Policy Analysis

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The Causes and Risks of Excessive Foreign Lending

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Executive Summary

> Banks...who lend too much too fast know there will be a bailout, no question about it. They scoff at bankers who create large loan loss reserves and those who in general are more conservative. They know that come the revolution in Mexico, or wherever, their banks will have the highest earnings and pay the highest dividends, and that they personally will receive the highest bonuses.
>
> -- Officer of large New York City bank, describing his attitude toward Third World lending.[1]

Commercial banks have indeed lent too much too fast to Third World nations and are in dire need of being rescued. In just three countries (Mexico, Brazil, and Argentina) the loan exposure of the top nine U.S. banks exceeds their combined equity capital. If just one of these countries' governments were to repudiate their bank debt, the largest banks, as well as the banking system as a whole, could well collapse.

Is this bank officer's confidence in a bailout widespread within the banking community? William Cline, formerly a Senior Fellow at the Brookings Institution and now with the Institute for International Economics, believes that it is. "The banks do not fully incorporate through their own business calculations the inherent risks to their lending because they anticipate that if there is a problem there will be a bailout."[2]

The wisdom of bailouts, and what Congress's attitude toward excessive foreign lending by commercial banks ought to be, are crucial issues right now because Congress is once again being asked to increase the U.S. contribution to the International Monetary Fund (IMF) -- this time by more than $8 billion. It was little more than two years ago when Congress was last asked to increase the IMF's resources, amid assurances from the U.S. Treasury that that increase would be sufficient to keep the international monetary system functioning for at least five years -- until the next regularly scheduled review of the size of quotas. The chairman and ranking minority member of the House Banking Committee were so confident of this, in fact, that they wrote to all members of Congress arguing that a vote against that quota increase would "precipitate a world financial crisis that will bring these matters [of Third World debt] off the business pages of the newspapers and onto the front pages with 'disaster' headlines."[3]

The fact that the present quota increase is coming more than two years ahead of schedule, and that Third World debt problems have jumped into the headlines despite 1980's 50 percent increase in IMF resources, is clear evidence that our government's response to foreign lending -- and, in turn, its understanding of the causes of debt crises -- is fundamentally flawed. These failings are inexcusable because there is a wealth of historical experience with foreign debt crises. Some governmental approaches to foreign lending in the past have been successful, for example, while others have failed. Repudiation of sovereign debt, furthermore, has been more prevalent under certain circumstances than others. What does historical experience suggest will be the likely outcome of current government policies concerning foreign debt? Are we doomed to repeat the mistakes of the past due to nothing more than ignorance of them?

Under What Conditions Do Nations Default?

This question rarely is asked because the answer is thought to be so obvious; a nation defaults when its finances have so deteriorated that it simply is unable to meet its external obligations. Yet this answer does not account for historical instances of sovereign default.[4] As a rule, nations that have defaulted have not done so when they were least able to pay. At the time Germany defaulted on its war debts to the U.S. in 1933, to use a classic example, it was far more able to pay those debts than it had been in the early 1920s. Why then did Germany default in 1933?

If one distinguishes between default as a non-negotiable repudiation of external obligations and debt service difficulties unaccompanied by threats of repudiation, the answer will be more clear. While the latter is more prevalent during times of economic hardship, it has little correlation with outright default. Since the late 1950s, for example, there have been over 80 instances in which less developed countries (LDCs) have been unable to meet their debt service obligations to Western banks, leading to the rescheduling of more than $60 billion worth of loans.[5] Yet none of those led to outright default. Non-negotiable repudiation of external debt is a political act, the end result of geopolitical calculations comparing the costs and benefits of such repudiation. Ability to pay is only one, and historically a relatively minor, component of such a calculus.

If debt repudiation meant the cessation of all economic and political ties with the world, to paint a hypothetical extreme, then it is most likely that no country would repudiate its debt. It simply would enter into rescheduling negotiations, and some accommodation no doubt would be worked out. But outright repudiation rarely carries such extreme consequences, and the less severe the consequences the more likely it becomes. Cuba repudiated its debt to Western banks in 1962, for example, because the country was already isolated totally from the Western alliance, both economically and politically. Default had no adverse consequences because the country was firmly within the Soviet bloc, and the U.S.S.R. hardly was about to retaliate against Cuba for defaulting on debts to the United States.

