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EXPLAINING THE BIG BANK BAILOUT

As Congress in late summer rushed through an appropriation of $8.4 billion to the International Monetary Fund in order to bail the big U.S. banks out of their bad foreign loans, the New York Times published a full page of questions and answers called "Third World Debt/What Went Wrong?" This news analysis was apparently intended to be a defense of the bankers and the bailout, but a careful reading shows that a whitewashing of the big bankers' foreign follies is beyond the propaganda skills of the Times.

Since the Times is for forcing the U.S. taxpayers to cover the losses of the big bankers, what the Times says on this subject is what the lawyers would call "admissions against interest." The following quotes are from the Times; the comments are mine.

"Speaking in practical, not legal, terms, how much international credit is in default?" "Nobody knows for sure. No formal, legal defaults have been declared against a sovereign government, but bankers say that for the foreseeable future the major part of the $210 billion in long-term credit extended to borrowers in Central and Latin America will have to be renegotiated. The same is true for smaller amounts in Africa, Asia and Eastern Europe." (This shows the truly staggering amount of bad foreign loans recklessly made by the big U.S. banks over the last decade.)

"Will these loans ever be repaid?" "In one sense, no, and in another sense, hopefully. Bankers say there is no likelihood that the total amount of credit extended to developing countries will ever be repaid." (These loans are thus history's most dramatic example of bad financial judgment.)

"How many countries are in trouble?" "At last count 34 nations were seeking to 'reschedule' -- that means postpone -- payments on their foreign debts. ... Mexico, Brazil, Argentina, Venezuela, Chile, Yugoslavia and Poland ... account for 81 percent of debt of the 24 countries engaged in private debt rescheduling." ("Reschedule" is whitewash language to cover up the technique by which bad loans are kept on the bank's financial statement to continue the fiction that they are good loans.)

"Did governments encourage the banks to lend to developing countries?" "Governments

all over the world not only encouraged banks under their jurisdiction to make these loans, but they participated in the process directly by lending money themselves." (That makes the U.S. Government a guilty partner in this problem.)

"But wasn't this a colossal mistake?" "Perhaps it appears so in retrospect...." (That's the favorite excuse of incompetence. However, intelligent people knew beforehand that it was a colossal mistake to lend U.S. dollars on easy terms with no collateral to deadbeat, insolvent, ungrateful, antagonistic foreign countries.)

"Are central banks also involved?" "Very much so. The Federal Reserve in particular has been active in helping to head off crises by providing temporary credit, and by playing a backstage role in the complex loan negotiations. Among other things, Federal Reserve officials, including Mr. Volcker, have pushed medium-sized regional banks in the United States to continue lending to developing countries. Many of these institutions tried to pull out after the crisis broke."

(Translated, that means that, when medium-sized U.S. banks tried to get out of a bad foreign deal, the Federal Reserve intimidated them into lending more than they wanted to. The Fed browbeat the medium-sized banks into putting up money to solve foreign "crises," while local businessmen and farmers were allowed to go bankrupt.)

"What is a debt rescheduling and how is it related to the problem of loan losses?" "A debt rescheduling is simply a deal to modify the terms of a loan with one or more of the following provisions: A grace period during which no payments are required; a longer maturity date; a reduced interest rate, and an additional loan that could be used for current payments or to make the required interest payments." (Indeed, it is a "deal." The foreign countries can't even pay the interest on their loans; so U.S. banks lend them money to make the interest payments; and that is what the taxpayers are asked to cover through the $8.4 billion handout to the International Monetary Fund.)

"The impact of such an agreement on the lenders plainly could be to cut into the flow of income from the loan. However, some of the largest banks have been able to obtain handsome fees for managing the loan renegotiations." (So, no matter who else loses, and how much it costs the taxpayers, the big banks will make their profits.)

"What is the outlook?" "There is no way to predict the final outcome of the debt crisis." (At least we shouldn't rely on the financial judgment of those who now admit that lending U.S. money to Third World and Communist countries was a "colossal mistake.")