Banking by Kathy Burdman

Argentina debt crisis begins debate

Volcker and Wallich argue that payment in pesos is better than no payment at all.

Banks are now demanding that Argentina pay up the interest on its $45 billion foreign debt in U.S. dollars, causing a potential March 31 debt blow-out (see article, page 4).

If the smoke has cleared in April, one effect of the crisis will be to advance a public debate on a new plan to let the banks accept Argentine pesos, Brazilian cruzeiros, and other Latin American soft currencies, an administration source close to Fed chairman Paul Volcker said March 16.

However the Argentine crisis turns out, "This pressure will make the soft currency deal all the more feasible, won't it?" he said. "The banks are going to realize that soft-currency payment is better than none. It has to reach a crisis point. The crisis point is March 31."

Argentina is $3 billion in arrears, and total arrears on the continent could near $10 billion by that date.

Under a plan formulated by Volcker and Fed Governor Henry Wallich, current regulations would be ripped up to allow the debtors to pay their interest, unpayable in U.S. dollars, in their own freshly printed soft currencies, as *EIR* has reported since November.

One purpose is to make an exchange of debt for equity in the national industries and resources of the debtor nations, as proposed by Henry Kissinger. To finance this asset grab, "blocked accounts" of Argentine pesos, Brazilian cruzeiros, and so forth will be built up by the creditors.

But the soft currency plan—modeled on Hitler's blocked German Reichsmark or *Konversionkasse* (see last week's column) has run into opposition. The initial idea was to implement it privately for the large money-center banks. After three months of publicity by *EIR*, however, several readers of this column have taken our charges to Volcker and Comptroller of the Currency C. Todd Connover and confronted them, causing definite embarrassment.

The regulators now think it will be necessary, the Washington source said, to have some sort of public debate on the subject. "The regulators said, 'There is room in the regulations for the use of soft currencies to pay interest,' but some banks think it is a good thing and other banks think it is not."

Citibank, my source says, is afraid of going public with the scheme or perhaps even of implementing it right away. Citibank has the largest dollar volume exposure in Ibero-America among U.S. banks at $20 billion. More than 30% of its $200 million quarterly net income is from dollar interest earnings in Ibero-America.

"They're afraid that if they give a soft-currency deal to one country, any number of countries will line up and say they want the same thing." But Citibank, however, at some point "will sing a different tune when they realize the implications of demanding that they get paid full interest in dollars."

Already in favor of the plan, my source reported, are "other banks in the top ten in Chicago and California, as well as smaller regional banks.

"Right now, a lot of banks are saying we have to be tough with Argentina. The British banks are concerned that the Argentines in the IMF package are going to have certain restrictions on British companies or restricted payments to British firms or banks. The British are the main opponents in Europe to doing anything for the Argentines.

"Manufacturers Hanover may think they've taken enough of a write-down or have enough reserves, that they don't have to worry about it as much as some banks like Citibank, so they're willing to play hardball," he continued. "Security Pacific is for soft currencies—they don't have as much at stake.

"Let's say the stalemate goes past the end of the month, and the Argentines don't pay, and Citibank stock drops eight points, and Citibank moves a bunch of money to the non-performing side of the balance sheet. They get hurt, and start playing hardball.

"They come to some kind of accord, but Citibank wants to make sure that next time they don't get kicked in the rear on the stock market. So they try to make an accommodation with the regulators on how to handle this. That might be, 'well, if you can't get it in dollars, you pay in soft currencies.'

"Or maybe they do it now, before the end of March."

What happens to the rest of the continent if Argentina won't pay up in dollars? "It makes it clear to Citibank and others in the financial and U.S. government sectors that this debt crisis is not over, and we've got to figure out new ways to deal with it. The Latins are growing more difficult to negotiate with, which is why we have alternative ideas like the soft-currency thing."