As a generalization it is fair to state that debt repudiation, as in Cuba's case, occurs as a country shifts between geopolitical blocs. If a country is so firmly within a bloc that expulsion would be intolerable, debt repudiation is unthinkable.

In 1902 Venezuela succeeded in repudiating its debt to Great Britain even though Egypt failed in a similar attempt 25 years previously because Egypt was more firmly within Great Britain's sphere of influence. Egypt simply misread the geopolitical realities when it thought it could get away with suspending payments on British debt. Great Britain responded by taking control of the government. Venezuela was more successful not because British investments there were any less important than in Egypt. On the contrary, Britain was prepared to use force to insure collection of the debts. The key difference was that Venezuela was not as strongly held within the British sphere of influence; when Britain made clear its intention to use force, the U.S. intervened to prevent them. President Theodore Roosevelt reasserted the Monroe Doctrine, informing the British (as well as the Germans and Italians, whose debts the Venezuelans also had repudiated) that if they wanted to collect their debts, they would have to do so through U.S. auspices. Venezuela was able to get away with its defaults, in other words, because the U.S. government was unwilling to cooperate with the governments of Great Britain, German, and Italy in enforcing the collection of their debt.[6]

The same lesson can be drawn from foreign defaults during the 1930s. Despite the deterioration of economies worldwide, only one-third of all foreign bond issues floated in the U.S. actually were repudiated.[7] According to a study conducted by the National Bureau of Economic Research, those bonds were not, by any of several criteria, intrinsically worse than the two-thirds which remained good and serviced through the 1930s. The determining factor in the defaults, it turned out, was geographic area. In addition, those countries which did default were not scattered randomly around the globe, but instead formed clusters -- almost exclusively in Eastern Europe and in Latin America.[8] Though the NBER study does not attempt to explain the cause of this skewed geographical distribution, it is true that Eastern Europe and Latin America were those regions where the American sphere of influence was weakest and where cooperation between creditor governments to enforce collection of debts was least likely.[9] Therefore it was in these regions that debtor governments perceived default to be least costly; not surprisingly, many defaulted with impunity.

The fact that more governments repudiated their debt in the 1930s than before was due not to the fact that the Depression was more severe than previous economic downturns, but that political and economic cooperation between governments had reached new lows. The lesson for the 1980s is clear: A failure of political and economic cooperation among Western nations (for example, a resurgence of protectionism) increases more than anything else the likelihood of widespread debt repudiation.

Governmental Attempts to Regulate Foreign Lending

It is one of the ironies of the politics of foreign debt collection that while such debts presuppose a high degree of cooperation among creditor governments to insure their colletion, the very existence of high levels of debt can seriously strain such cooperation. A study conducted in the late 1930s by the Department of Finance at New York University, for example, concluded that "economic coercion through special trade clearing arrangements has proved to be the most effective means of obtaining debt service on external obligations from recalcitrant debtors."[10] In addition to endangering political cooperation through a breakdown into trading blocs, high levels of debt also can lead to military confrontations -- as European attempts in 1902 to collect Venezuelan debts almost did. Clearly, as a Council on Foreign Relations study concluded from its examination of foreign lending, "debts are not the kind of bond which can unite the world."[11]

Despite these long-term threats to political cooperation, foreign lending is very attractive to creditor governments as a tool of foreign policy. Holding back on loans is a potent threat when used against recalcitrant governments, while the promise of large and steady flows of credit often is effective in encouraging friendly behavior. These advantages are even greater when the credit is extended by private lenders, in which case the government achieves its foreign policy goals with no immediate budgetary costs.

