JEC report shows disastrous impact of IMF debt policy on United States

by Marcia Merry

With unusual accuracy, a study released May 10 by the staff of the congressional Joint Economic Committee (JEC) shows how the policy of the International Monetary Fund has enriched U.S. money-center banks while impoverishing Ibero-American trading partners, bankrupting U.S. farmers and farm banks, and throwing U.S. industrial workers out of their jobs.

Called *The Impact of the Latin American Debt Crisis on the U.S. Economy*, the report consists of 50 pages of text, tables, and graphs proving the point that this policy should not continue. One of two options proferred is the policy of Peruvian President Alan García, to limit debt payments to a set percentage of foreign-exchange earnings.

The news media has chosen not to publicize the report. Rep. David R. Obey (D-Wisc.), chairman of the Joint Economic Committee, circulated the study to his colleagues on June 23. However, his cover letter carried the stupid charge that foreign competitors were responsible for the loss of U.S. export markets—the same "trade warfare" stance as current administration policy. Obey said that the Reagan policy shows "failure to aggressively defend American interests in international trade negotiations."

Obey's final attack on Reagan is based on the contents of the JEC study: He charges: "Reagan policies have contributed to the trade deficit . . . [by] mismanagement of the Third World debt problem. Since President Reagan took office, our balance of trade with Latin America has deteriorated from a five billion dollar surplus to a 12 billion dollar deficit. Much of that deterioration has come as the result of administration policies that protect not only the solvency but also the high profit levels of the large, money center banks. These policies have not only brought sharp reductions in U.S. exports to Latin America, but have also caused Latin debters to flood world commodity markets with beef, wheat, soybeans, pork and other products resulting in a rapid decline in both prices and world market share for American farmers."

The picture presented looks like this.

In 1982, the issue of the "Mexican debt crisis" headlined the general situation in which, by that year, the amount of debt owed by Latin American nations to foreign creditors was unpayable under the existing conditions of production levels and trade. Most of those creditors and the International Monetary Fund knew this full well. However, to preserve their own solvency and profits for the short term, they chose to develop and impose a policy that was guaranteed to make matters far worse in the long run. The long run is now here.

In 1982, the total external debt of Latin America was $318 billion, with annual interest payments of $38.5 billion. The trade surplus of the nations involved was $8.5 billion, or $30 billion less than needed merely to pay interest. Additionally, billions more were required to pay principal on time.

Most of this debt was owed to a small number of international commercial banks, which then successfully organized to impose a policy on Latin America of forced exports and drastically reduced imports. In other words, with the backing of Washington, D.C., this private network moved to guarantee their own interests, while shutting down the traditional markets for food and industrial exports from the United States to the south.

In 1981, Ibero-American purchases of U.S. farm products totaled $6.9 billion—15% of total U.S. agriculture exports. By 1985, U.S. farm exports to Latin America had fallen by one-third, to $4.5 billion. This in turn accounts for 20% of the overall decline in U.S. farm exports over the same time period. Yet, in all the recent rhetoric on Capitol Hill about why farm exports are falling, these facts are never brought out.

From the Ibero-American side, millions of people became malnourished and impoverished because of the bankers' policy of forced food and other exports. Ibero-American nations reduced their imports from almost $100 billion in 1981 to about $60 billion today. At the same time, export

© 1986 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

volume increased. In the top three Ibero-American nations, which together account for 65% of the region's total foreign debt, the volume of exports increased by 47% (Argentina), 56% (Brazil), and 62% (Mexico).

Overall, Ibero-American export revenues increased at the same time, but not in proportion to the increase in export volume, because of the fall in prices of commodities and other goods traded. **Figure 1** shows how large the discrepancy is between export volume increase and export revenue increase. In fact, for Chile and the Dominican Republic, increased export volume earned less revenue than did previous export levels.

The impact on U.S. farmers

The impact on the U.S. farm community has been obvious. Thousands of farmers have gone under during the period 1982-85. For example, pinto-bean producers in Nebraska and Michigan have lost their previous markets in Mexico and some other Ibero-American nations. Vegetable growers in Florida have gone bankrupt under pressure of the fresh produce flown to Eastern markets from Mexico. And, all the while, the nutrition levels in Mexico have dropped drastically.

