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Ibero-America: storm center for the IMF's supporters as Brazil eludes their control

by Susan Johnson

The case of the Brazilian debt, and the impending crisis over Venezuela's debt, have forced an international recognition that neither the International Monetary Fund nor the "Ditchley Group" of private banking creditors founded at the beginning of this year has adequate means to extract debt repayment from the major Ibero-American countries.

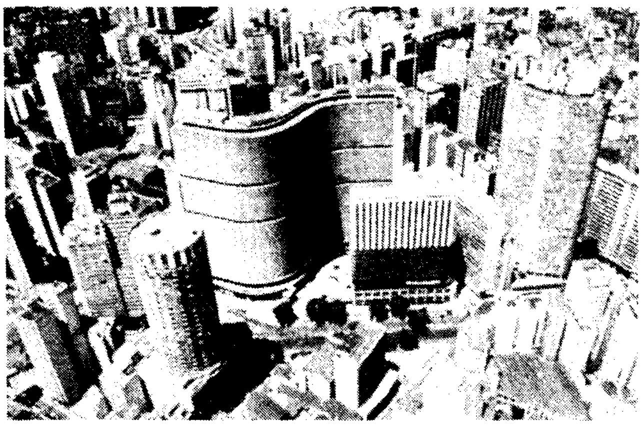
Thousands of Brazilian demonstrators marched on June 8, chanting "*Fome, Miseria, Inflação*"—"famine, poverty, inflation"—a slogan whose initials were selected to spell out "FMI," the Portuguese acronym for the International Monetary Fund. Throughout the continent, a wire-service story was published, with an overview of the revolt against the IMF: "In Bolivia and Peru, a presidential initiative for the region to form a common political front facing the IMF for renegotiation of the foreign debt, is progressing vigorously. In Venezuela, there is a consensus among the majority of sectors, from the most conservative right to the extreme left, to issue a loud and decisive 'no' to the demands of the IMF regarding the future path of the national economy." Agence France Presse at the same time reported, "Latin America is on the warpath against the IMF, and criticism of this institution, which used to come from the far left, is now being taken up as the banner of conservative factions."

The Brazilian government on June 9 announced its anxiously awaited policy package: a rejection of the IMF's insistence that price subsidies for wheat and oil be immediately eliminated. Instead, the government "promised" to phase out the subsidies—which have become the center of attention in the negotiations with the Fund—by 1985. Such promises have been dragging on for months with no action in sight. That decision to defend the living standards of millions of Brazilian citizens was the latest setback for the IMF, skeptical as it is of Brazil's pledges of future action to meet conditionalities.

Brazil is in fact undergoing a political evolution, with the potential for some sort of Gaullist, or Peronist, military-labor alliance with a broad social base, superseding the "right-wing military versus progressive civilians" polarization that has characterized the country for the past two decades. The May 24 visit to General Figuereido's presidential palace by the widow of President João Goulart, overthrown by the military in 1964, is particularly significant in this light. Goulart's son-in-law, Rio governor Leonel Brizola, is forming an alliance with Figuereido's party in that state.

Brazil, as *EIR* has reported, was selected for "rough" treatment by the Fund, which does not wish to confront all of the Big Three debtors at once, and therefore pretends that Mexico and Argentina have "passed" the conditionalities test, contrary to fact. Less than two weeks after the IMF gave its blessing to Argentina's first-semester economic performance, however, central bank president Carlos González del Solar said that Argentina will have "difficulty" meeting the Fund's conditions during the second half of the year, and asked for "flexibility." Mexico is making polite professions of intent to meet its obligations to private creditors, but tangible repayments are scarce.