Like governments, private lenders also are confronted with conflicting incentives. Banks are sensitive to changes in official attitudes toward foreign lending, and generally are unwilling to lend to a foreign country unless their home government appears willing to assist in collecting the debts.[12] On the other hand, because domestic lending often is less lucrative, banks have an incentive both to exploit favorable official attitudes toward foreign lending and to encourage governments to extend their spheres of influence.

The U.S. government has a mediocre record at best in juggling these complex and conflicting incentives. Sooner or later the temptation becomes irresistible to extend U.S. influence overseas by encouraging private lending; and usually government officials underestimate the difficulties involved in restraining such lending once it has been encouraged. Frequently the result is that foreign debt grows faster than the political influence required to assure its collection.

These clearly are the lessons of Congress's investigation into the foreign defaults of the 1930s. Early in that decade, the Senate Finance Committee held extensive hearings into the causes of the defaults, with numerous witnesses from both the government and the banking industry.[13] Those hearings are not dissimilar to the ones currently being conducted by the House and Senate Banking Committees.

These early hearings present a stark contrast between official attitudes towards banks' overseas activities in the early 1920s and in the latter part of the decade. In the early 1920s the government took a cautious attitude, with the result that banks were much more prudent in assessing foreign risk. In 1920, for example, President Harding called a meeting of bankers in Washington to impress upon them the government's desire that their overseas activities not infringe upon any U.S. foreign policy objective. The bankers were asked by the President to submit to the State Department for review any foreign bond issue they contemplated, giving the government the opportunity to object to its flotation. All the bankers agreed to the request, and subsequently none of them floated a bond to which the State Department objected -- even though there was no law which gave the State Department this power.[14]

The lesson is that bankers need not be forced by law to restrain their lending when they perceive a general unwillingness on the part of the government to sanction such lending and to assist them in collecting bad debts. Banker after banker testified to the Senate Finance Committee that all that would have been needed to prevent them from extending a loan would have been the State Department expressing such a desire to them.[15] Foreign lending did take place in the early part of the decade, but cautiously so; it turns out that of all the bonds extended during the period 1920 to 1924, a remarkable 82 percent were serviced regularly throughout the 1930s -- despite the extent of the economic downturn.[16]

During the period from 1925 to 1929 the official attitude toward foreign lending became more and more supportive. In the first year of President Coolidge's administration the New York Times carried the following news item: "President Coolidge...regards loans by American financial interests to foreign governments as worthy of governmental and private encouragement."[17] The State Department's review process became more routine, with government approval virtually assured. Thomas W. Lamont, of J. P. Morgan & Co., for example, was asked by the senators on the Finance Committee to summarize the effect of the review process. Lamont replied that "in recent years Washington has not, so far as I have been able to judge, made so much of it."[18]

Not only did foreign lending grow at a faster pace from 1925 to 1929 than in the previous five-year period, but the geographical distribution of that lending changed dramatically. One of the regions most benefiting from the U.S. government's support for the banks' foreign activities was Latin America.[19] In retrospect, of course, it is clear that the U.S. sphere of influence in Latin America was too weak to insure the debt's collection, especially in the face of European attempts to colonize the region. Why, then, did the government promote lending to Latin America? The testimony before the Senate Finance Committee provides some clues. One senator defended the lending, for example, by arguing that it had "resulted in bringing a great deal of foreign trade to this country."[20] Furthermore, the lending was one way the U.S. government could compete with European efforts to expand their spheres of influence in the region. The effects of the government's promotion are evident from the fact that the percentage of total U.S. foreign lending devoted to Latin America almost doubled from the first to the second half of the decade.[21] The government's official enthusiasm for such lending was so strong that one Department of Commerce official on assignment in Peru was "severely reprimanded" for writing pessimistic reports about Peru's chances of repaying its debts. His superior wrote that Americans "are builders, promoters -- even propagandists" in support of overseas activities of American businesses, even when there are "difficulties" or when the task seems "impossible." This official subsequently resigned, and as he explained to the Senate Finance Committee, "I [had] acquired the habit of trying to think accurately, and an optimistic department was a very poor place for me."[22]

