Ibero-America bows to IMF in 1983 'financial Malvinas'

by Dennis Small

Ibero-America's agenda for 1983 was set at the end of 1982, when the three principal debtor nations of the continent—Brazil, Mexico, and Argentina—agreed to subject their economies to the anti-growth conditionalities of the International Monetary Fund (IMF). All did it out of expediency, announcing that they didn't particularly like the Fund's recessionary policies, but that these were preferrable to incurring the wrath—and countermeasures—of the international financial community which would descend on them were they to form a debtors' cartel and force the joint renegotiation of their foreign debt.

EIR began attacking this outlook early in 1983, warning the governments of Ibero-America, in the words of a widely distributed and reprinted press release, that IMF austerity is more destructive than the consequences of a debt moratorium." Representatives of *EIR* founder Lyndon LaRouche also explained personally to top policy-making circles across the continent that the toleration of IMF austerity would so decimate their economies that the very social and political fabric of their nations would be destroyed.

The year's events unfortunately bore out *EIR*'s forecast.

For the entire first half of 1983 the governments of Ibero-America closely considered adopting LaRouche's anti-IMF strategy, as detailed in his August 1982 *Operation Juárez*, which called for the formation of a debtors' cartel and a regional common market. They resisted IMF austerity; they ceased paying even the interest on their debt; they criss-crossed the continent in hectic diplomacy that pondered joint debt action; and they even laid the policy framework for drastically shifting their trade patterns towards intra-regional commerce.

But in the middle of the year—in the first 13 days of July, to be precise—the IMF and allied creditors staged a decisive showdown with Brazil. The banks threatened to call Brazil into formal default for not repaying an overdue $400 million bridge loan from the Swiss Bank for International Settlements, and to launch all-out economic and financial warfare against the continent's largest debtor, if the Figueiredo government did not capitulate to the IMF's demand for major real wage reductions. *EIR* wrote at the time that "all hinges upon the outcome of the June showdown between Brazil, the bankers, and the IMF." On July 13, 1983, President Figueiredo bowed to the IMF demand.

From that moment onward for the remainder of 1983, it was downhill for Ibero-America in its battle for survival. Step by step, "pragmatic" concessions were made to the creditors by each and every country; step by step, they handed over chunks of their populations and their very sovereignty, rather than fight.

The results have been devastating. Gross foreign capital flows into Ibero-America dropped from $38 billion in 1981 and $19 billion in 1982, to a pathetic $3.4 billion in 1983. But debt service payments were so great that, for the first time in recent history, the already impoverished continent became a *net capital exporter*: *EIR* estimates that close to $40 billion were sucked out of the area in 1983. According to statistics prepared by the U.N. Economic Conference on Latin America, 1983 was the worst year in a half century for the continent: GNP dropped by 3.3 percent, or 5.6 percent per capita.

Looked at from the U.S. side, this dramatic collapse of economic activity translated into the loss of upwards of *one* *million* American jobs, due to the sharp decline of U.S. exports to Ibero-America. Over $400 billion in ambitious industrial development and other infrastructure projects in Ibero-America have fallen victim to the IMF budgetary axe.

This process has politically destabilized every nation south of the Rio Grande, and opened the doors to a booming black market economy—especially narcotics. Drug-linked terrorist groups, such as Peru's "Shining Path," have stepped up their assaults and in some cases created situations of virtual dual power with the constitutional governments.

If this IMF strangulation continues in 1984, the world will witness the early destruction of what were previously the sovereign nations of Ibero-America. The genocide and instability now characterizing Central America will become generalized across the continent. Rather than a bulwark of Western civilization and a booming market for American capital goods exports, Ibero-America will look like Iran.

If the setbacks of 1983 are to be turned around in 1984, the governments and political leaders of Ibero-America will have to change the way in which they have so far fought the IMF and its policies. They must finally learn the real lesson of the 1982 Malvinas War and of its sequel, the "Financial Malvinas" of 1983: that they are locked in battle with an oligarchic enemy whose strategic purpose is their utter annihilation as modern nation-states, and that they have to respond, united, in kind.

The 'debt bomb' makes headlines

In May of 1982 Lyndon LaRouche coined the phrase "debt bomb," and in a public message to the Argentine government urged it to detonate this powerful weapon—in coordination with other Ibero-American governments—at the doorstep of the City of London. Eight months later, on Jan. 10, *Time* magazine made the phrase a household word by running a cover story entitled "The Debt Bomb; the Worldwide Peril of Go-Go Lending."

