Bankers' phony concessions won't defuse Ibero-American debt bomb

by Robyn Quijano

On June 3, U.S. Federal Reserve chairman Paul Volcker, the man who put loan sharks out of business by legalizing usury in the United States, claimed that "the world debt problem has been blown out of proportion . . . the overall situation is manageable." The next day, Willard C. Butcher, chairman of Chase Manhattan, said, "The Third World debt problem is becoming less and less a crisis."

"Panic is not necessary," the London *Economist* editorialized in its June 2 issue.

But the newly formed debtors' cartel is not likely to buy the bankers' confidence game. The real story is that the Ibero-American nations that will meet on June 21 and 22 in Cartagena, Colombia to forge a joint solution to the debt have agreed that, faced with the choice of feeding their people or paying their debts to foreign bankers, the survival of their populations will come first. That is the real content of the debtors' cartel call which shook the world on May 19.

Latin America's leading debtors, Mexico, Brazil, Argentina, Colombia, Venezuela, Peru, and Ecuador, sent a formal letter to the leaders of the seven industrialized nations that met in London on June 7; the letter reiterates the criticisms of recent interest rate hikes that have cost the continent over $5 billion, and calls for an "integrated and coherent" response to the problems of the world economy. The Presidents not only demanded a unified approach by both debtor and creditor nations, but also insisted upon government-to-government negotiations instead of negotiations with the banks and the international financial institutions like the International Monetary Fund (IMF).

"The urgent necessity to adopt concerted actions is evident, above all, in matters of indebtedness," the Presidents declared. "It is not possible to think that the problems can only be solved through contact with the banks or the isolated participation of international financial institutions. It is essential to undertake a constructive dialogue between creditor and debtor nations, for the identification of concrete measures that will lighten the burden of foreign indebtedness, taking into account the interests of all the parties involved.

"With criteria of justice and equity, it is necessary to define a set of policies and actions in the fields of financing, debt, and commerce." They called for a shared responsiblity that "reflects the interests of the international community as a whole."

The London *Daily Telegraph* warned June 4 that the Presidents' statement "represents a new shift towards a 'political' analysis of the continent's debt problem instead of the purely 'technical' treatment. . . . There are already signs that the debtors are planning a new harder line."

The IMF's 'rewards'

"Banks plan concessions to Mexico," blared the headlines reporting on the June 3-6 meeting in Philadelphia of the world's leading international banks, under the auspices of the American Bankers' Association. The bankers allegedly agreed to certain concessions as they huddled with IMF managing director Jacques de Larosière and Paul Volcker: Slightly lower interest rates and longer term rescheduling for Mexico and Brazil, the two largest debtors on the continent that have already imposed severe IMF-designed austerity programs. The bankers emphasized that each country will be dealt with on an individual basis and that debtors such as Mexico and Brazil will be rewarded for past sacrifice.

Citibank chairman Walter Wriston praised Mexico's "adjustments [as] a pattern that can be repeated in many other countries."

But the bankers' confidence game won't sell, not in Ibero-America, and not even within their own ranks. On June 7, Sebastian Alegrett, permanent secretary of the Latin American Economic System (SELA), blasted the idea of "rewards or punishments" for performance on the debt. He stressed that the nations of the continent want to pay, but, as in the case of Bolivia, it is simply a physical impossibility.

The West German business daily *Handelsblatt* reported on June 4 that one top European banker said that "the confidence crisis we have today threatens to bring down the postwar interbank credit system." The same daily reported that the number-three man at the Swiss National Bank, Markus Lusser, stated that "a catastrophe scenario of all shades is possible, from grey to black, if an orderly consolidation of Third World debt does not succeed."

The bankers' praise of Mexico for its past performance comes at a moment when they are plotting to bury that country under political and economic destabilization. The guns are aimed at Mexico for its role in forming the debtors' cartel, and for its recently released "National Program of Financing and Development," which states that "the Mexican economy must grow at least at the same rate as the population," to assure that the per capita income does not continue to decline.

While Mexico suffered zero economic growth in 1982, and minus 5% in 1983, the new document asserts that economic growth is a categorical necessity, "so that the Mexicans now being born will have access to well paid and productive employment. . . . The rapid growth of the products that are required to satisfy the need of a growing population, and to generate more employment, demands an accelerated expansion of internal markets, which at a certain moment will limit the capacity to export."

A world ordered by such a plan is a world in total contradiction to the continuation of IMF "adjustments" which enforce the export of everything for which a market can be found—particularly drugs—and enforced slashing of living standards.

The *Wall Street Journal* criticized the new development plan for charting goals that "economists don't think can be reached soon," like reaching growth rates of 5-6% in 1985, a figure not conceivable under the IMF's world order.

Why the banks fear Argentina

When Bolivia announced on May 29 that it would cease payment on its debt to the commercial banks and use only 25% of its export earnings to pay its debt service, Argentina swiftly backed the action. The Argentine parliament passed a unanimous resolution of support for the democratic government, and the Colombian and Mexican trade unions called for continental support for Bolivia, which is now threatened by the same cocaine colonels that have kept it—a nation the size of Texas and California together, with enormous natural wealth—one massive drug plantation for years.