This official's experiences were not unique. Other Department of Commerce officials testified before the Senate committee that they had argued against encouraging Bolivia and Columbia to borrow more, on the grounds that those countries, like Peru, had "overborrowed." In both instances, these officials were overruled by the State Department.[23]

As one might expect, the banks exploited the situation. The senators on the Finance Committee were told repeatedly of scenes in Latin American capitals of large numbers of bank representatives attempting to persuade finance ministers to borrow more. As James Corliss of the Department of Commerce testified, "at one time in Columbia there were something like 29 [bank] representatives...Perhaps that figure is exaggerated, but there were a great many representatives of American financial houses there trying to get various loans from the national governments."[24] Thomas Lamont of J. P. Morgan described "the reports that I have recently heard of American bankers and firms competing on almost a violent scale for the purpose of obtaining loans in various foreign money markets overseas."[25]

State Department officials argued before the Finance Committee that they had never expected their encouragement to contribute to such excesses. With regard to their review process, they testified that the banks were told repeatedly that the State Department was not passing judgment on the business merits of the bond issues themselves. Furthermore, the banks were asked not to mention the State Department's review process in any prospectus for a bond. Yet under questioning from the senators, Assistant Secretary of State White conceded that the mere existence of the review process had led to the widespread belief that the State Department in fact was supporting the particular bond issues and, by implication, that the government would back them up in case of difficulty.[26] With the momentum established as a result of the government's encouragement, it would have taken more concerted efforts to restrain further lending.

Official Attitudes Toward Foreign Lending Today

The current active government support for private foreign lending dates back at least two decades and, if anything, exceeds the extent of official encouragement for such lending in the 1920s. As early as 1962, for example, the following type of signal was being sent to the banking system -- this one from the new nominee for the Comptroller of the Currency. In hearings on his nomination to that post, James B. Saxon said "I believe we need more education and more purposeful efforts by the authorities on a sound, sane basis to amplify the participation of the American banking system abroad....One of the purposes of this inquiry is to see if by changes in law and changes in administrative procedure and policies the activities of more banks in this area can be properly expanded."[27] The Federal Reserve, which had the broadest mandate to regulate foreign activities of U.S. banks, took a similar attitude. Former Federal Deposit Insurance Corporation (FDIC) Chairman Frank Wille described the Fed's attitude throughout the 1960s and 1970s as "cheerleader" in tone.[28]

The banks were spurred on even more by the government's willingness to stand behind them in the event of difficulty. In 1974 the Fed joined with the other central banks of the Western world in resolving the sticky issue of who would be lender of last resort for foreign branches of domestic banks.[29] In 1975, the Organization for Economic Cooperation and Development (OECD) proposed a "financial safety net" for the banks' activities.[30] On numerous occasions the resources of the IMF were increased. The official goal, as stated over and over by the Treasury and State Departments, was "to make sure that there is adequate official finance available in the system...when countries' situations require the injection of public assistance."[31] Jane D'Arista, presently of the Congressional Budget Office, in a 1975 study for the House Banking Committee, argued that "it appears likely that banks have assumed that these loans are in some sense guaranteed -- that some form of governmental assistance will be given to a country to prevent a default that might threaten major banks."[32]

The effect of this official promotion became clear in the growth rates of Third World lending. Though that growth was attributed to the need to "recycle OPEC's surpluses, the fact is that Third World debt grew far more than did their oil bills.[33] It had been U.S. policy before and after the oil price rise in 1973 to encourage foreign lending -- and it is this official policy which more fundamentally explains its growth.

Following the worldwide recession in 1975 and 1976, which caused unexpectedly severe debt service difficulties for many nations, many began to question the wisdom of continued commercial bank lending to the Third World. The debt of many LDCs was growing faster than their economies and thus faster than those countries' ability to repay the loans. The World Bank estimated that the percentage of new loans that would be spent on servicing old debt would grow to 88 percent by 1985 and 95 percent by 1990.[34] Yet it was unclear whether either the LDCs or the banks themselves would be the source of prudent limits on the growth of debt. Unfortunately, the U.S. government also did not take the lead in urging such prudent limits.

