New debt crisis prompts push for restructuring

by C. L. Magister

As the Williamsburg summit meeting of seven Western heads of government approaches, the Latin American debt crisis has reverberated throughout the illusion-ridden little world of "IMF refinancing packages," "stretch-out proposals," and "bridge loan" maneuvers. The most dramatic signs were 1) Brazil's inability to meet its debt payments, and 2) French President François Mitterrand's May 9 warning to the Organization for Economic Cooperation and Development (OECD) that action is needed to avert a global financial catastrophe.

Brazil, within months of its elaborate deal with the International Monetary Fund (IMF) for debt rollover loans in exchange for intensified austerity measures, is today $2 billion in arrears. Its central bank chief, Carlos Langoni, has officially confirmed that he will lead a mission to the IMF headquarters in Washington, D.C. on May 16 to announce that his government cannot carry out the terms of the February agreement, and Brazil must receive its quarterly credit of $411 million under renegotiated terms. Brazil has been lying its head off (as *EIR* founder Lyndon H. LaRouche, Jr. recommended to certain debtors) about its compliance with the IMF's terms, while preparing longer-term moves, and now appears to be ready to flex its debt muscle.

The authoritative Rio de Janeiro daily *O Globo,* citing government sources, on May 5 spelled out Figueiredo's "or else," describing the options as "a renegotiation of the agreement signed with the IMF, preparation of a new agreement, or simply breaking all commitments to the IMF." Rumors have mounted in international banking circles that Brazil may declare a "mini-moratorium" of 60 to 90 days which would tend to stretch itself out much further, or that it may even simply default. The fundamental fact is that the world's largest single debtor ($90 billion total) cannot pay. Either the IMF accepts that fact, and loses its "teeth," or Brazil may well abandon its games within the IMF framework and join in forming a debtors' cartel.

The London *Financial Times* on May 11 warned of the imminent likelihood of a Brazilian moratorium on its nearly $90 billion in foreign debt. When Langoni goes to Washington to meet the IMF and Donald Regan, the U.S. Treasury Secretary "will get a print-out" on the disaster of IMF austerity in Brazil and Brazil's debt "almost as alarming" as last November when Brazilian debt nearly blew out the international financial system, says the *FT*. It notes recent statement by the American Chamber of Commerce in Brazil which says that a moratorium "on all debt is an increasing possibility . . . there is a growing perception that the foreign debt problem may be unsolvable by present approaches and mechanisms."

"I'm not sure Brazil will do it on its own. I think it is more realistic if Brazil, Mexico, and perhaps Venezuela get together and declare a debt moratorium," Prof. John Lynch, director of the Institute for Latin American Studies of London University, said May 11. Lynch, who headed the political panel of the Ditchley Foundation Latin American policymaking discussion in early March, reported that "this is the comment here in London. We thought Figueiredo and de la Madrid were going to come out with a debtors' OPEC when they met. There is a lot of pessimism among bankers. They are starting to feel blackmailed by the debtors."

The Mitterrand speech

It was under these circumstances of a new overt debt crisis

Will world monetary institutions be directed toward disenfranchising the Latin American debtors, or enabling them to advance? Above, a slum in Mexico City.

that French President Mitterrand, speaking in Paris before world finance ministers on May 9 at the OECD meeting, announced that the world monetary system is bankrupt, and the world economy "at the mercy of a panic or a mass default" on unpayable debt. He announced that the so-called "recovery" will "run out of steam soon" and collapse.

Mitterrand called for a "new Bretton Woods . . . international monetary conference at the highest level" to reorganize the monetary system, as was done in 1944 in Bretton Woods, New Hampshire.

Coming on the eve of the seven-nation Williamsburg economic summit, Mitterrand's citation of the threat of the financial collapse of $700 billion in Third World debt will intensify discussion by world leaders on the urgent need for international monetary reform.

Mitterrand's proposed solutions to the crisis were ambiguous. Who will run the world reorganization, and to what end, remains to be fought out.

On the one hand, Mitterrand's speech was hailed by austerity advocates in the United States because he called for the new Bretton Woods conference to be "within the framework of the International Monetary Fund." On the other hand, Mitterrand's call for increased development finance and reduction in Third World debt reflects the view of French nationalists, as well as the Indian, Japanese, Brazilian, and Mexican governments, all committed to creating a new system outside the IMF to scrap the debt and push development.