During the period 1975-81, U.S. farm exports to Ibero-America increased. Much of this was in products—like beans—that could and should have been grown equally well in Ibero-America. But the international food-cartel interests were dominating the trade flows. With multi-national government intervention, these undesirable trade profiles could have been reversed, and productivity-improving animal and human food and feedstuffs (meat and milk protein foods, breeding stock, farm equipment, and other inputs) could have been substituted for beans and cereal products exported from the United States to Ibero-America. This would have benefited all concerned.

This point was not brought out in the JEC report, but other indicators of the adverse impact on the U.S. farm community were presented. For example, between 1982 and 1985, the rate of failure of agriculture banks grew to the point of today's crisis. In 1982, 7 agriculture banks failed out of a total of 42 bank failures that year. In 1984, 25 agriculture banks failed out of a total of 79 banks. In 1985, 62 agriculture banks failed out of a total of 120.

One million industrial jobs lost

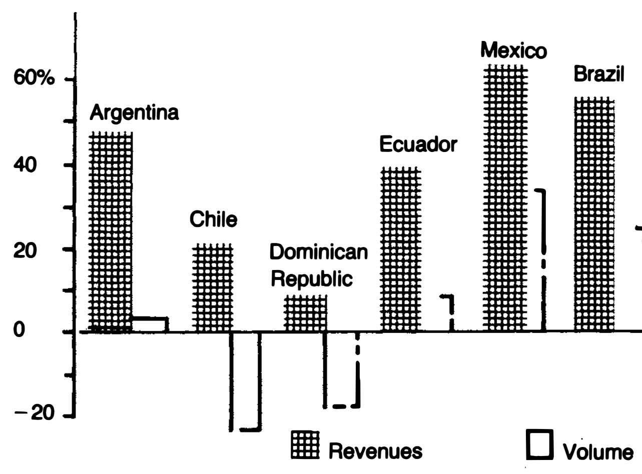
In addition to the impact on the U.S. farm sector, an estimated 1 million industrial jobs have been lost from 1982 to 1985 due to the IMF and money-center bank policy toward Ibero-America. Manufactured goods are being imported into the United States to the detriment of both trading partners.

The best documented part of the JEC study is the breakdown of the gains made by nine major U.S. money-center banks from the IMF-connected Ibero-American debt policy. In 1982, private creditors accounted for 85% of Ibero-America's external debt; the remainder of the official debt was held by the IMF, the World Bank, and the U.S. government. Most prominent among those private holders of Ibero-American debt were these nine U.S. banks: Morgan Guaranty, Manufacturers Hanover, First Chicago, Continental Illinois, Citicorp, Chemical, Chase Manhattan, Bank of America, and Bankers Trust.

As **Figure 2** shows, while the value of the U.S farm-sector assets declined overall by 20% during the 1982-85 period, the stock value of the nine banks rose by over 40%. For every bank except Continental Illinois (which received a federal bail-out in 1983), the dollar value of each bank's shares grew each year.

FIGURE 1

Changes in export volume and revenues for selected Latin countries 1980-85

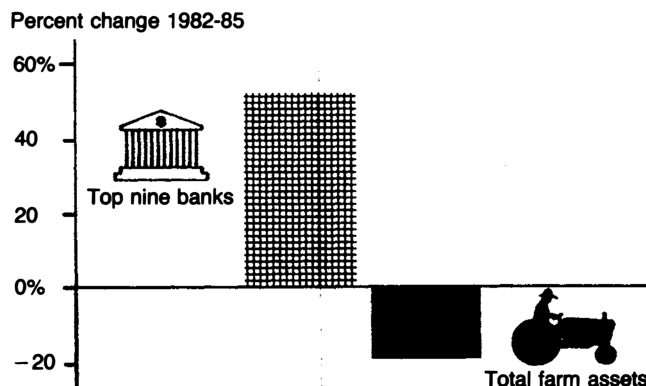


Source: Joint Economic Committee

FIGURE 2

Stock value of major foreign lender banks compared to market value of total U.S. farm assets

Percent change 1982-85



There's more to the story. The policy worked out in early 1983 to compel Ibero-American debtor nations to continue to service their debts, nominally involved their receiving a minimal amount of continued loan money from the banks. However, this was not forthcoming in any way resembling "loan assistance."