John Early, director of Bank Supervision at the FDIC, far from expressing any alarm about the patterns of Third World lending, testified in 1977 before the House Banking Committee that "on the basis of information we review as a matter of course, we believe recent commitments to LDCs pose no real danger to the overall stability of the U.S. banking system."[35] And C. Fred Bergsten, Assistant Secretary of the Treasury for International Affairs, testified that "we reject the view that international lending activities of American banks are posing grave risks to the American economy or banking system. We believe, to the contrary, that they have been remarkably successful in playing a vital role in helping to finance an unprecedented level of international trade, capital flows, and payments imbalances -- and that they continue to enjoy such success."[36] Furthermore, Bergsten continued, those who were voicing fears of "overexposure" were, primarily, "individuals unfamiliar with the operations of the international economy."[37] In such an environment it should be no surprise that bank loans to Third World nations grew as dramatically as they did.

Policy Implications For Today

As pointed out earlier, failure of political and economic cooperation increases more than anything the likelihood of widespread default. Has the growth of Third World debt surpassed the willingness of creditor governments to cooperate in its collection?

Though political cooperation is not as lacking today as it was in the 1930s, it has deteriorated over the last two decades. When Cuba chose to join the Soviet bloc, for example, the United States was able to secure almost total cooperation from other Western nations in isolating the country, both politically and economically. It would be difficult for a similar degree of cooperation to be achieved today.

The most dramatic example of this recent deterioration of cooperation came in the Iranian hostage crisis. Despite Iran's detention of the American personnel and the American contention that Iran had defaulted on its loan obligations, the U.S. was unable to secure the cooperation needed to isolate Iran. No other nation went along with the U.S. in freezing Iranian assets, and banks in several European countries continued to lend money to Iran. The U.S. was equally unsuccessful in cutting off trade between Iran and Western nations, especially in oil.[38]

The lesson of the Iranian case is that creditor governments today are much less likely to sacrifice their own relations to a country in order to assist another government in collecting debts or, in general, imposing any of a number of sanctions. Yet as debt burdens grow, it will require more coordination, not less, to assure eventual collection. The risk is that debts will grow beyond the point where governments are willing to cooperate; at such a time, history teaches us, trade barriers and protectionism can turn cooperation into competition between blocs.

Overzealous attempts to promote foreign lending and then to protect those debts could have disastrous effects for both our domestic economy and the world's. The harm to the public of a breakdown in free trade would far exceed the losses to the banks even if all their debts were repudiated, as the experience with defaults in the 1930s suggests. Policymakers must temper their concern for the viability of commercial bank loans to foreign governments with a greater concern for the effect their actions have on cooperation between governments. Unfortunately, this aspect is too often ignored.

The Treasury Department's arguments for the IMF quota increase are a case in point. We should support that increase, Secretary Regan argues, "in defense of the average American and his own economic interests. The purpose is to protect his job and his income."[39] If the quota increase is not approved and the LDCs are unable to continue borrowing, Regan continues, industrial nations' exports to the Third World would be reduced by $35 to $40 billion, by $12 billion in the U.S. alone. This would mean that the growth rate of real GNP in the U.S. would be 1 percent less than it would be with higher rates of LDC borrowing.[40] The conclusion readily follows: LDC economies should be propped up so that they can continue to borrow large amounts, and in turn so that industrial countries need not forgo economic growth. The administration accordingly terms the quota increase a "jobs" bill.

It seems, then, that official policy is to encourage LDCs to continue borrowing at a rate comparable to past rates. Lower levels of debt are thought not to be in U.S. economic interests. But not all of the industrialized nations can expect to forever base their economic growth on debt-financed purchases of their exports. As debt burdens grow faster than their economies, more and more of the LDCs' current accounts will have to be devoted to debt service -- with correspondingly less available for buying exports from the industrialized nations. Competition between the increasingly export-oriented Western economies will become more fierce as markets in the Third World dwindle. As in Iran's case, creditor governments may refuse to sacrifice relations with a particular country -- and markets for their exports -- in order to cooperate with another government's efforts to collect on its debts. U.S. policy, in other words, makes a breakdown into competing blocs more, rather than less, likely. As Secretary Regan's choice of words illustrates, support for the quota increase is largely protectionist in motivation.