In Venezuela, whose leaders, like those of the other debtor nations, are watching the Brazil situation moment by moment, President Luis Herrera Campins on May 29 told a Caracas rally that "we have been encouraging multilateral initiatives in Latin America to try to achieve our own path for the renegotiation and the refinancing of the debt." Confirming that this was more than rhetoric for domestic consumption, a week later his foreign minister, José Zambrano Velasco, stated in a formal address to the United Nations Confer-



São Paulo, Brazil's premier industrial city: nations are showing themselves unwilling to destroy themselves for the sake of debt extraction.

ence on Trade and Development (UNCTAD) that "the creditors have organized themselves to coordinate their efforts; therefore, it is only logical that the debtors do what is necessary to coordinate their position." (See article, page 4.)

The Venezuelan capital will be the location of a summit conference among the presidents of the Andean Pact nations—Colombia, Venezuela, Peru, Ecuador, and Bolivia—on July 24. By that time, there is every reason to expect that the debt-refinancing situation will be further out of control, and if a "debt bomb" has not already been dropped, it is entirely possible that the Andean leaders will flank the Big Three's current quiet non-payment of arrears with a public policy initiative toward a debtors' cartel and a continental common market.

Brazil and the IMF

As *EIR* has insisted all along, there is no way on earth or heaven that Brazil could meet its debt obligations under the International Monetary Fund arrangements concluded in February. The financial-policy "triumvirate" at the Brazilian central bank, planning ministry, and finance ministry tried to circumvent that reality with expert statistical shadow-boxing against bankruptcy. The Fund and the Ditchley Group in true loan-shark fashion expected that a combination of hand-smashing austerity and rollovers would contain the dangers of a $90 billion insolvency, and set the pace for the other debtors, as Mexico's capitulation to the IMF had done last year. But the Fund's demands on Brazil entailed reductions in consumption and industrial capacity that posed a terminal threat to national security, and the national economy.

Segments of the military as well as the civilian policy-making apparatus, including those who not long ago believed in the efficacy of the Fund's ministrations, refused to eliminate the oil and wheat price subsidies at one fell swoop, have now balked on cutting back the state sector as the IMF demands, and refuse even to mention de-indexing wages, another Fund conditionality. They are now discussing not only unilateral debt moratorium, but participation in a debtors' cartel, as a near-term option.

That is the reality shaping the latest round of talks in New York between Brazilian central bank chief C. G. Langoni and creditor banks, whatever prevarications may emerge from both sides on the subject.

The May 16 document issued in Quito, Ecuador by the Latin American Economic System (SELA) and the U.N. Economic Commission on Latin America (ECLA) summarizes the agenda toward which Brazil is being compelled along with the rest of the continent: 1) policy coordination among debtors, and 2) substantial preferential expansion of Ibero-American trade. Below we excerpt from that statement, which was not reprinted in the financial press of the "Northern" nations. *EIR*'s LaRouche-Riemann econometrics staff is currently preparing a comprehensive study of the investment, trade, and financial mechanisms that could be introduced to create a Latin American Common Market.

Documentation

'Quito document' sets renegotiation, and full

The following are excerpts from the "Quito Document," issued jointly by the Latin American Economic System (SELA) and the U.N. Economic Commission on Latin America (ECLA) in response to the request by Ecuadorean President Osvaldo Hurtado for a comprehensive analysis of the Latin American economic crisis. The document, signed by Enrique Iglesias, executive secretary of ECLA, and Carlos Alzamora, permanent secretary of SELA, is dated May 16, 1983.

Latin America is probably experiencing its most serious crisis in the last half-century. Its economic growth has deteriorated, and the standard of living has been reduced in every country in the region, producing grave social and political consequences.

On the basis of these considerations, we believe it necessary, in the face of the compelling problems confronting the region, to focus our proposals on the problems arising from the burden of the external debt service and trade, and on the need for determinedly taking the path of regional cooperation and integration, without prejudice, of course, to the importance of such topics as regional food security or energy cooperation.

The most urgent dilemma confronting Latin America is, that while it needs resources in order to maintain a minimum of growth, the stage of external financing with which that growth was sustained in recent times has now come to an end.

We believe that the solution can only come from determined joint action by the region.