The elements of Mitterrand's call are:

- A new international conference on the heads of state level "within the framework of the IMF;"
- A new system to fix nations' exchange rates, lacking since the dollar was separated from gold in 1971, in which the "dollar, yen, and the European currencies could reinforce their links, and stabilize international exchange rates;"
- "a strengthening of the role of the IMF, to promote usage of the SDR in official reserves;"
- the "relaunching" of the Third World's own economies, to "lighten their debt burden" by "serious and durable means to finance their debt and promote their growth;"
- long-term credit at lower interest rates to finance "important projects" over long periods;
- "an emergency plan for Africa"—Because of its lack of credit, Africa could become the "lost continent for development."

'Operation Juárez'

"The response to Mitterrand's speech resembles the parable of the blind men and the elephant," commented *EIR* founder Lyndon H. LaRouche, Jr., referring to those unfortunates' wholly divergent descriptions of the beast after each of them had patted one limb of it with their hands. "Mitterrand has identified the problem, but not clarified the solutions."

Debtors must exchange their unpayable, short-term, high-interest debt paper with the banks for an equivalent amount of 20-30 year long-term bonds at 2-4 percent interest rates, LaRouche insisted, reiterating his "Operation Juárez" proposal. To force this agreement, the Third World must pool its debt in a "debtors' cartel" and use this "debt bomb" to bring the North to its senses.

Second, LaRouche insisted there be massive *new credit* issuance to assure industrialization of the Third World. He

Brazil, world's biggest debtor, is not paying

The Brazilian government had already signaled its contingency plans for breaking the rules of the IMF game during the summit on April 26-29 between Brazilian President João Figueiredo and Mexican President Miguel de la Madrid in Cancún, Mexico, which resulted in a commitment to begin integrating the two economies through barter trade, which is frowned upon by the IMF. The agreement that Brazil will supply Mexico with vitally needed foodstuffs in exchange for Mexican oil sidesteps the need for dollar credits currently obtainable only with IMF approval; the level of two-way trade is expected to quickly expand by ten-fold. The summit statements described Brazil and Mexico as setting the pace for all of Latin America. (See *EIR*, May 10 and May 17.) Now Mexico and Argentina are actively considering important bilateral barter deals on the Cancún model.

Unable to meet debt payments, Brazil has simply stopped them during the past month; private banks cut back their former level of short-term financing, and Brazil fell further into arrears. California's Wells Fargo, for example, is still waiting to see the $152 million in short-term debt due it on April 11.

Planning Minister Antonio Delfim Netto has played the fox within the IMF cage, performing remarkable contortions to try to live up to the letter of the "conditionalities." Netto's subordinates continue to tell the world that Brazil is achieving a $6 billion trade surplus, and therefore no debt renegotiation is required. Delfim's statistical wizardry (upon which *EIR* has reported for many months) now prescribes, for example, counting as exports unsold coffee moved to warehouses outside Brazil's borders, while oil that has been shipped from abroad is not tallied as an import until it is consumed.

The West German business daily *Handelsblatt* chose to alert banks and businesses in a droll fashion, confining itself to pointing out that the (on paper) $1.45 billion trade surplus of Brazil in the first-quarter of 1983 was the result of cutting imports by 20.9 percent, and that a large group of skeptics charge that the $606 million surplus in April is only possible if all Brazil's unpaid oil bills are ignored.

On April 12, Langoni said "no" when asked whether Brazil was really $1 billion in arrears. On April 19, one of his subordinates told foreign bankers that Brazil's arrears totaled $999 million.

As of May 9, Brazilian and U.S. banking sources in New York estimated the arrears at no less than $1.7 to $2.5 billion.

New financing needs above and beyond the early-1983 "jumbo" packages are $3-$4 billion, according to the best estimates. The government had imposed austerity dutifully enough to cause riots. Yet it is unwilling and unable to meet all the "conditionalities" for slashing the budget and the money supply, Milton Friedman-style, which would require shutting down the economy altogether.

What seems to bother the IMF the most is Brazil's internal debt: the IMF had set a limit of about $5.5 billion growth in domestic debt for the entire year, but the rate of growth is now already four times that high—largely as a result of the 23 percent "maxi"-devaluation of the cruzeiro.

Officially opening the electoral race to choose his successor, Figueiredo declared on May 5 that the nation's next president must "have great sensitivity to the real basis of the progress of the individual, namely, education, and employment. The Brazilian population has grown a great deal . . . and rightly wants its expectations attended to during the next period of government."

The political scene is shaped by those industrialists who won a victory at the Brazil-Mexico summit with the barter arrangements. The head of the Brazilian state oil company, Shigeaki Ueki, said in an interview with *EIR* published May 17 that of course Brazil must make every exertion to live up to the IMF's demands—but after that, Brazil may have no other recourse than collective debt renegotiation. The annual conference of the Construction Industry Chamber of Commerce issued a manifesto on May 4 calling for "the immediate and nondeferrable renegotiation of the foreign debt."

