

‘An ominous meeting to discuss the debt’

by Dennis Small

This was the apprehensive headline on a short article appearing in the Aug. 8 issue of *Newsweek*, the magazine owned by the Meyer banking family of Lazard Frères and Rothschild fame. It was referring to the upcoming Sept. 5-9 meeting of the Organization of American States (OAS), whose Inter-American Economic and Social Commission (CIES) will be meeting in special session in Caracas, Venezuela to review the international financial crisis and what to do about it.

What has the Meyers and other international bankers worried sick is, in *Newsweek*'s own words, "the prospect of the world's debtor nations jointly repudiating part of their \$600 billion in foreign I.O.U.'s in a kind of debtors' cartel."

Despite subsequent public disclaimers from various media outlets and unconvincing assurances from Wall Street bankers ("The cocktail party theory of a debtors' cartel is not the real world"), the fact of the matter is that the international financial community indeed fears that in Caracas, the debtors might decide to jointly sink the IMF, and use their collective indebtedness as a weapon to restructure the international financial system in a way that would permit the resumption of industrial growth in both North and South—policies long advocated by this magazine and its founding editor, Lyndon H. LaRouche.

What triggered the bankers' latest public ringing of alarm bells were developments in Brazil over the past two weeks. Despite growing indications that the entire continent is moving steadily towards an alliance of debtors—as seen in the recent Andean Pact summit in Caracas, and the subsequent meeting of the continent's special presidential representatives in the Dominican Republic (see *EIR*, Aug. 16)—the

banking community preferred to ignore these unpleasant matters, insofar as they didn't directly involve either Mexico or Brazil, the world's two largest debtor nations by far, and the keys to any eventual debtors' club.

But then on Aug. 9 a high-level spokesman for the Brazilian foreign ministry told the press that, although the Caracas meeting should not properly be termed a "debtors' conference," since the United States and Canada would have representatives present, Brazil by all means *did* favor "coordination among the negotiation processes between various debtor countries and their creditors." Word was subsequently leaked to the press that the Brazilians thought the meeting so significant that they planned to send a high-level delegation, possibly headed by Finance Minister Galveas or Foreign Minister Saraiva Guerreiro. "The potential of this meeting is awesome," intoned one frightened Reagan administration official.

Two days later, a majority of the members of Brazil's House of Representatives (241 out of 479) signed a message to president Figueiredo urging "an immediate break with the International Monetary Fund [and a] declaration of moratoria on the foreign debt." The congressional statement, although not binding on the government, reflects the fact that the vast majority of Brazilians are outraged at the levels of austerity which the IMF has been trying to impose on Brazil, and are ready for radical action.

A well-informed Wall Street banker confided to *EIR*: "Brazil is at the breaking point. Unless Volcker eases up on interest rates, they will declare a moratorium of one sort or another by October."

Brazil is by no means alone in reaching the end of the rope. "Don't just watch Brazil," a London merchant banker advised *EIR*, "Venezuela is playing hardball too." Venezuela has been ordered by its creditor banks and by U.S. Treasury Secretary Donald Regan to submit to International Monetary Fund conditionalities before its debt will be refinanced, but the Venezuelan government has refused. Finance Minister Arturo Sosa, asked whether his country would be able to refinance its debt despite its refusal to swallow the International Monetary Fund, replied caustically the third week in August: "It is a problem of the ability or the interest of the banks, because if it is refinanced, they have a possibility of collecting it; if it is not refinanced, perhaps they do not."

This continental hostility towards the IMF, and the growing commitment to some form of a debtors' alliance, will be debated fully at the OAS meeting. Although the U.S. delegation will reportedly insist that the IMF is the only answer to the crisis, conference draft documents made available to *EIR* indicate that the Ibero-Americans believe otherwise: "[IMF measures] in some cases tend to reinforce drops in output levels and high levels of unemployment. . . . Such measures can affect the political stability of the debtor countries and their autonomy to design their own economic policy." To confront this, the draft document recommends that the Ibero-American nations "agree on general principles. . . and monitor the debt agreements and see that debt repayment is compatible with the economic reactivation and productive employment needs of debtor countries." (See further excerpts below.)

The 'financial Malvinas'

What is fueling the renewed round of Ibero-American motion towards a debtors' club are two developments which occurred during July, and which convinced many leading Ibero-American policy makers that they have no other viable options but to form a cartel, since what is in store for them for this fall is the equivalent of a "financial Malvinas."

The first of these was the return to office in Washington of Dr. Henry Kissinger, a notorious enemy of Third World development. To Ibero-Americans, the naming of Kissinger is itself a virtual act of war, especially in light of the fact that he will reportedly play a dominant role in all U.S.-Ibero-American relations, including debt renegotiations.

The second factor provoking the Ibero-Americans was the renaming of Paul Volcker to head the U.S. Federal Reserve. Volcker is viewed throughout Ibero-America as the man with the single greatest responsibility for their current debt woes, since it was under his term of office that skyrocketing interest rates were capitalized into today's largely fictitious foreign debt.

Foreboding did not long await actual developments. The rise of dollar interest rates since mid-May will cost Ibero-America an additional \$5 billion on an annual basis—*more*

money than the IMF will disburse to the continent this year.

EIR has learned that, as a result of these developments, excessive interest rates and usurious commissions and charges will be a central topic of concern at the upcoming Caracas OAS conference.