Latin America has been helping solve the economic problems of the industrialized countries through the lower prices paid for its exports and the higher interest rates it has had to pay on the funds loaned to it. However, in view of the severity of the economic situation it is now facing, it will be understood that it cannot go on making that sacrifice. On the contrary, we have reached a point at which it has become necessary above all to defend our national economies and protect the production apparatus.

For Latin America the main goal is to develop, and this

development, joint cooperation goals

means adjusting the servicing of the external debt to the present capacity of the debtor countries to pay, while spreading the accumulated debt appropriately over time so as to be able to keep up the level of essential imports. It means that the renegotiations must be carried out on new bases so that their cost to the debtor countries is less, the burden of the international adjustment required is distributed equitably, and it is at least possible to conserve the standard of living of these countries, while safeguarding the independence of national decisions.

This goal calls for regional action which is coordinated at various levels and in respect of various actors in the international financial system: action aimed at ensuring that the developed world understands that the surest way to enable Latin America to service its debt is to promote its development, rather than depriving it of the financial resources it requires.

In order to help reach these objectives, we consider it essential to establish information machinery on the Latin American external debt to facilitate the exchange among the countries of the region of information on the terms on which debts are being refinanced and on the evolution of the international financial markets, as well as in certain cases, giving governments advisory assistance on handling their external debts and solving the problems derived from it.

Thus, there is an urgent need for concerted Latin American action at the political level to make possible joint consideration of a solution to the problem of external indebtedness, which is having such a severe impact on the majority of the countries in the region. Individual solutions should be based on mechanisms of a global nature, so that each case is no longer treated as though it were a question of a set of isolated financial crises which are unrelated both to each other and to the international scenario which produces them.

It is necessary to intensify the whole unexplored potential of intra-Latin American trade with a view to at least doubling it in this decade and replacing extra-regional imports—particularly imports of food, energy, and capital goods—by imports which the region itself can furnish. This requires an agreement that regional trade preferences covering all Latin American countries be adopted, and that the implementation of compensated partial bilateral agreements be intensified, especially by increasing State purchases.

To make this possible, it will be necessary to strengthen and extend the regional machinery for financing trade and clearing balances. These are also points of departure for an accelerated process of regional integration which will permit the full use and expansion of the installed production capacity and the development of our resources. This will also make it possible to create sufficient response capacity to ensure that coercive economic measures adopted by third countries can never again hurt a Latin American country.

In the face of the present crisis and the concerted action of the industrialized countries, the dispersion of the Latin American countries makes them ineffective in defending their interests. From the economic point of view, Latin America should organize itself as a unit. This will enable us to prepare ourselves to meet the future with an effective and dynamic structure of preferential complementarity which will save us from the danger of being vulnerable to the policies followed by other countries and will be in keeping with the interests of the Latin American community.

The instrumentation of these proposals urgently calls for a large-scale Latin American dialogue, of a type not hitherto seen, to be held in a spirit of understanding and harmony. In this connection we feel it might be appropriate to convene a Latin American Economic Conference.

This kind of conference should concentrate its efforts on the areas of development financing and intra-regional development and give new impetus to Latin American integration and cooperation. Full political support of its decisions would be of decisive help in putting into operation the mechanisms necessary for ensuring its prompt instrumentation.

The challenges we shall be facing at the beginning of the next century are being gestated right now. It seems that the last two decades of this century will mark the close of one era and the beginning of another. To embark on that era, it is essential to begin today to design and approve the foundations of the structure which Latin America needs. If this is not done, the growing impact of external factors will limit our possibilities for deciding our own destiny in the economic field and even in those of policy and strategy.

Latin America must answer this challenge in a spirit of unity, with the same solidarity with which it achieved its great accomplishments in the past and the same awareness of its collective interests which inspired it then.

This undertaking calls for great political will. We believe that this will is present and that it need only be summoned in order for it to take form. Rising above the short-term problems which may divide us today, the time has come to recover that collective vision which gave so much inspiration to our Liberators, who did not see their mission as merely one of national emancipation, but as being in the service of the entire region.