The organization's president, a close friend of Figueiredo's who had been in the Brazilian delegation to the summit, affirmed that "It is unacceptable that Brazil's immense physical resource potential, which could bring the country back to economic and social growth, be ruined by recessive policies, which by idling resources—including the noblest ones, human resources—cause massive waste of wealth, of progress, of opportunity, and of the national heritage."

proposed that nations establish a new international institution, a *gold-backed international rediscount facility* at which the bonds could be re-discounted, to generate several hundred billion dollars annually in export credit.

The British Commonwealth has been trying to organize an opposite Malthusian world system: the IMF would take nations' "sovereign" control over all credit away and impose world credit controls.

"New Bretton Woods" has been the "code word" for the British plan. British agents of the Socialist International, liberal Democrats close to banker Felix Rohatyn, and former World Bank president Robert Strange McNamara, immediately claimed credit for Mitterrand's speech. "It's just what we've been calling for," an aide to McNamara said.

The British Commonwealth plan, being promoted in the U.S. Congress by Felix Rohatyn, would establish a "new international institution" or "world central bank," "parallel" to the IMF, to restructure a large portion of short-term Third World debt. The new institution would then ration credit to the Third World, in tandem with the IMF. Austerity would also be dictated to the United States and other depression-ridden industrialized nations.

One British source in Robert McNamara's office claimed that the faction of "zero growth" Socialists in the French presidential office put the Mitterrand plan together with U.S. Secretary of State George Shultz, who was in Paris just before the speech. "They've been talking together for several months," he said.

The British hope they can convince the Brazilians, Mexicans, and other major debtors to negotiate with London and Paris instead of wielding the "debt bomb," he said.

'Great projects'

Some French policy makers, however, have a different idea of what Mitterrand's approach could mean. They are collaborating with Indian Prime Minister Indira Gandhi—who this month hailed Mitterrand's efforts at world monetary reform—in order to set up a monetary system outside IMF austerity policies. Specifically, they want a system which can finance large industrial development projects in the Third World to end the world depression. Brazil is a foremost example of an agro-industrial giant which could repay its obligations many times over were it provided sufficient credit to gear up the development projects crushed by the IMF.

Mitterrand's idea, a French official asserted to *EIR*, is to create "new organisms" with participation of key Third World debtor nations, outside of the IMF, which "is not a very good institution to do those things." This representative discounted Mitterrand's remark that his action was "in the framework of the IMF."

The pursuit of a new system outside the IMF was endorsed by the summit of the 101 Non-Aligned nations under Indian Prime Minister Indira Gandhi's chairmanship last March. The French official stated that Brazil and Mexico as well as India are working together with Mitterrand.

Also collaborating with Mitterrand are those in Japan who promote the "Global Infrastructure Fund," a plan developed by Mitsubishi Research Institute for a $200 billion fund to build "great projects" from India to Panama. "I would say that there is total agreement and coordination between Japan and France on the question of industrial transfers into the developing sector," the official said.

The Swiss, the British, and the summit

The Swiss and British banking factions, who often have their differences but who have joined in getting the Third World into its present debt disaster and who agree that no substantial new credit for industrial development should be issued, are readying themselves for the next stage of the debt crisis. At this point, it seems likely that the Williamsburg summmit meeting on May 27-29 will produce either an overt blowup or a meaningless patchover of differences between the participants, but no constructive action.

At a secret meeting held the last week of April under the auspices of Jacques Freymond, Chairman of the Geneva Institut des Hautes Etudes, and organized through the office of Bank for International Settlements President Fritz Leutwiler, debt strategy was the focus of discussion. In attendance were the leading Swiss banks and trading companies; Rimmer de Vries of Morgan Guaranty, the inspirer of the "Ditchley Group" would-be creditors' cartel; various International Monetary Fund and Bank for International Settlements officials; and a small group of Mexicans, including Club of Rome member Victor Urquidi of the Colegio de Mexico.

Morgan's Rimmer de Vries, the principal adviser on international banking matters to George Shultz and the ghostwriter of *Time* magazine's January "Debt Bomb" cover story, offered a preview of a new Morgan study reversing the conclusions of the standard Morgan reading. De Vries said that new data show that no foreseeable recovery of the OECD nations would take care of the debt problem. To avoid a crisis, the commercial and official lenders must each increase their annual lending exposure by 9 to 10 percent.

The Morgan bank chief economist turned to a senior official of the Swiss Bank Corporation seated to his right and asked, "Does your bank intend to do this?" "Absolutely not," was the reply.