Time's purpose was rather different than *EIR*'s. It reflected the thinking of a stratum of international finance which had reached the conclusion that the debt crisis would sooner or later explode. They chose to try to use this crisis to strengthen the IMF, fragment the debtors, and strangle all remaining Third World development prospects.

Most Ibero-Americans had other ideas. Their attitude of early 1983 was summed up in a banner headline in the Jan. 11 issue of the Mexican daily *Ovaciones*, which demanded: "Debtors of the World, Unite." The daily was referring to statements issued in Lima, Peru the previous day by the Permanent Secretary of the influential Latin American Economic System (SELA), Carlos Alzamora, who reiterated his earlier calls for joint debt renegotiation. Statements in favor of collective debt action were also issued at a conference of the foreign ministers of Panama, Colombia, Venezuela, and Mexico at the famous founding meeting of the Contadora Group on Jan. 8, and at the preparatory meeting of Non-Aligned nations in Managua, Nicaragua, two days later. Even the ever-pragmatic Brazilian government discussed the possibility of joint debt action at a January private summit meeting between President Figueiredo and Argentine head of state General Bignone.

Even as these options were being considered, a number of the major debtors instituted a policy of deliberate foot-dragging on current debt service payments—a necessity, in any event, since the IMF and the commercial banks had sharply cut back on the issuance of new credits in the aftermath of the Malvinas War. Thus in mid-February Brazil underwent a series of near defaults as the state-owned commercial bank Banco do Brasil scrambled for 24-hour cash to avoid bouncing checks. And the central bank quickly built up over $1 billion in arrears on scheduled debt service payments.

Argentina similarly pronounced its inability to continue servicing over $5 billion in private sector debt; and on Feb. 28 Venezuela, after stoically suffering months of Mexican-style capital flight, finally clamped on exchange controls and declared a de facto moratorium on approximately $7.5 billion in debt. Adding it all up, Ibero-America was refusing to service tens of billions of dollars of its foreign debt.

But none of this constituted a fundamental threat to the Bretton Woods monetary system; the only thing the creditors feared was a joint *political* statement from the debtors that they were holding the debt hostage to the creation of a new monetary system. And this they moved to prevent.

Both sides focused their efforts on the March 7-11 New Delhi summit of Non-Aligned nations. The Club of Life, the international anti-Malthusian organization founded by Helga Zepp-LaRouche, was most insistent in identifying the Delhi summit as a "punctum saliens"—a crucial turning point in the fight for a New World Economic Order—and in building international support for the creation of a debtors' cartel at Delhi.

Since the Ibero-American representatives by and large had the clearest view within the Third World of the need for joint debt action, the opponents of a New World Economic Order worked overtime simply to keep them physically away from the Non-Aligned summit. In the weeks before the gathering, sudden internal instabilities, coup threats, and renewed tensions with neighbors forced the heads of state of Non-Aligned members Colombia, Peru, Bolivia, and Venezuela (then applying for membership) to cancel their plans to travel to Delhi. The meeting was correspondingly weakened, and failed to move beyond the stage of good speeches on the debt front.

The early April meeting of the Group of 77 developing sector nations in Buenos Aires also failed to break the logjam.

Reality, however, proceeded apace. The near total absence of dollars in Ibero-America led to a sharp curtailment of trade, and some of these nations began to look into an option earlier suggested by LaRouche in "Operation Juárez": the formation of a Common Market centered on barter trade. The giants of the debtor world, Mexico and Brazil, held a summit meeting to discuss precisely such options on April 26 in Cancún, Mexico.

The dollar shortage was also felt on the financial front. By early May, Brazil had incurred arrears of over $2.5 billion, and the country's creditor banks and the IMF responded by formally cutting off all credit flows until the IMF's strict conditionalities were adhered to. Brazil's leaders responded violently. Shigeaki Ueki, the president of the huge state oil monopoly Petrobras, said in an interview with *EIR* published May 17 that of course Brazil must make every effort to live up to the IMF's demands—but after that, Brazil may have no other recourse than collective debt action.

Brazil was hardly alone in such sentiments. Venezuelan president Luis Herrera Campins on May 12 denounced the IMF for trying to make his country pay for having supported Argentina during the Malvinas War, and deplored the fact that "coercive measures for collecting the debt were instituted by the international commercial banks." Colombian president Belisario Betancur similarly blasted the banks for trying to penalize Colombia "for living in a bad neighborhood."