Recognizing that the political temperature is rising around the Caracas conference, the creditors have gone to great pains to try to defuse the motion towards the debtors' cartel. A long-awaited "jumbo" loan package of \$1.5 billion for Argentina was finally approved by a consortium of 300 commercial banks the third week in August, after they had extracted an important concession from the Argentine government permitting British companies to freely repatriate profits from the country (which they had been prohibited from doing ever since the Malvinas War). And the U.S. Eximbank announced that it had approved credit guarantees for U.S. exports to Brazil totaling \$1.5 billion, and to Mexico totaling \$500 million.

A major publicity campaign was mounted to present the EximBank decision as a concession to Ibero-America, as part of a broader policy of "stretching out" loan packages based on government-to-government negotiations. But the small print makes the EximBank loans conditional on both Mexico and Brazil complying fully with IMF conditionalities—i.e., that they totally dismantle their domestic industrial apparatus.

It was the vice-president of the World Bank, Ernest Stern, who showed the proverbial mailed fist inside the velvet glove. After meeting with Mexican president Miguel de la Madrid, Stern told the press menacingly that Mexico should not even consider a debt moratorium, because "it would affect the future development of the country. . . . despite the psychological satisfaction it could represent. . . . [Such a move] would without a doubt eliminate a country for many years from receiving credit."

Stern was obliged to confess, however, that there remained "important policy differences" between the World Bank/IMF and Mexico—a fact which holds for the rest of Ibero-America as well, and which will no doubt be driven home forcefully at the upcoming Caracas OAS conference.

'The IMF could drive us and our debt bankrupt'

Excerpts from the OAS draft documents:

On debt

The issue of foreign debt and its adequate solution lies at the heart of actions that will have to be devised. The levels and characteristics of the external debt of the majority of the countries of the region have become particularly untenable. . . . In the absence of clear, continuous, and permanent signs of economic recovery in the industrialized world, and to the extent that this phenomenon does not result in a substantial resumption of growth in the countries of the region,

the solution to the external debt problem becomes the first priority."

On the IMF

The conditions imposed in such exercises . . . can conceivably result in unexpected social and political developments in debtor countries [and] in some cases tend to reinforce drops in output levels, high levels of unemployment and worsen the regressive distribution of income. . . . Such measures can affect the political stability of the debtor countries and their autonomy to design their own economic policy. It ought to be pointed out that the nature of these adjustments can also affect creditor nations through . . . a significant effect on the level of exports of industrialized nations. . . .

[IMF measures] could transform the current situation of shortage of liquidity [of debtor nations] into a situation of insolvency. This would result in an inability to service the foreign debt, followed by various forms of unilateral moratorium on the part of debtor countries, together with the inevitable repercussions this would have on the international financial markets and creditor banks."

On joint debt renegotiation

Everything points to the existence of a degree of imbalance between the negotiating parties. On the one hand there seems to have been certain concerted attitudes between the creditor banks, the governments of creditor nations, and the IMF. On the other side of the bargaining table the debtor country has had to find comfort in its own endowment of resources. . . .

A joint renegotiation of foreign debt is not feasible, as each country has its own problems, its own internal working mechanisms, and different levels and characteristics of their respective foreign debts. However, an effort should be made to agree upon general principles, minimum platforms. . . .

An institution or group of institutions could monitor the debt agreements and see that debt repayment is compatible with the economic reactivation and productive employment needs of debtor countries. Each country would conduct its own debt contracting, but would make use of the general criteria agreed upon by all parties involved in the debt issue. A series of common criteria and requests from debtor countries have emerged from the Santo Domingo accord which manifests . . . the "solidarity of Latin American states against any compelling action taken against any of them as a consequence of the imposition of criteria that differs from that stated earlier."

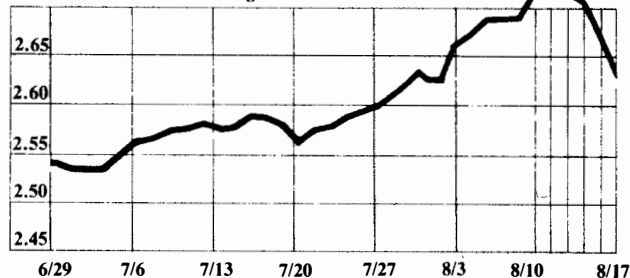
On the common market

Intraregional integration and cooperation, especially mutual trade, is acquiring great importance. . . . The most urgent measures include the need to make use of the region's idle capacity in a shared and, insofar as possible, complementary manner . . . to obtain greater collective economic security.

Currency Rates

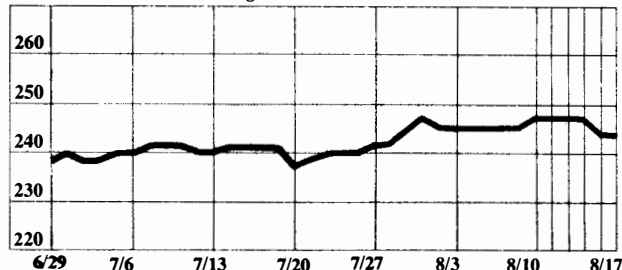
The dollar in deutschemarks

New York late afternoon fixing



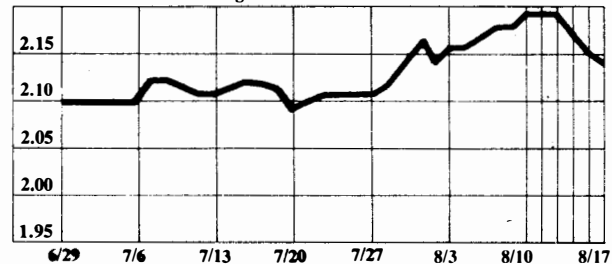
The dollar in yen

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing

