García, Funaro take the point in Ibero-American integration drive

by Gretchen Small

With the dollar collapsing even faster than Wall Street's paper, bringing debt refinancing agreements down with it, the debt fight is on again in full in the Western Hemisphere. At the rate the crisis is currently developing, when the Presidents of Ibero-America's eight major democracies meet in Mexico on Nov. 26, the primary item on the agenda is shaping up to be how to create a unified Ibero-American economic power bloc, to defend these nations from further collapse, and to tip the balance away from a policy of usury and austerity within the West as a whole.

Certainly, that is what the "audacious" faction of Ibero-America's political elite has set out to assure. The moment the stock market crash began, the two leaders whom creditors fear the most in South America—Peruvian President Alan García and former Brazilian finance minister Dilson Funaro—jumped into action, demanding that the continent take a leadership role in the international financial crisis.

"Now that we see this world crisis, I say that we were right to limit the payment of the foreign debt, reduce imports, control the sale of dollars and the direction of bank credit, to organize an economy of defense and resistance, to face the inevitable world crisis," President García told a meeting in the town of Chincha on Oct 22.

García's speech was televised nationally, but the reverberations were felt throughout the continent. The crash, he said, "means the beginning of a very difficult stage in the international financial world, and now the capitalist world has begun to experience a crisis whose consequences the poorest countries will feel." He likened the crisis to 1929, but said that, unlike 1929, Peru is now prepared to defend itself.

Several days later, García called in foreign reporters to discuss the implications of the world crisis on the Nov. 26 presidential summit. "Peru and Latin America are a small part of the world system, and what has occurred in the last few days with the fall of prices of U.S. companies on the New York stock market, means that a new phase of recession, a very great economic depression, could begin, and the prices of raw materials and of Latin American and world labor will fall dramatically, and with it, our income," he said. Ibero-Americans do not forget that the 1929 stock market crash ultimately forced every one of their governments into debt moratoria.

"I believe that this is a theme that, as Latin American Presidents, we must inevitably address," García continued. "I am convinced that the unity, not only of eight Presidents, but of all the peoples of Latin America, will give our continent the presence that will allow us to defend our labor, that will allow us to defend the price of our raw materials, and our role in world trade and world politics, so that we will not be the backyard of decisions in which we did not participate."

Speculators weakened

The crack of the old financial order has weakened more than the creditors' power, hitting also local oligarchs who had put their money into international speculation, instead of domestic investment. That point was noted in both Peru and Venezuela, where capital flight by oligarchic families has sucked billions from investment.

"Fortunes taken out of Peru and placed in financial and other transnational enterprises in the U.S. and other foreign countries, are in clear risk of disappearing, in view of the precipitous fall of the dollar and the stocks of those companies," the Peruvian daily *Hoy* commented on Oct. 23. The crash "will punish terribly those Peruvians who for decades have preferred to invest outside of the country."

The implications of the crash for economic strategies have been noted by others. As the dean of Peru's Engineering School, Gonzalo García Nuñez, stressed to the press, the deflation caused by the crash "is the result of extremely high profit rates for financial and monetary capital, while rates of production have been mediocre."

Enter Funaro

Creditors thought they had successfully isolated García from other governments in the region, when they forced Finance Minister Dilson Funaro out of the Brazilian government last May. Funaro, a man of fighting temperament similiar to García, had been the architect of Brazil's debt moratorium, which President Sarney had announced on Feb. 20.

With Funaro out, the creditors had hoped to reverse the moratorium by Oct. 26, the date U.S. bank regulators are required to declare Brazil's loans "value-impaired," if no interest has been paid.

Then came Wall Street's crash. Funaro launched a nationwide campaign to bring Brazil back to his strategy. "Brazil has the obligation to lead on the debt problem," he said during a dramatic national television interview on Oct. 25, the day before Brazil's big payments deadline. "We can't leave it to smaller countries to do it. It is our duty, because we are the world's eighth economy." Like García, he emphasized the lessons of the New York stock market crash. "The facts show that Brazil was correct in seeking new paths for renegotiation. That whole [stock market] problem illustrates the maladjustment of the U.S. economy."

Funaro demanded that the Brazilian government consider the long-term interests of the nation, stand up to creditor pressures, and stick to its moratorium policy, until the Western industrial nations finally agree to create a more just international world order.

The interview, two hours long, was orchestrated for maximum effect. A full-page advertisement run in *Gazeta Mercantil* announced the interview with a huge banner headline featuring one thing: Funaro's name. The ad read: "This Sunday . . . former finance minister Dilson Funaro, who inspired the Brazilian moratorium, will analyze the perspectives created by this worrisome economic situation. The collapse of the stock market worldwide this week is being interpreted as a probable signal that the financial and economic systems in the world could confront serious problems in the near future, with consequences for the developing countries. . . . What will be the impact of the international financial collapse on the negotiation of the Brazilian foreign debt? Must Brazil make the symbolic interest payment suggested by the international creditors?"

Polls already show Funaro as the most likely winner of presidential elections, if they were held today. Under these intensified conditions of crisis, Funaro's continued intervention may prove enough to bring Brazil again to the fore of the international debt fight.

Gluttons for punishment

The effect of the world financial crisis has sunk in, to varying degrees, across the continent. Some among the governments clearly still cling to the delusion that if they assume more of the burden, the present financial order can be salvaged.

Mexico's Planning Secretary announced, for example, that Mexico will use $11 billion of its $15 billion reserves to buy back its own debt at 50-55¢ on the dollar, in the secondary market, thereby supposedly lowering Mexico's total indebtedness by up to $22 billion. Planning Secretary Pedro Aspe Armella did not explain either why he thinks the banks will permit this, or why he thinks anywhere near that much of Mexico's debt is available at that price.

This, as Mexico's Labor Congress issued a report warning that "major structural imbalances, combined with galloping inflation, have caused the looting of the masses and made government plans unviable."

Similar confusion was demonstrated in Colombia. On Oct. 22, Public Credit Director Mauricio Cabrera announced that his nation's request for more than $1 billion in new loans had entered a "virtual frozen zone," following the stock market crash. Oct. 26 had been the deadline to conclude the deal with the lead banks, but because of the stock market situation, that deadline has been postponed to the first quarter of 1988, he reported.

Colombia, the only country in Latin American that has not requested a single debt rescheduling and has made every debt-service payment on time, has been expecting release of the jumbo loan for nearly six months.

Nonetheless, the Secretary of the Presidency of Colombia, Enrique Peñalosa Lozano, happily announced to the press that Colombia will benefit from the stock crash, because the country will now be seen by the banks as a safer place to put their money than the stock market!

Common market on the agenda

A similar kind of schizophrenia was seen at an Oct. 24 meeting in Uruguay of the foreign ministers of the eight countries whose Presidents will be meeting on Nov. 26. Those nations—Mexico, Venezuela, Panama, Colombia, Peru, Argentina, Brazil, and Uruguay—make up the Contadora Group and the Contadora Support Group, originally founded to provide a regional framework to help end the Central American crisis. As the economic crisis deepened in 1987, the governments decided to broaden the areas of their cooperation, to include trade, debt, and foreign policy matters.

The foreign ministers met to prepare the agenda for the upcoming summit, and chose Uruguay's foreign minister, Enrique Iglesias, a former top official of the U.N.'s Economic Commission for Latin America (ECLA), as their spokesman for the meeting. Iglesias, whose political preferences frequently line him up with the Socialist International, is viewed as a useful "house radical" by the creditor banks. For 30 years, ECLA economists, with Iglesias often in the lead, have opposed the industrialization of Ibero-America, and the common market concept which could turn the region into an economic superpower.

Despite Iglesias, however, there was no doubt what the issues on the agenda would be. Brazil's Foreign Minister Abreu Sodre told his colleagues that discussion of the foreign debt issue must now lead to "designing rules, principles of unity, to defeat the resistance of the creditor nations. If we have Latin America united in this way, we could achieve good results for the development of Latin America."

An Argentine foreign ministry spokesman pointed out that "Latin America has paid $180 billion in debt service over the last five years, and yet the debt rose from $300 billion to more than $400 billion in that period, the equivalent in constant dollars of two Marshall Plans."