SELA and Operation Juárez

Advanced sector response to these urgent Ibero-American concerns was frankly hostile. Both the OECD Williamsburg summit on May 18 and the June full UNCTAD meeting in Belgrade failed to seriously address the debt issue. This served to convince the region's leaders that they could expect nothing in the way of either good will, or even simple self-interested rationality, from the advanced sector governments, and that therefore unilateral debt action was required. The damage done to U.S.-Ibero-American relations as a result of this pro-IMF policy was, in many ways, more serious than the consequences of American support for the British during the Malvinas.

As during the Malvinas War, the principal standing policy bridge between the United States and Ibero-America was the activities of Lyndon LaRouche and *EIR*. In mid-1983, LaRouche broadened his earlier Operation Juárez call, and urged that Ibero-America be involved in scientific and technological cooperation with the U.S. beam weapons program, and that its economic spin-offs benefits reach the South as well. The proposal elicited a highly positive response among Ibero-American military and other leaders informed of the idea through *EIR* seminars on the subject held in Mexico, Argentina, and elsewhere. Thus Brigadier Héctor Luis Fautario, the former Commander in Chief of the Air Force of Argentina—a country which a bit over a year ago was at war with the United States—was able to state to *EIR* in an interview Oct. 28:

> I think that the development of beam weapons is tremendously important. . . . Countries like ours have to rapidly associate themselves with developments of this magnitude because they would ensure the freedom of the world. . . . We would look forward to a period of participation by the U.S., so as to feel truly united in work like this.

But with LaRouche's views merely influential, and not dominant, in Washington, the Ibero-Americans continued to organize for unilateral action.

On May 16 in Quito, Ecuador, SELA—which throughout 1983 played the key role in coordinating the efforts towards continental integration—hosted a meeting of special plenipotentiary ambassadors of the continent's heads of state to discuss a joint response to the financial crisis. There was unanimous endorsement of the document drafted for the meeting by the SELA staff, which finally proposed the two central policy points urged by LaRouche since mid 1982: a debtors' cartel and a common market.

> 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.
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> It is necessary, as a second objective, to intensify the whole unexplored potential of intra-Latin American trade. . . . This requires the adoption of an agreement to ensure . . . that regional trade preferences covering all Latin American countries will be adopted, and that the implementation of compensated partial bilateral agreements will be intensified.

With this, Operation Juárez was placed on the Ibero-American agenda. But it had yet to be acted on.

During this period, the governments of the region received important backing for their anti-IMF diplomacy from organized labor. In Venezuela, the trade union federation CTV went on record in support of collective renegotiation. In Colombia, the UTC federation was outspoken for the SELA approach. The Argentine CGT blamed the country's economic plight on the application of IMF prescriptions. In Brazil, workers organized street demonstrations to denounce that the IMF's initials in Portuguese really stand for "Fome, Miseria, Inflação" ("hunger, misery, and inflation").

The continental drive for a debtors' cartel reached its most advanced expression on July 2 in Caracas, when political leaders representing every nation of Ibero-America met at a week-long Congress on Latin American Political Thought, and called for the immediate formation of a "coordinating council on the foreign debt" and the "economic, political, social and cultural integration" of the continent into a "nation of republics." Ex-presidents, senators, diplomats, economists, and intellectuals with the political weight to implement such policies voted to end the IMF's power to dismantle economies and impose genocidal levels of austerity.

Thirteen days in July

The IMF and the creditors reached the conclusion that they had to stop this aggressive drive towards a debtors' cartel dead in its tracks. They targeted Brazil, the country all sides agree is the sine qua non of any Third World debtors' club. There was no time to lose. On July 7 rumors of Brazilian and Argentine unilateral debt default swept the international markets, sparking an $18 rise in the price of gold.

Earlier factional disagreements among the creditors over whether to force Brazil to the wall disappeared during the first week in July when British Prime Minister Margaret Thatcher advocated "teaching Brazil a lesson." U.S. Undersecretary of the Treasury Tim McNamar, called his contacts in Brasilia to deliver American government backing to the creditors' principal threat: if you don't bow to the IMF, we will cut off all oil deliveries. Brazil's Planning Minister Delfim Netto was then spirited off to London on July 9, returning two days later to deliver the same message, and to organize a military faction inside Brazil to stage a coup d'état should Figueiredo refuse to go along peacefully with the creditors' demands.

But the Brazilian government was not yet ready to give up the ghost. Figueiredo dispatched central bank head C. Langoni to Venezuela the first week of July, for emergency consultations on whether or not that country would be willing to supply Brazil with oil should the threatened creditor blockade emerge.