Fears that the banks simply might withdraw altogether from Third World lending, precipitating a worldwide deflationary contraction, even if legitimate, do not justify a policy of encouraging more and more Third World debt. As former Chase Manhattan Chairman George Champion has proposed, the IMF could stipulate as the conditions of its lending to a country a moratorium for several years on both new borrowing from private sources as well as on all principal and interest repayments on commercial debt. In any case, the vast majority of new loans is devoted to debt service on old loans, and such a moratorium would enable the country to concentrate on genuine development unhampered by a deteriorating debt burden. It also would enable the banks to improve their own economic strength; the regulatory authorities could avoid requiring that the entire value of these loans be written off as long as the banks devote a large percentage of their earnings to writing down the value of those loans and increasing their loan loss reserves.[41]

Just because the U.S. government has in the past encouraged and, in some sense, guaranteed banks' loans to foreign countries does not obligate it to continue doing so. Its past policy has produced dangerously high levels of Third World debt and, if continued, risks a breakdown into competing blocs. The U.S. government should use the current opportunity to alter its policy, to not lend encouragement to large increases in LDC borrowing, and to make these changes clear to the banks. The worst the government could do in response to present concerns over excessive foreign lending would be to reaffirm its past policies, arguing in effect that the present crisis is merely temporary, thus sending a signal to the banks that the future will hold more of the same.[42] Unfortunately, the quota increase by itself sends this misguided signal.

Conclusions

The banks' profits from Third World lending are windfall profits, to the extent that public resources have been committed to assure that the banks' loans do not go sour. The banks have not internalized all the risks of lending to the Third World yet continue to earn all the profits from their loans. One signal the government could send to the banks, which unmistakably would make clear a change in the government's policy toward foreign lending, would be legislation that makes the banks share the costs of bailing out insolvent governments. To the extent that these costs are borne by the banks, they will have to internalize more of the risks involved in their future lending.[43]

It does not follow, however, that because banks' profits are partially windfall, that banks are the only major cause of the excessive growth in foreign lending. As we have seen, the government's policy for several decades has been to encourage and promote such lending, and the responsibility for the failures of that policy in large part must rest squarely with the government itself. In the past when banks realized the government clearly was discouraging excessive foreign lending, they on the whole acted prudently. Given the cheerleader" attitude the government took toward foreign lending, the banks acted rationally. Too many congressional and administration leaders are ready to blame the banks for the present crisis when they must share some of that responsibility. The government has created many of the incentives that encourage excessive foreign lending, and it is up to the government to remove them.

Footnotes

[1] This quotation is ascribed to a New York banker by Al Wojnilower, chief economist for First Boston, on the basis of conversations between the two of them.

[2] To Amend The Bretton Woods Agreements Act To Authorize Consent To An Increase In The United States Quota In The International Monetary Fund, hearings before the Subcommittee on International Trade, Investment and Monetary Policy of the House Committee on Banking, Finance and Urban Affairs, 1980, p. 255.

[3] "Dear Colleague" letter dated September 16, 1980, p. 2.

[4] A study of the causes of debt crises found that "next to political disagreement among major powers, poverty was much less important as a cause of default." David Gisselquist, The Political Economics of International Bank Lending (New York: Praeger, 1981), p. 56. I would like to acknowledge my debt to Mr. Gisselquist, from whose book many of the ideas in this essay are derived.

[5] Tim Anderson, "The Year of the Rescheduling," Euromoney, August 1982, p. 21.

[6] Herbert Feis, Europe: The World's Bank, 1870-1914 (New York: Augustus M. Kelley, 1964), pp. 107-9.

[7] Ilse Mintz, Deterioration in the Quality of Foreign Bonds Issued in the United States, 1920-1930 (New York: National Bureau of Economic Research, 1951), p. 2.