Brazil's President Sarney has reportedly announced that he will be bringing to the Mexico summit proposals for the creation of "a regional common market, since Latin America can only find solutions to its economic problems through integration," Mexico's press reported Oct. 27.

More than one idea for Ibero-American integration will be on that agenda. Brazil's *Gazeta Mercantil* floated the proposal that the Presidents discuss the creation of a Latin American reserve fund similar to the Andean Reserve Fund recently established. It would work as a support mechanism for the central banks of the member countries, and could be the embryo of a future development bank for the continent.

The LaRouche factor

Add to this discussion the "LaRouche factor," and the potential for a dramatic turning point in Ibero-American history comes clearly into view. Recognition is widespread that LaRouche, the author of "Operation Juárez," a 1982 proposal which detailed the monetary, economic, and scientific measures necessary to build an Ibero-American common market, also predicted the crash. His views have circulated widely on the continent for over a decade.

On Oct. 23, Brazil's *Jornal do Comercio,* in its "Confidencial" column (authored by the daily's editor), reported, under the subhead "Warned": "In an article printed on June 9 in this paper, the American economist Lyndon H. LaRouche foresaw everything that happened in the New York stock market over the last days. The title of the document—'Global Financial Crisis Predicted for October'—contains LaRouche's forecast. He is currently a pre-candidate for the presidency of the United States in the Democratic Party. When informed of the Wall Street disaster, LaRouche observed for this column the precision of his somber forecast."

Likewise, in Venezuela, on Oct. 23, *Ultimas Noticias,* a paper of the Capriles chain, reproduced in two full pages excerpts from LaRouche's "Global Financial Crash Predicted for October," published in *EIR* on June 5, 1987.

Documentation

The following are excerpts from recent interviews with former Brazilian finance minister Dilson Funaro, the man popularly viewed as a likely next President of Brazil. On prime-time Brazilian television, Funaro described Brazil's current debt negotiations with the creditor banks from the perspective of his country's responsibility to take a leadership role on the debt.

A symbolic payment to the creditor banks "would be a disaster. What we are discussing is the future of the nation. They pressed me very hard to make a deposit after 40 or 50 days of the moratorium, but I refused, and said that Brazil had shown good will by sitting down and negotiating. Good will is not exchanged with a check. . . .

"What is now being discussed is not a symbolic payment in itself, but everything else tied to it, the return to the [International Monetary] Fund, etc. . . . If Brazil wanted to return to the Fund, it would not need to send a mission to negotiate. A phone call would be enough, and . . . the financial community would applaud the fact that Brazil returned to the Fund and the 1983 path. . . . When Brazil signed with the IMF, its conditions were to reduce wages. . . . Then there came recession; Brazil separated itself from the technology to modernize its industrial plant. With the IMF, exports must grow to pay interest on the debt. . . . The recession created immense social traumas in many countries which are returning to democracy. . . .

"The suspension of interest payments is what today permits the moratoria to be discussed calmly, because the debt committee is the worst place to discuss the Brazilian debt, since it does not represent any important level of decision-making. . . ."

Asked whether Brazil could arbitrarily repudiate its debt, Funaro responded: "First, it is a moral question. . . . The Vatican published a document on the debt, showing that the U.S. problem led nations to lay off their workers. Thus, in a moral context, Brazil was transferring 5% of its GNP abroad, and no country has done that. . . . The bankers are offering no solution to renew the new money. The only solution they have offered, is that Brazil transfer 5% of its GNP in the form of interest.

"The U.S. is making a mistake by increasing interest rates. It will have to stop this, even if for moral reasons, because Brazil is suffering a great deal. Brazil wants to get out of this crisis, not coexist with it. The moratorium is helping, for example, in getting the U.S. to discuss international financing. In this context, we have to discuss the future, so that Brazil protects itself from the crisis which is coming."

To France's *Libération* daily, Funaro also denounced the U.S. shift toward high interest rates to attract money into the United States as "catastrophic for the indebted countries. . . . Since 1982, no more voluntary credits have been accorded to Brazil, only loans destined to pay interest. . . ." Funaro criticized the industrialized countries for having "used the International Monetary Fund in order to avoid their part of the responsibility for the crisis created by the explosion of interest rates. The IMF is not the appropriate organism for resolving the crisis."