At that precise moment everything hung in the balance. Brazil would either tell the creditors to go jump in the lake and defend itself from the ensuing economic warfare through common market arrangements; or it would buckle to the blackmail if it thought continental solidarity was inadequate.

On July 13, President Figueiredo went on national television to tell the Brazilian population that his government had agreed to the IMF's demands. Brazil had blinked.

Equally significant, the entire continent knew that Brazil had blinked, and that they could not expect backup from the largest economy of Ibero-America in each of their own fights to stave off the IMF. The diplomacy continued, the calls for collective debt action were reiterated . . . but there was a hollow ring to it all.

On July 24 the heads of state of the Andean Pact gathered in Caracas to celebrate the 200th anniversary of the birth of Simón Bolívar, and the occasion served to rally forces in favor of integration. Economic and financial coordination was discussed; joint action to combat drugs was agreed on; and the adoption of an Andean Pact common currency was even considered by the presidents. But every leader there was painfully aware that the continent's three largest nations—Brazil, Mexico, and Argentina—are not part of the Andean Pact and that in their absence few regional agreements could be made to stick. Argentina had a military government which would be replaced before year's end, and thus could hardly speak on behalf of the country at all. Brazil had just caved in to the IMF after talking tough. And Mexico hadn't even bothered to talk tough, but just do the IMF's bidding, ever since Miguel de la Madrid had assumed the presidency on Dec. 1, 1982. Mexico, in fact, throughout 1983 was instrumental in organizing the continent *against* taking any kind of joint action on the debt front, arguing stridently for maintaining bilateral negotiations with the creditors at every opportunity.

During August, there was a rebellion against Figueiredo's capitulation, an uprising made easier by the fact that the president himself was absent from the country, undergoing heart surgery in the United States. On Aug. 11 a majority of the Brazilian Congress signed an open letter demanding that the government break off all ties to the IMF. The same day, a dozen leading businessmen issued a call for a total change in national economic strategy, which they personally presented to acting president Aureliano Chaves. And throughout the month, the Brazilian labor movement was up in arms over the concessions the government had agreed to. Various labor groups reprinted and mass distributed as a leaflet a March 15, 1983 *EIR* article entitled "Payments squeeze to follow IMF packages," which exposed the IMF strategy of forcing the dismantling of the state sector.

The decisive factor was the military—as it has been in Brazil since the 1964 coup. Here too, opposition was so strong that Figueiredo was nearly replaced as president while he was out of the country. The military's "grey eminence," Gen. Golbery do Couto e Silva, went so far as to tell the press that President Figueiredo was "unable and unwilling" to return to the presidency.

But return he did, on Aug. 26, to enforce the implementation of the IMF decrees.

By September the creditors had clearly regained the initiative, a change which was reflected in the return to the U.S. government of Henry Kissinger in July. From Aug. 27-29 an elite group of international bankers and politicians associated with Kissinger, himself included, met privately in Vail, Colorado to lay out creditor strategy. They concurred that debt repayment as such was a lower priority—most of it was physically unpayable in any event. Rather, they decided to focus on using the debt as leverage to: 1) seize physical assets in the debtor nations; and 2) reduce, and if possible eliminate, national sovereignty of the debtors.

EIR received insider reports on the gathering—and broadcast them all across Ibero-America. The principal press in Argentina, Mexico, Brazil, and Venezuela covered *EIR*'s exposé that the bankers were deliberately trying to induce instability and chaos in order to eliminate debtor sovereignty, and there were protests across the continent. But that were not adequate to stop the IMF.

On Sept. 2, Brazilian central bank director Langoni resigned, consolidating Delfim Netto's grip on economic policy in that country. On Sept. 27 an agreement was reached with the banks for a new $11 billion package to tide Brazil over, since the country had demonstrated its willingness to behave itself. Days later, the Argentine government signed a watershed agreement on the refinancing of the debt of the state airline, Aerolineas Argentinas, which satisfied the Vail meeting's two demands: jurisdiction over the accord was placed in New York, rather than Buenos Aires courts; and scandalous cross-default clauses were included which granted creditors the right to seize all state sector assets should Aerolineas default.

The Aerolineas deal was such an affront to national dignity that on Oct. 3, when Argentine central bank head Julio González del Solar returned to Buenos Aires from the September IMF meeting in Washington, he was arrested at the airport and unceremoniously flown to the south of Argentina for questioning by federal judge Federico Pinto Kramer, who charged that the agreement was unconstitutional and treasonous. To the horror of the international banking community, González del Solar was held for a few days before his release could be obtained.

