

A chicken game with the Polish debt

by Kathy Burdman

In an act which rocked the bankers from New York to Frankfurt, the U.S. Senate May 28 voted by 83 to 10 to approve an amendment which would force the government of Poland into default on its foreign debt. The amendment, attached to the 1982 supplemental appropriations bill by Sen. Robert Kasten (R-Wis.) and Daniel Moynihan (D-N.Y.), would force U.S. banks to declare Poland in default on all its loans, or else forego all future payments from the U.S. Department of Agriculture Commodity Credit Corporation on guaranteed loans.

The bill allows the President to declare default or not as he chooses each month. That would, however, leave a Sword of Damocles hanging over any banker who wanted to lend to the East.

"We're in a state of shock," an officer of Chase Manhattan Bank told *EIR* May 28. "This is a disaster for the international banking system. It could cause banks to tighten lending to all of the Soviet bloc, as well as to the Third World, and that could lead to chain-reaction defaults."

If it becomes law, the Kasten-Moynihan amendment will do exactly that. However, while it is expected to be passed by the House by June 8 and sent to President Reagan, National Security Council sources say he will veto it. Votes may not exist to override him.

Whatever the outcome, the Kasten-Moynihan gambit is one piece of a larger "chicken game" the allies of the British government in Washington are playing

against the Soviet bloc. The strategic aim: use the U.S. to try to destroy the economy of both the Soviet Union and its allies and Western Europe, through credit cutoffs, trade embargos, and sabotage of Soviet development projects such as the Siberian natural gas pipeline. West Germany and other Western European nations, now loaning billions to the Soviets for trade, are to be threatened with chaos, unless they agree to cut the credit spigot.

A pullback?

The Moynihan-Kasten bill represents a chicken game with the world banking system. In order to compel the United States to escalate economic warfare against the Soviet bloc, a policy whose most articulate public spokesman has been Henry Kissinger, its sponsors were willing to risk triggering an international banking crisis that would hurt, more than anyone else, the United States. Defense Secretary Caspar Weinberger and his Undersecretary, Fred Iklé, were reportedly the principal backers of the Polish default option inside the administration. However, Iklé has reportedly had second thoughts, perhaps because the stakes have been raised enormously by the prospective use of the Argentine "debt bomb" as a strategic weapon in the present South Atlantic war. For the U.S. administration to push Poland into default would legitimize a Latin American default against Britain and perhaps British allies.



Carlos de Hoyos/NSIPS

Senator Moynihan (c) at the 1981 Labor Day ceremonies in New York City: his bill could trigger massive unemployment.

"This is not too smart," said a senior officer of the Hungarian National Bank of the Kasten-Moynihan Polish default push. "The American banks may not be the biggest creditors of Poland, but they are the most exposed on the international markets. If the U.S. forces Poland under, about 20 other countries around the world say 'whoopie' and stop paying their debts."

Poland, in fact, must pay a total of \$10.4 billion in debt service this year, of which \$3.2 billion is interest owed to all foreign banks, and doesn't have the cash. On May 27, Polish Planning Commission chairman Zbigniew Madej said that Poland will not be able to pay without a rescheduling, now being negotiated.

U.S. banks have total loans outstanding to Poland of some \$2.5 billion, 10 percent of Poland's total foreign \$25 billion debt, and all of the U.S. debt holdings would be called into default under Kasten-Moynihan, as follows. Some \$1 billion of the U.S. loans, or 40 percent, are underwritten by the U.S. Commodity Credit Corporation (CCC). Since Poland began stretching out debt payments, the CCC has been reimbursing U.S. banks for missed payments, paying out over \$72 million during February alone. Under the amendment, banks seeking to collect such CCC funds would have to declare Poland in default, and "many small banks would be forced to do so," a source at Chase Manhattan said worriedly. Most U.S. banks would probably have to follow.

The first and least result would be that U.S. banks would lose all their \$2.5 billion directly involved, since of its meager total \$700 million assets, Poland has less than \$100 million in the United States to be seized by U.S. creditors.

Second, the world leadership of U.S. banks would be totally destroyed, West German bankers told *EIR* at the end of May. "If any U.S. bank declares Poland in default, even if it is U.S. government policy," one German banker said, "no U.S. bank will ever lead an international banking syndication again."

Worse, he added, there might *be* no future international loan syndications, as bankers of each country shy away from doing business with banks under foreign government altogether. World lending could suffer drastically.

Ordinarily, a U.S. default would trigger a "cross-default" declaration by other lenders involved. German banks, who hold the bulk of Poland's total \$25 billion debt, would simply refuse to use the "cross-default" clauses. "We would refuse to declare a default, and let the U.S. banks take it on the chin," he said.

"It's been a good bargaining chip to threaten Europe, but it won't bring us much more now," Weinberger's top Undersecretary Fred Iklé has told White House sources.

The U.S. loss of \$2.5 billion pales beside the possible chain-reaction consequences of the generalized

tightening of commercial bank lending which a Polish default would trigger. Banks worldwide would first pull back on lending to the East bloc, where Romania and Hungary already need over \$4 billion in Western loans this year just to pay their debts. These nations, too, would be forced into default. Loans to East Germany, which needs \$6 billion to pay debts in 1982, might go sour.

Any further credit tightening could easily provoke Argentina, already being squeezed by the banks, into default on its \$35 billion debt. Argentina, Venezuela, Mexico, and Brazil have already deliberated dropping a "debt bomb" of default on their over \$220 billion foreign debt.

U.S. banks clearly have most to lose, for not only do they have well over \$10 billion in Eastern European loans outstanding, but over \$100 billion in loans to Latin America.

Alternate routes

The overwhelming Kasten-Moynihan vote in the Senate, despite commercial bank opposition to the amendment, cannot be explained except as a threat by the British to detonate the world banking system unless lending to the Soviets is cut. In fact, the remarkable coalition which forced the vote through has only one common denominator: advocacy of British-style eco-

nomic policy.

The original proponent of forcing a Polish default was Defense Secretary Caspar Weinberger and his Undersecretary for Policy, Fred Iklé, who hoped to cow Western Europe to agree to cut East-West trade. The Senate vote itself was lobbied through by Lane Kirkland, President of the AFL-CIO, who has done nothing to reverse Paul Volcker's high interest rates. On the Senate floor, Kirkland's social-democratic aide Tom Kahn worked together with "New Right" conservatives Richard Viguerie, Citizens for the Survival of a Free Congress head Paul Vyrick, and Conservative Caucus head Howard Phillips. Secretary of State Alexander Haig denounced the plan in public, but backed it privately all the way.

Even the Weinberger hawks are now saying President Reagan would veto the bill, however. The hawks are moving on several fronts to destroy the overall climate of East-West trade.

The U.S. will continue to press Europe to agree to place all future loans to the Soviet bloc under a committee at the Bank for International Settlements to "monitor lending activity." Although Europe will disagree, it will sour the atmosphere. And last, Kasten, and his House co-sponsor Cong. Jerry Lewis (D-Cal.) are reported to have a series of new bills against East bloc credits on the way.

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