for big political as well as financial trouble.

A line-up has already emerged on this from Ibero-America, around Carlos Andrés Pérez of Venezuela, Salinas de Gortari of Mexico, and Sarney of Brazil, now working on what’s called a “debt initiative,” coordinated with the European crowd that controls Michel Camdessus’s operation at the IMF. Both Pérez and Camdessus are the featured speakers at the upcoming Davos Executive Forum discussion on the debt.

Political showdowns for control, at the level of world politics as such, are fought out on the issues which are actually driving in such fights. So is it now: As the debt crisis erupts again in Eastern Europe, and in Ibero-America, the military deployments are going into place under which such battles for control among the powers behind the scenes will be fought out. The military mobilization around the so-called “Libyan chemical weapons plant” is part of this, since whenever the core of international financial control is at stake, the question of oil, and its supply and price, comes surging to the fore. It was earlier Davos Forums which in 1973 and 1979 set the stage for the first Rockefeller-Kissinger coordinated Arab-Israel war and oil shock, and then for the Khomeini oil shock. Both were designed to force the world economy into austerity to save the financial system. Under the renewed international fight for control of world finances, and renewed demands by bankers for savage austerity, it may well be that the Mideast will once again be the arena in which such issues are fought out. It ought also to be borne in mind that none of the protagonists involved in this actually know what they are doing, and that therefore their games constitute the gravest threat to all—the more since Gorbachov’s Russia is more than ready to pick up the pieces.