'Into the financial maelstrom'

Washington correspondent Stanley Ezrol attended the Council of the Americas conference, and found a state of alarm.

Leading bankers, economists, and U.S. government officials invited to address David Rockefeller's Council of the Americas annual conference at the State Department June 2 warned that without drastic policy changes, the Latin American debt bubble will explode, triggering a global financial crisis, possibly by the end of this month. Few conference attendees believed at the end of the day-long session that any credible means for averting disaster had been presented.

The mood of desperation surrounding the conference was apparent before it began, when the Council-affiliated Americas Society Commission on the Public Policy Implications of Foreign Debt canceled a scheduled June 1 press conference after a difficult morning session. Commission staff nervously told reporters as they arrived that the conference was canceled because members had to leave for a White House reception which was to take place three hours later two blocks away. But I found distraught Commission members meeting in small groups in various rooms of the International Club, the planned site for the press conference. Council President Russell Marks told me he didn't know anything about a planned press conference on debt.

Later that evening, Council Chairman Rockefeller erupted from a lavish State Department reception he had hosted, to greet the conference. When I remarked that Rockefeller would be unable to afford another affair like this one after the "debt bomb blows," his bodyguard harshly ordered me to "take a walk" out of the elevator we were in. According to the *Washington Post,* Rockefeller later confirmed the accuracy of my assessment. He was so unsettled that twice during the following day's event his personal staff tried to have me ejected from the State Department auditorium.

Mega-accident

During the conference, the possibility of a debt blowout triggered by a Brazilian default or moratorium was the major topic of conversation. Clyde Farnsworth of the *New York Times* told the group that the spectre of Brazil had also haunted the heads of state meeting at Williamsburg the previous weekend. Farnsworth said that at the summit table there was an empty seat for Brazilian President Figuereido. He also reported that when Italian Premier Amintore Fanfani was asked if "Brazil stood at the gateway to the abyss," he replied, "Brazil is bigger than the abyss."

Jeffrey E. Garten, vice-president of Lehman Brothers Kuhn Loeb investment house, introduced a panel on trade and investment by saying, "The recovery is in doubt. . . . Development in Latin America is dead in the water. . . . In Brazil, many people would not be surprised if a unilateral debt moratorium were declared."

Robert Lorenz, senior vice-president of Security Pacific National Bank, described the current crisis as a "mega-accident," and announced, "The post-World War II growth has come to a stop and it's not going to resume without resolving the debt problem. . . . The Eurodollar market is closed to the South American borrower and it will not re-open until the refinancing process is over." Unless the crisis is resolved, he warned, "we are going to have serious problems by the end of June. . . . This is too big for the international banking community to solve." Charles E. Lillien, vice-president for finance of the First Boston Corporation, described the "bridge loan" agreements reached between the International Monetary Fund, various debtors, and the U.S. Treasury as a "Rube Goldberg device," and said that "only when the crisis gets hot enough" can a permanent solution be agreed upon.

Although he insisted that a solution was immediately available through agreements to share the losses stemming from freezing half of the outstanding debt and sharply reducing expected interest income on the rest, he warned, "If people don't get off their duffs pretty quickly, we may plunge into this goddamned financial maelstrom."

Arithmetical impossibility

Several speakers claimed a solution to the crisis was theoretically possible based on measures to "stretch out" the debt, while new credit is supplied through the IMF quota increase agreed to last winter, but it was pointed out that these measures are politically unlikely or impossible to achieve. Pedro Pablo Kuczynski, a former Peruvian economic policy official who is now president of First Boston International, explained that the problem is that bureaucrats such as himself with degrees and "accents" from such institutions as Exeter College (Oxford) and Princeton University can prescribe "painful" austerity programs for Latin American governments, but "what happens then? They don't last very long." He concluded that a major crisis was in store, "I see the handwriting on the wall. We better get our house in order to face that eventuality."

Lorenz described the predicament of three of his friends who are Ibero-American financial officials who have recently negotiated austerity programs with the IMF, but who now realize that resolving their liquidity problems through these programs is an "arithmetical impossibility." He said that the assumptions on future projections for advanced sector growth rates, interest rates, commodities prices, and other factors which would have to be made to project success through these programs, are "absurd." He said his friends are terrified of what will happen to them when they present the results of these calculations to their governments. "What are these politicians going to do when they see there is no way out of the austerity plans?" he asked.

Congressman James Leach (R-Iowa) explained that there are also serious obstacles to the implementation of the IMF bailout strategy in the United States. He said that the Congressional appropriation for the IMF quota increase, which all speakers agreed is absolutely essential to avoid a blowout, was "extraordinarily in doubt." He said that the Democratic majority in the House of Representatives would not back the plan unless President Reagan ostentatiously identified himself with it in the mind of the public so that he can take the blame for its expected failure. Even then, he warned, there might be so many "pounds of flesh" demanded in exchange for the bail-out that it would be deemed unacceptable by the administration.

With the Williamsburg summit over, even spokesmen for the State and Treasury Departments, which had previously blithely claimed that the alleged "U.S. recovery" had, in the words of George Shultz, "defused the debt bomb," sounded ominous tones. Undersecretary of State Lawrence Eagleburger, speaking from a text originally prepared for Shultz, said that the problem could be resolved "if [the Ibero-American nations] make the necessary adjustments."

As noted above, most speakers agreed that is an unlikely condition. Assistant Secretary of State for American Republic Affairs Thomas O. Enders said of the debt crisis, "We're not at all out of the woods. Much that has been accomplished so far could still be lost." Although Shultz and Treasury Secretary Donald Regan have consistently claimed that the debt crisis would be solved by an increase in exports made possible by the "recovery," Enders said that due to the depth of the crisis, "An export-led strategy would fail in Latin America." Assistant Treasury Secretary Marc E. Leland insisted that the current mechanisms could succeed only if three highly unlikely conditions are met. First, the IMF quota increase must be passed. Second, IMF austerity programs must be accepted, and, third, the nations accepting them must be politically able to implement them.

Even Treasury Secretary Regan insisted that only the politically impossible abandonment of national policies limiting the power of foreign investors can resolve Ibero-America's current liquidity crisis.

Perhaps most ominous of all were repeated warnings that the current situation would lead to renewed political instability in the region. Richard Newfarmer of Robert S. McNamara's Overseas Development Council referred to a series of riots in São Paulo, Brazil, and the terrorist bombings in Peru as "symptomatic of things to come."