The Swiss bankers in attendance said that they expected Brazil to default in the very near future, and that they were cutting back their own exposure to banks who had significant Third World exposure (the Swiss have none), and were building up large reserves against loan losses. The American banks, who were doing the opposite, would face severe trouble; the Federal Reserve and ultimately the American taxpayer would have to bear the burden.

A senior spokesman for the German Bundesbank said May 11, "If commercial banks want to go the Rohatyn way on their own, let them. . . . We're just pulling in our horns and protecting our own banks. We have a strictly limited role in international institutions and we do not intend to be pushed beyond that. Latin America is far away." The Bundesbank is factionally allied with the Swiss and Dutch central bank "hardliners" committed to letting the financial system go down if they will be able to seize the hard-commodity assets of debtors instead.

The question remains of how the Reagan administration will respond to the Brazilian debt crisis and to the Mitterrand initiative. An aide to St. Germain has offered one hypothesis: "You tell me when Brazil is going to default, and I'll tell you when Ronald Reagan is going to declare a national emergency. U.S. Treasury lawyers and other agencies are already making the necessary contingency emergency plans, just in case. The powers of the Presidency in this kind of a situation are immense. He can do anything."

The Brazilian debt crisis and the response to it testify that the "united front" of the creditors has disintegrated, and the arena is open for initiatives by the "Operation Juárez" faction in the developing sector, and by those policymakers within the Reagan administration who know action is required but detest the "new Bretton Woods" approach.

Documentation

'Three goals: development, stabilization, growth'

In President François Mitterrand's policy statement to the 50 OECD ministers and representatives at the French Elysée palace on May 9, he began by describing the international financial crisis as the result of an uncontrolled mushrooming of liquidity in the 1970s combined with the oil shock, all leading to recession.

He went on: "In the major economies the imbalance of public finances has maintained real interest rates at a much too high level, one unprecedented in thirty years, thus diminishing the capacity for investment . . . and leading to great increases in indebtedness.

"If the large countries understand their duties we shall soon get out of the crisis together. But only under that condition. It will not be done by a miracle. It is the task of a generation.

"I will put forth three orientations: . . . growth, stabilization, development.

"The recovery which is being announced, here and there, will run out of steam very fast, much faster than is generally believed, if nothing supports it."

After a plea for concerted reduction in currency fluctuations, Mitterrand emphasised that the "three principal monetary zones, the dollar, yen, and the European currencies, could reinforce their links, and stabilize international exchange rates. . . . The IMF will see a strengthening of its role, to promote usage of Special Drawing Rights in official reserves. It will be able to intervene in case of sudden and grave difficulty in a given country.

"In the name of facilitating those reforms, I want . . . an international monetary conference to be organized at the highest level in the framework of the IMF.

"I think that trade in [industrial] goods as well as technological cooperation must also be organized. . . .

"Protectionism is an obstacle to the development of poorer countries."

To stabilize trade relations between North and South, Mitterrand proposed as an example that "product by product agreements" should be concluded whenever possible, and that the "Common Fund for raw materials be developed."

Then he spoke in favor of financing investments in non-renewable energy sources for developing countries in the framework of the World Bank.

He emphasized: "Nothing is possible in the North without a relaunching in the South. . . . If the economic and financial situation of developing countries is not unblocked, if those countries do not have the durable, serious means of financing their debt and promoting their growth, then their political stability will be daily more threatened. It is our responsibility to contribute to their development. And in order to do this [we must] set up financing on the basis of their needs. The increase in interest rates and the world recession raise the indebtedness of poor countries. This indebtedness is not just a threat for them, it is tragically dangerous for the world as a whole. Our well understood interest is for us to lighten the debt burden of the South.

"It is necessary for all countries to decrease real interest rates, which are the first cause of the aggravation in the indebtedness of the South."

For the countries of the South aspiring to industrialization, Mitterrand called for international institutions giving guarantees to preferably long-term lending by the private sector. For the poorer countries, Mitterrand called for an increase in SDR facilities. "The assets and role of the World Bank should be increased," said Mitterrand. Then Mitterrand spoke of the necessity of getting away from year-to-year financial lending which prevents the realization of important projects. Finally, "an emergency plan for Africa must be launched." Because of its indebtedness, Africa could become the "lost continent for development"—there must be an exceptional solidarity effort on the part of the Western nations.

"To relaunch, stabilize, develop, that is what will allow us to organize the reconstruction of the international economic order. It is clear that there is not much time. [At Williamsburg] we shall see if we are on the right path . . . else we may choose anarchy and crisis instead of recovery."