According to the report's summary of what the 1983 policy was: "(1) Debtor nations would generate a large portion of the dollars they needed to pay interest by increasing their exports and cutting their imports; (2) Debtor nations would be given more time—in some cases, as much as 14 additional years—in which to repay their maturing loans; (3) Commercial banks would make new loans so that debtor nations could avoid falling behind on their interest payments to the banks; and (4) The IMF, in addition to lending modest amounts of its own funds, would ensure that the debtors were implementing essential economic reforms."

In practice, the banks hardly lent any more money, and they increased their profit margins on the loans. In 1980, the banks' spreads (the difference between the interest rate they charge on loans and the interest rate they pay for loanable funds) averaged 86 basis points on syndicated Eurodollar loans to developing countries. Some were as low as 66 basis points. By 1983, however, the spreads had grown three times over. While the IMF and the U.S. government were making emergency loans to the most hard-pressed debtor nations, the commercial banks raised their own spreads to 225 basis points. Since 1983, the spreads have been reduced to about 125 points, but that is still nearly 50% of the pre-1982 "debt crisis" level.

The Baker plan option today, in the evaluation of the JEC study, will merely attempt to continue the usurious debt policies of the past four years. "As this analysis indicates, in deciding how to evaluate the Baker Plan, U.S. businesses, workers, and farmers must decide whether this most recent administration initiative is in their best interests. Will more loans whose primary purpose seems to be ensuring that debtor nations continue paying interest to commercial banks help U.S. farmers and U.S. exporters? Or will they merely continue to preserve bank profits at the expense of U.S. farmers and U.S. exporters?"

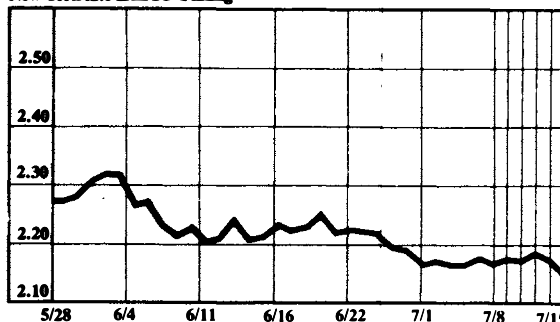
One of the two alternatives to the Baker plan offered by the report is the proposal to limit interest payments to a set percentage (for example, 25%) of each debtor nation's export earnings, and to specify that banks must write down the value of their outstanding loans by a certain amount for "each year in which Latin American debtor nations hit this revised interest payment target." As the report goes on to say, the example shown by Peruvian President Alan García may be adopted by other Ibero-American nations, whose governments might "conclude that this sort of solution is the only way to restore growth and improve standards of living."

It is because of what the study calls the "severe" impact this policy would have on the money-center banks, that the JEC report has been temporarily buried.

Currency Rates

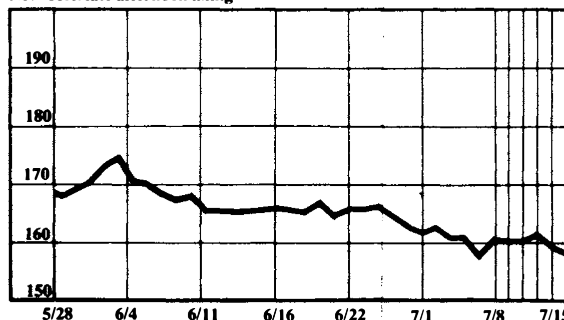
The dollar in deutschemarks

New York late afternoon fixing



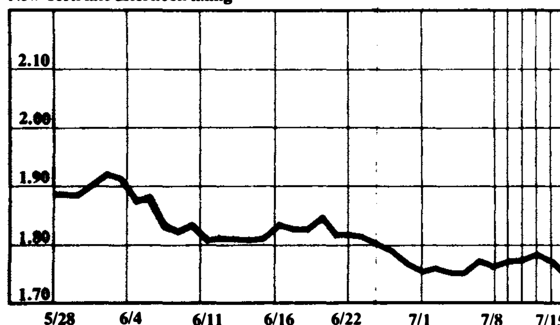
The dollar in yen

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