But none of these eruptions reversed the tide. In late September the Peruvian Congress, after lengthy debate, voted to sell off to private interest scores of state sector companies, on IMF insistence. On Oct. 19, the Brazilian Congress voted down Decree Law 2045, under which the IMF-ordered wage cuts had been enacted, but the military government responded by declaring a state of emergency in the capital city of Brasilia, drafted a nearly identical new Decree Law (2065), and rammed that through the Congress on Nov. 9.

The Alfonsín fiasco

The event that might have turned this entire situation around, and re-embarked the continent on a trajectory toward joint debt action, was the Oct. 30 presidential election in Argentina. The widely expected victory of the Peronist party would have brought to power the most significant nationalist force in the entire continent which—with absolute backing from the trade unions, major support within the armed forces, and strongly influenced by the policy proposals of Lyndon LaRouche—would have placed Argentina squarely on the side of the debtors' cartel.

But the Peronists lost. The U.S. State Department, the Wall Street banks, and the Socialist International bought themselves the presidency through their support for the social democratic Raul Alfonsín. Yet the Peronists never dared to say that this was exactly what was occurring.

Already, in less than a month in office, Alfonsín has implemented a Jimmy Carter-style policy across the board:

- he has vowed to slow down and "control" Argentina's excellent nuclear energy program, which on Nov. 18 shocked the world by announcing it had achieved uranium enrichment capabilities without outside help;
- he wants to dismember the Peronist trade unions with French-style "co-gestion and co-participation" schemes;
- he is using the human rights issue to tear into the already discredited military;
- he has named economic advisers hostile to the idea of joint debt renegotiation.

Narco-terrorism

As Ibero-America was progressively strangled by the IMF over the course of 1983, its economies were increasingly driven into the illicit narcotics trade to gain foreign exchange to pay the debt. This is a murky area of international finance, in which the hand of the Soviet Union is increasingly prevalent. In the northwest of Mexico, for example, an area whose traditional drug traffic had been drastically curtailed by the Mexican government in 1976-82, massive narcotics contraband was reactivated in 1983, thanks to the activities of the KGB-linked fascist party, the PAN.

So too in the Andean nations of Colombia, Peru, and Bolivia, where the drug mafias operate with virtual impunity. Terrorist activities linked to the drug trade, including those of KGB-linked "indigenist movements," also stepped up sharply, in particular from July onward.

The Colombian government conducted all-out warfare against the drug mafia and its financiers in 1983. In August, President Betancur named Rodrigo Lara Bonilla as his justice minister, and the pace of anti-drug operations picked up sharply. Later in the year, the country finally began experimental spraying of the defoliant paraquat against drug crops, over the loud squawks of protest from local environmentalists and other drug apologists.

If narco-terrorist destabilizations were barely kept in check in the Andean region, Central America in 1983 descended further into hell, despite the best efforts of the Contadora group to defuse the crisis. President Reagan has to date resisted the suicidal counsel of Kissinger allies such as Deputy Secretary of Defense Fred Iklé to commit a major number of American troops in the Central American quagmire. But this potential grew much greater over the course of 1983, principally as the result of two developments. First, the Sandinista regime in Nicaragua deliberately provoked Pope John Paul II during his March visit, which opened the door to the total, final polarization of the region between "right" and "left." Second, on April 24 the new Soviet president, Yuri Andropov, gave a historic interview to *Der Spiegel* magazine, in which he virtually *invited* the United States to send troops into Nicaragua, in exchange for tolerating Russian presence in Afghanistan. This Soviet desire to divide the world into "two empires" was used by Henry Kissinger to counsel Reagan to "take Central America."

At year's end, although the continent's economy is being devastated, and drastic political concessions were made to the IMF crowd in 1983, there is still an important reserve of optimism and fighting spirit in Ibero-America. Even the Argentine elections showed a population totally mobilized to put an end to a decade of dictatorship and fascist economic policies. In the Peruvian elections on Nov. 13, the ruling AP party was all but driven out of office by a population fed up with the imposition of IMF policies in that country. And in the Venezuelan elections on Dec. 4, the Club of Rome's preferred candidate, Rafael Caldera, was mauled at the polls.

Will Ibero-America marshal these resources in 1984 and succeed in stopping the IMF onslaught? Not unless the suicidal pragmatism that characterized their 1983 actions is changed. For, to summarize Ibero-America's actions during the 1983 Financial Malvinas, we can quote what *EIR* said one year ago about 1982's events: "Ibero-America had shown enough combined brains and courage to *start* a just war, but not enough of those two qualities to *win* it."

The danger, as we begin 1984, is that there may not be a third chance.