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International Markets Newsletter

IMF, Wall St. In Panic Over Debt Dumping

NEW YORK, Sept. 25 (NSIPS) — The New York banks and their one-time enforcer, the Washington-based International Monetary Fund, are near panic over Third World moves toward unilateral debt moratoria.

Senior International Monetary Fund officials admit point-blank that the organization, ravaged by the defections of European and Japanese governments, is powerless to intervene and prevent a collapse of the Eurodollar market.

On Wall Street, the large commercial banks, who hold most of the Third World's $250 billion in private debt, are scrambling to build up liquidity resources to meet an expected run against their deposits internationally next week, following the first declarations of moratoria by Third World countries.

Leading investment banks formerly allied with Chase Manhattan, Citibank, Morgan Guaranty and other Eurodollar operators are jumping ship. Well-placed sources report that Chase Manhattan's own investment banker, Lazard Freres, has sold off its entire holdings of Chase and other New York banks. Instead, Lazard has taken positions in several growing regional banks, including Republic Bank of Texas, Northwest Trust of Minneapolis, and Mellon Bank of Pittsburgh, which they expect to weather the collapse of the Eurodollar market.

These defections leave Wall Street without a single effective ally in any of the old Atlantic Alliance governments — and no one to defend them but Henry Kissinger's Nazi terror machine. Said a top official of the prestigious Swiss Bank Corporation: "You could indeed say that the International Monetary Fund is bankrupt. But why do you have to put it so crudely?"

Other investment bankers acknowledge that the European financial interests are already fleeing the bankrupt Eurodollar market, and expect the "gap to close" on the big Eurodollar banks with great speed.

IMF Is Bankrupt

Following West German finance minister Hans Apel's public denunciation of liquidity-creation, i.e. bailouts, by the International Monetary Fund in a speech Sept. 20, IMF officials and bankers agree that the world's central bank is kaput.

"Apel is firing warning shots at what we planned to do at the IMF Annual Meeting" on Oct. 4 in Manila, admitted J.J. Pollak, the number three official of the Fund. The IMF had planned to organize massive bailout arrangements for the Eurodollar banks, by going in as a "co-lender" on debt rollover loans to Third World countries in partnership with the banks. The American Express Company — run by Carter hopeful for Treasury Secretary Robert V. Roosa — demanded that the IMF come in as "co-lender" and debt collector in a statement issued in London last week.

But the West German veto on this policy rules out any debt-collection enforcement policy on the part of the IMF. Previously, printing-press bailouts for the Eurodollar banks, who already hold about $100 billion of defaulted Third World paper, have turned into international "hot money" charging about the international money markets in search of the most secure short-term investments. West Germany has absorbed $12 billion of this hot money during 1976, leaving its credit system in an inflationary shambles. Sources at the West German finance ministry confirm that it will tolerate no further bailouts of dollar debt.

Apart from the West Germans, who have acted as Wall Street thugs in previous IMF sessions, the other European nations are breaking to support the Third World and a new, gold-backed monetary system. French sources at the International Monetary Fund report that "West Germany has broken definitively with Washington (i.e. Treasury Secretary Simon) on gold and other issues as well."

And in France, Le Monde's Paul Fabra this week ridiculed the IMF in a column telling the agency to look to its own solvency rather than comment on world payments problems.

Banks Prepare for Collapse

Wall Street analysts cite the huge $4.5 billion jump in the nation's money supply during the week ended Sept. 15 — the largest on record by a factor of 50 per cent — as evidence that the banks are scrambling for every dollar they can squeeze into their vaults before debt moratorium hits.

The huge rise in money supply — following three weeks of sharp decline — occurred when New York commercial banks persuaded corporate depositors and the U.S. Treasury to leave cash-on-hand in their New York checking accounts. Banking sources confirm that they are building up their internal liquidity in expectation of an extreme shock to the Eurodollar market by the end of September.

According to the widely read newsletter of the Swiss-connected gold traders, Deak-Perrera, the New York banks are about to be knocked in the teeth by a massive outflow of deposits. Former Federal Reserve official Charles Exeter, writing for the newsletter, predicts that a massive exodus of funds will take place to safer regional banks during the last week of September. In turn, United Nations offices have been flooded with calls from regional bankers about the timing for a unilateral debt moratorium by Third World countries during the current General Assembly.

Despite the series of insipid statements from Federal Reserve officials claiming that there is no danger of debt moratorium, Federal Reserve spokesmen in Washington, D.C. privately admit they are preparing for the worst. "We don't rule anything out at this point," one official said. "Anything could happen." Earlier in the week, Fed Governor Henry C. Wallich told the Los Angeles Times that there was no longer any danger of Third World debt repudiation, as there had been earlier this year.

