Why debtor nations can't buy Baker's monetary reform

by Gretchen Small

You have to give credit to that banker's boy, James Baker III; it takes real stubbornness to go out and campaign for a non-existent plan, to save a non-existent international financial system.

On Oct. 8, the U.S. Treasury Secretary unveiled a "new" plan to solve the world's debt crisis in his speech to the annual International Monetary Fund (IMF) meeting in Seoul, Korea. Baker promised that commercial banks will increase their lending by $20 billion over the next three years, and the World Bank would also increase its financing. Fifteen unspecified countries will be eligible for these sums, Baker stated, but only those countries which implement greater "structural changes" demanded by the IMF, stressing that developing countries must open doors to foreign investment.

Thus far, Baker's program hasn't generated much enthusiasm, anywhere. When U.S. Federal Reserve chief Paul Volcker went to the American Bankers Association Oct. 22 to drum up some of that promised $20 billion, he encountered hostility. Smaller banks, already overextended in foreign lending, questioned what Baker's plan would do to help countries meet the debt payments they cannot meet now. Many are simply refusing more loans.

The Baker plan is completely insufficient for developing-sector needs, Colombian presidential economic advisor Diego Pizano Salazar pointed out on Oct. 22. The requested 2.5% annual increase in bank lending is far less than the current 6-7% dollar inflation, Pizano Salazar reported, thus effectively continuing the collapse in real bank lending.

Peruvian Economics Minister Luis Alva Castro has come the closest to saying that the Baker plan, *qua* plan, does not exist. "Baker presented the plan to silence and to denigrate the just clamor of Third World debtors" for a complete revamping of the world financial system, and aimed at keeping debtor nations from presenting joint demands for reform, Alva Castro stated in a speech to the Peruvian Senate Oct. 22. "It amounts to a big stick policy. . . . This language of subjugation belongs to the past century."

Nonetheless, U.S. State Department officials are being deployed to find a country willing to join the Baker club. On Oct. 22, Venezuela was the target. In Caracas for the 12th Annual Congress of American Chambers of Commerce, U.S.

Peruvian Economics Minister Alva Castro (left) is sworn into office by President Alan García.

Assistant Secretary of State Elliot Abrams pushed Baker and the IMF in his speech to the businessmen, a press conference, and a two-hour meeting with President Jaime Lusinchi. Growth must be promoted "the way the IMF insists, for example, eliminating state-sector companies, or artificial exchange rates," Abrams stated at his press conference, and cited Baker's speech at Seoul. Former U.S. Ambassador to Venezuela George Landau, now heading David Rockefeller's Americas Society, delivered a similar message in his meeting with Lusinchi. Venezuela needs to use "much greater aggressiveness in seeking foreign investment," Rockefeller's salesman stated as he left the President's office, suggesting tourism, construction, and agro-industry as the areas "investors" might find attractive.

Will Baker succeed in heading off debtor unity, with promises of more austerity for little money? At the end of October, Mexico and Colombia awaited IMF missions.

Mexican Finance Minister Jesús Silva Herzog asserts that he is willing to join the Baker club. Speaking to the Mexican Labor Congress Oct. 23, Silva Herzog rejected the possibility of Mexico joining Peru in its program of limiting debt payments to a small percentage of the country's export earnings, declaring the retaliation which Peru now faces too dangerous. "With the support of all the banks in the world, we will obtain additional credits," the minister promised labor's representatives.

Former Panamanian President Nicolás Ardito Barletta also told his country's labor movement that it was "too dangerous" to follow Peru's decision to challenge the IMF. He was thrown out of office by Panamanians who back Peru.

But not all Mexican government officials are blind to the growing popular anti-IMF rebellion. The Yucatán state Congress sent a telex to the other state legislatures in October, demanding support for a resolution calling for a moratorium on foreign-debt payments. The banks have already collected their debt two times over through interest payments, the telex notes. The call by PRI deputy Romeo Flores Caballero, secretary of the Chamber of Deputies' Foreign Relations Commission, for Mexico to again think like Benito Juárez, and put the interests of the population before those of the debt, was front page news Oct. 24. Half of Mexico's foreign debt left the country as capital flight in any case, the president of the Congress of Labor, Olivo Solis, stated during an unusual press conference held after his meeting with President Miguel de la Madrid on Oct. 22.

IMF demands, "leaked" by *El Tiempo* Oct. 22, that the Colombian government limit wage increases, increase gasoline prices, increase public-utility rates, accelerate devaluations, open up its internal market, and eliminate low-interest development loans, as conditions for IMF "approval" has insured a hot welcome for IMF technicians. "Colombia is sovereign in making decisions on its policies," Labor Minister Jorge Carrillo told the press after a meeting with President Belisario Betancur that night, and rejected a change in wage policy. Colombia's labor federations later issued a statement supporting the labor minister in this policy.

Will Baker be successful? In this issue, *EIR* provides some tools to evaluate this: an analysis of how rigged terms of trade loot the developing sector, making debt payment impossible; and the text of Peruvian Economics Minister Alva Castro's speech to the IMF meeting, detailing how the international financial system has not existed since August 1971.

Will Baker try to present his plan for "IMF growth" before the Ibero-American labor movement?