Bolivia holds just over 1% of the continent's $360 billion debt, but it has now been picked by the bankers and their enforcer Henry Kissinger to be made a horrible example of what is in store for an Ibero-American country that gets out of line. The head of the Bolivian Air Force announced two days ago, "Bolivians are not prepared for democracy . . . many of them need a hard hand in order to walk in the path of law and fulfill their obligations."

Will Argentina sign an agreement with the IMF that will virtually dismantle its nuclear program and military industries and will slash the living standards of Argentine labor? By June 8, Argentine officials acknowledged the fact that Argentina will sign a letter of intent with the IMF, but the real intent of the letter was debated by all. Sources report that the contents of the letter have not been approved by IMF Western Hemisphere Director Weisner Duran, and that it will likely be rejected by the IMF for its refusal to destroy the national economy.

The strength of Argentina's refusal to submit to an IMF dictatorship can be traced directly to a national accord signed on June 7 between President Raul Alfonsín, Isabel Perón, and all but 3 of the 20 national parties. Some of the key points of the "national solidarity" declaration are: support for "The sustained elevation of wages, the strengthening of union institutions, . . . support to large families, the permanent extension of the possibilities of education and improvement to all social strata and all provinces, . . . the integral and harmonic development of all the potential that the country posseses and the diffusion of industrialization to all the regions, . . . the encouragement of demographic growth until achieving the optimal population for all Argentine territory . . . our own research and development of the most advanced technologies, starting from what has been already achieved in the nuclear area . . . a foreign policy of self-determination and non-intervention, unity and integration of Latin America, with special dedication to the Southern Cone. . . ."

The parties agreed that "the renegotiation of the foreign debt must be done on the basis of an economic program which permits the use of all of Argentina's potential. It will obtain conditions and resources to handle our commitments without injuring the welfare of the workers or blocking the revival and development of the country. To this end, the unity of efforts with other debtor countries of Latin America, which has already begun and which should intensify in the future, is of the greatest importance. In that way, every type of pressure will be repelled, and it will be demonstrated that the commitment to pay is dependent on the legitimacy of the debt."

If President Alfonsín refuses to accept IMF conditions, he has broad national support, but if he does not, he could face a situation of ungovernability.

Alfonsín's instinct for survival was demonstrated in an interview to Rio de Janeiro's *O Globo* May 27, in which he gave some hints of which way he will go: "We oppose economic liberalism, Friedman's policies, any form of imperialism, and all neo-colonialism. We believe in a different world. We are going to fight for it, to gain the participation that we do not now have because our future is discussed at international forums where we are not present."

On the subject of Latin-American integration, he said: "I think that it is necessary to begin by economic complementarity and try to advance along the path of a Common Market. . . . It is indispensible for Latin America that Brazil and Argentina define an authentic position of liberation."

Ratifying his recent violation of IMF guidelines by granting 14% wage increases, Alfonsín asserted: "We want to grow and increase our real wages, without stopping the fight against inflation."

Documentation

The creditors: 'We're standing pat'

IMF managing director Jacques de Larosière told the International Monetary Conference in Philadelphia on June 4:

There are no magical solutions. . . . Proposals have been made for panaceas such as writing off part of the debts or transferring them wholly or in part to official institutions, for official guarantees, or for techniques for linking debt servicing to one economic variable or another. But these proposals have attracted little support. . . . Each country's debt situation has its own specific features that cannot adequately be taken into account in generalized approaches. . . .

I am confident that the most productive strategy . . . lies in the present country-by-country approach of the Fund . . . directed toward putting together realistic financial packages linked to adjustment programs that are both forceful and adapted to each country's situation. . . .

There is considerable scope for developing countries to do more in the way of tackling rigidities in their economies. . . . Though progress has been made, much more flexibility is needed in prices, particularly interest rates and exchange rates, and wages. . . .

It is also very much in the interest of debtor countries to do more to attract foreign capital, especially in the form of direct investment. . . . Many countries also need to dismantle or relax administrative controls on such flows.

In her speech to the London summit, British Prime Minister Margaret Thatcher stated:

The recovery of the world economy has made welcome progress since our meeting last year. . . . It is essential that the debtor countries themselves take measures of adjustment as promptly as possible.

There are no easy or painless solutions, but we can set out ways both in which the commercial banks and the international financial institutions can help and in which debtor countries can ease their own problems.

In many debtor countries there are substantial natural and industrial resources. . . . Many potential foreign investors would be interested in taking an equity stake and it would be particularly helpful if there were international agreement on investment protection. Such investment if allowed could help ease the burdens of debt. Some commercial banks are willing to consider longer-term rescheduling of debt in cases where debtors are beginning to restore confidence, adding, "I suggest we encourage them in this."

A well-placed Washington source gave this interview:

Q: What at this point do you think is going to be done by the U.S. government about the debt crisis?

A: For the rest of the year I think they are just going to patch things through. I think they will handle it on a case by case basis, because Congress is in no mood to deal with this situation again. As you well know, the administration certainly doesn't want to take on any major overhaul of the international financial system. And I think that is exactly what the politics of this are for everybody. Let's let it ride. Let's turn the corner in 1985.