[8] Ibid., chap. 3.

[9] See, for example, Gisselquist, chap. 2.

[10] John T. Madden, Marcus Nadler, and Harry C. Sauvain, America's Experience as a Creditor Nation (New York: Prentice Hall, 1937), p. 276.

[11] Feis, p. 467.

[12] Madden, et al., for example, found that "ordinarily, a mere hint that their government is opposed to the flotation of a foreign loan has been sufficient to cause bankers to drop the business," p. 233.

[13] Sale of Foreign Bonds or Securities in the United States, hearings before the Senate Committee on Finance, 1931-2 (hereafter the Johnson Committee hearings).

[14] For a general description of this review process, see ibid., p. 12, and G. W. Edwards, "Government Control of Foreign Investments," American Economic Review, December 1928, pp. 693-700.

[15] Joseph R. Swan, for example, representing the Guaranty Co., testified that "we would not have done anything contrary to their [the State Department's] desires in the matter." Johnson Committee hearings, p. 884. James Speyer, of Speyer & Co., testified, "I am sure that if our State Department has objected, we would not have taken it....Should they express dissent or objection...we would have dropped it." Ibid., p. 636.

[16] Mintz, p. 6.

[17] Quoted in Edwards, p. 696.

[18] Johnson Committee hearings, p. 12.

[19] Mintz, chap. 3.

[20] Johnson Committee hearings, p. 1617.

[21] Mintz, p. 52.

[22] Johnson Committee hearings, pp. 1611ff.

[23] Ibid., pp. 725, 824, 845, 1831.

[24] Ibid., p. 845.

[25] Ibid., p. 25.

[26] Ibid., p. 1911.

[27] Jane D'Arista, "U.S. Banks Abroad," in International Banking: A Supplement to a Compendium of Papers Prepared for the Fine Study, staff report of the House Committee on Banking, Currency and Housing, May 1976, p. 135.

[28] Ibid.

[29] This agreement has come to be known as the Basle Agreement. For a description of it, see International Debt, The Banks, and U.S. Foreign Policy, staff report of the Subcommitte on Foreign Economic Policy of the Senate Committee on Foreign Relations, August 1977, pp. 26-7.

[30] Multinational Corporations and United States Foreign Policy, hearings before the Subcommittee on Multinational Corporations of the Senate Committee on Foreign Relations, 1975, p. 8, and International Banking Operations, hearings before the Subcommittee on Financial Institutions of the House Committee on Banking, Finance and Urban Affairs (hereafter International Banking hearings), 1977, p. 549.

[31] International Banking hearings, p. 563.

[32] D'Arista, p. 226.

[33] Gisselquist, p. 15.

[34] World Bank, World Development Report -- 1979, p. 7.

[35] International Banking hearings, p. 262.

[36] Ibid., p. 550.

[37] Ibid., p. 548.

[38] See Mark Hulbert, "Chase Helped, U.S. Hurt by Iranian Fund Freeze," In These Times, July 2-15, 1980, p. 16, as well as idem, Interlock (New York: Richardson & Snyder, 1982), chap. 8.

[39] Testimony of Donald T. Regan before the House Committee on Banking, Finance and Urban Affairs, December 21, 1982, p. 11.

[40] Ibid., p. 8.

[41] Testimony of George Champion before the Senate Committee on Banking, Housing and Urban Affairs, February 15, 1983, and his "Foreign Debts: A Proposal for U.S. Banks," Wall Street Journal, January 11, 1983.

[42] For example, the staff of the House Banking Committee found that the Federal Reserve's response to Franklin National's bankruptcy in 1974 may have encouraged banks to be complacent. "It has been suggested that not only lack of disclosure but the implied guarantee against failure which seemed to be confirmed by the way Franklin was handled may encourage unsound banking practices." D'Arista, p. 226.

[43] Rep. Andrew Jacobs (D-Ind.) has introduced legislation (H.R. 2069) that would make banks pay the interest costs on any federal funds transferred to a country after it has gone into technical default.