But all these last-minute preparations are useless in the face of the political collapse of Wall Street's debt-collection machine. The Eurodollar market has been bankrupt for more than a year, when the commodity-speculation bubble in Third World exports collapsed. At least twenty countries have already stopped paying debts because they are utterly bankrupt. The Eurodollar market has survived the last year through a series of hyperinflationary bailouts of the big Eurodollar debts. Now even West Germany will no longer accept the dollar hyperinflation, and has turned off the intravenous system that kept the monster alive. The political props to the Eurodollar swindle have been kicked out. One sharp push will bring it down.

Bankers Respond To Debt Moratorium Threat

The following interviews and statements were obtained this week by NSIPS from our correspondents and sources in the financial community both here and in Europe.

OFFICIAL AT EUROPEAN DEPT. OF IMF SECRETARIAT

NSIPS: Isn't true that West German Finance Minister Hans Apel's statement yesterday about curtailing IMF liquidity creation means he is opposing new IMF credits to Britain, Italy, and the Third World?
A: Yes. But I don't think he will have any choice — if the IMF keeps creating money, and money flows into Germany, then the Germans will have no choice but to let the deutschemark appreciate.
NSIPS: Well, I think Mr. Apel was referring to precisely this inflationary effect on the German economy, and which German industrialists are demanding be halted. Isn't Apel talking about the idea of a new IMF refinancing facility for Third World debt?
A: Yes, it's very likely that the upcoming IMF annual conwill discuss such a new facility for the IMF to co-finance debt refinancing along with the commercial banks. The Germans are very upset about this — Apel was taking a shot in advance.

J.J. POLLACK, SENIOR ECONOMIC COUNSELOR TO IMF

NSIPS: What is your reaction to West German Finance Minister Hans Apel's statement about curtailing IMF liquidity creation?
Pollack: Mr. Apel wants no new financing and there may indeed be no serious discussion of this at the IMF conference. But in event, Mexico is an example of what we have in mind (the IMF has just floated a rollover loan to Mexico — ed.). And Brazil. This is how we intend to work — in spite of what Mr. Apel and the rest may say about liquidity creation.

ROBERT ROOSA, PARTNER BROWN BROTHERS, HARRIMAN

Journalist: The latest Amex (American Express Bank, London on whose board Roosa sits — ed.) letter appears to reflect a great deal of concern over the debt question — the huge outstanding debts of the less developed countries and of advanced sector countries like Britain.
Roosa: I'm very concerned about the situation. I have my own assistant working on the problem preparatory to the Manila meeting. We want to deal with the situation without being alarmist. (Roosa then denied that anything at all would come out of the UN general Assembly Session.)
Journalist: The Europeans appear to be splitting from the U.S. on critical policy matters. Take (West German Finance Minister) Apel's statement earlier this week — he's saying that the IMF shouldn't create further liquidity to roll over debts.
Roosa: Apel's statement was a little grisly. We don't know whether he's going to be in office in two weeks...the West German elections are coming up, you know....

SPOKESMAN FOR U.S. TREASURY

NSIPS: Would the U. S. join the rumored new IMF co-financing facility to rollover Third World commercial debt with the private banks?
A: That's ridiculious. We couldn't do it politically and we would't want to. That would be the public sector bailing out the private sector.

SPOKESMAN FOR NEW YORK FEDERAL RESERVE BANK

NSIPS: What do you propose to do to handle the debt moratorium declaration next week at the United Nations General Assembly?
A: Look, I don't agree with all your premises, but anything could happen...Yes, a monetary collapse cannot be ruled out. So, at this point, what do you expect us to do?

SPOKESMAN FOR N.Y: STOCK BROKERAGE HOUSE

NSIPS: We have confirmed with high-level Foreign Ministry sources of several governments that Third World nations will unilaterally declare debt moratoria this Monday at the United Nations.
A: Oh boy! That's a real shocker. I mean it's that close huh? You know, we have been seeing it coming for sometime...You know the last time you told me about it, I went and talked to all kinds of people here, and my friends at the clearing house banks — and you're right about it. They know it's going to hit them one of these days. Listen, please keep me informed on this business and I'll tell you all you want to know about the international money markets. OK? ...One indication I know about is that most Third World countries are now insisting that all new loans and rollovers of old credits be done under their laws. In other words, they want their own laws to apply to new debts. Colombia is a case in point. The government has banned all debt except under Colombian law.

NEW YORK INVESTMENT BANKER ASSOCIATED WITH LAZARD FRERES

Q: What is your response to the Third World plans for an announcement of unilateral debt moratorium next week?