As far as I'm concerned, when you're turning the corner in 1985 you're turning about three corners at once. There is the deficit corner, the dollar corner, and this international debt corner. All the bills come due sometime in 1985. If you want to talk about what will happen by the end of 1985, then I have a different scenario than what will happen by the end of 1984 for almost all these problems.

There may well be a case-by-case reduction in interest rates, but I'm saying that it will be case-by-case, a specific cap for Mexico, for Brazil, for Argentina, each individually, but there will be no sweeping restructuring of the whole debt situation this year.

Q: What if that is what the debtors decide they want to do?

A: There is nothing we can do about that. I think that they very well may say there's nothing in it anymore for us to pay you guys. We are in a net capital situation that's ridiculous. Then the Fed goes and makes sure that Manny Hanny and Bank of America and everbody doesn't go under—that's about it. What do we do, launch an invasion?

Q: Volcker and the administration are going to offer them nothing and let them say, no, we won't pay?

A: I don't think all that's going to happen as quickly as you do. I don't think it is going to come to that kind of head before the end of this year. I think that's what happens in 1985, and that's when I think we will get the big facedown. I don't know. I think they are going to keep trying to reschedule and stretch it out. I think everyone understands the necessity to get our election behind us. You may end up with a hit later this month against Bank of America and some others from Argentina, you never know about those kind of small-scale hits. But the situation won't get drastic.

It's a real problem which should have been addressed last year, should be addressed this year, but won't be addressed until next year. I don't know how much they'll pay, but it will not get to a point this year that they will say, we pay no more. Bank of America may have to take that hit they were expecting to take in April. That would not surprise me.

I do not have any problem with the debtors getting together, because I think the sooner this thing is forced and we have to address it, the better it is for everybody, including ourselves.

Q: How much of a crisis will it take?
A: I think it will take them sitting down and saying, okay, you are now dealing with ODEC, just like OPEC.

Documentation

The press: 'Panic is not necessary'

On June 4, London's Times *reported the following:*

The United States Treasury and the Federal Reserve are planning a big rescue operation to bail out the American banks. . . .

The U.S. Treasury will then issue a special 50-year security which the banks will be allowed to count as part of their capital. This will build up their capital and they will pay off the securities over 50 years.

Banks would be restrained from paying dividends as part of the terms of the deal. There would probably be other conditions which would have the effect of putting them under government control.

No figures are available on the amount of money involved in the rescue operation, but it would have to be tens of billions of dollars in order to make an impression on the Latin American debt problem.

Taxpayers would effectively be subsidizing the loans, as the doubtful debts concerned would be transferred from the banks to the U.S. Government. . . .

On June 7, the Wall Street Journal *published an article by Harold Lever, "The Road to Solvency." It stated in part:*

The banking system of the West has become hostage to its overseas debtors. . . . That is why the present case-by-case response, necessary as it is, is not by itself enough. . . .

The banks face far more than a liquidity problem. The pretense that hundreds of billions of their assets are "performing" is being only precariously maintained. . . . The minimum required for safety is that the leading governments create the machinery and provide the funds whereby current interest on the debts can be paid by the debtors to the banks in the years ahead. Given a guaranteed flow of interest, the banks would be expected to make a realistic write-down of the questionable debts over, say a 10-to-15-year period. This is not "bailing out" the banks—the write-down would impose heavy, but manageable losses upon them. . . .

On June 3, the Los Angeles Times *reported: "Banks Split on How to Handle Foreign Debt."*

Citicorp, Chase Manhattan and Manufacturers Hanover . . . all contend that an improving world economy will lift debtor nations out of their recessions and allow them to make regular interest payments. . . .

Leading the search for newer solutions, bankers say, are Morgan Guaranty, Bank of America, Security Pacific and Bankers Trust.

Privately, senior officers of some top U.S. banks are telling their colleagues in Europe and Asia that a mammoth restucturing of Latin debt must be accomplished. Such an effort, they say, would include four parts:

- Any payments by debtor nations would be recorded as payments of principal, not interest, thus reducing the total amount owed.
- Loans, most of which now extend for 10 years, must be stretched out to 20 or 30 years.
- Argentina, Brazil and Mexico—the big three Latin American debtors—must be given a five-year respite from any interest or principal payments.
- New money must be injected into those countries so that they can manufacture, export and import.

On June 7, the Journal of Commerce *reported: "Warning Issued on Debt Service."*

"The way things are going, there could be a massive debt servicing problem in 1985."

. . . The Royal Bank study says "simple rescheduling alone will not provide permanent financial relief. Such relief must involve the transformation of debt instruments into equity type instruments, and/or permanent reduction in the debt servicing burden of existing obligations through easier terms and/or write-offs by creditors. . . .

The bank asks such questions as these: "How much relief could the banks give? Should the cost be the transfer of a share of existing assets to a new syndicate of banks that then markets discounted bonds to private investors? Is there a market for such bonds? How much should the discount be? Would a zero-coupon bond be the most marketable? Should another instrument be devised?"