Ibero-American heads of state meet on debt, economic crisis

by Peter Rush

"The debt demands a political response, a historic decision, an act of sovereignty and of rupture. The debt demands that we make decisions. Enough of negotiating. Enough of proposals. Enough of asking for a dialogue that has never been listened to." With these words, Peruvian President Alan García addressed the Presidents of the eight Ibero-American nations gathered in Acapulco, Mexico Nov. 26-30 for an unprecedented heads of state summit—a summit he himself had called for soon after becoming President of Peru in July 1985.

In their respective opening remarks, the other seven Presidents spoke of the need for unity, the burden of the foreign debt, and the need for continental integration, but only García sounded the trumpet for unilateral action to change the rules of the game in relations with the creditor nations.

The meeting is the first time that the heads of state of the major nations of Ibero-America have ever met on their own, without the participation of the United States, to deal with problems facing the continent. The meeting occurs five years after the debt crisis exploded in earnest for the first time in 1982. In that year, in response to requests from several regional leaders, U.S. Democratic Presidential candidate Lyndon LaRouche wrote *Operation Juárez,* a document which laid out the course of economic integration and common action on the debt that the continent needed to adopt if it was not to collapse under the weight of the debt burden. Since that year, there have been hundreds of meetings of dozens of organizations and bodies on the same themes, yet hardly a single concrete action has been taken toward any of the agreed-upon goals, while in physical terms, the continent has in fact become substantially *less* integrated, rather than more.

Even while conference after conference sounded the theme of the necessity for a common market, Mexico and Brazil, in particular, were reducing their trade with their Ibero-American neighbors, in favor of exports to the United States, Europe, and Japan, while imports of all kinds were cut to create the trade surplus required to pay the debt. Even the Andean Pact countries' trade with each other has plummeted, as each country seeks to sell whatever it can to the North to earn dollars for debt payments.

Thus, the challenge facing the summit is whether, despite all the fine talk from each attending head of state, this meeting, too, will prove to be so much hot air.

The record of most of the Presidents going into the meeting is not encouraging. Mexico's Miguel de la Madrid has halved his population's income levels to be able to continue paying the debt on time, Argentina's Raúl Alfonsín has just imposed a new round of austerity to satisfy the International Monetary Fund, and Brazil's José Sarney has just ended his country's debt moratorium, even as the world financial system is about to blow out. However, the degree of internal economic crisis faced by each is so intense and so intractable by "ordinary" measures that to once again do nothing is to invite catastrophe.

Clearly recognizing the magnitude of the situation, if not yet prepared to follow the suggestion of President García, was Brazil's Sarney. He stated that Ibero-America is now in worse economic condition than it was in 1900. He said the countries of the region cannot continue to be "a market reserve for the industrialized world." "Latin America needs to grow, this is a historical imperative."

The debt issue

The most important issue facing the summit is the question of how to deal with the nearly $400 billion in foreign debts of the continent. As predicted in *Operation Juárez,* paying the interest alone on these debts has wreaked havoc with the economies of the region. Peru's ambassador to the United Nations presented the arithmetic to the Economic Issues Commission of the General Assembly on Oct. 9, saying, "In 1980, the total Latin American debt was $250 billion; Latin American countries have since then paid $150 billion to the North, but now the debt is $400 billion."

Dilson Funaro, former finance minister of Brazil, calculated that since 1983, $113 billion in interest has been paid, even as the debt of the continent rose $60 billion.

South magazine, published in Britain, made a similar calculation for the entire Third World, and reported that, in 1980, total Third World debt was $430 billion. Since then, $658 billion, 53% more than the total debt in 1980, has been

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paid in interest and principal. Yet, the total world debt has grown to over $700 billion.

The effect of paying this debt is nowhere clearer than in the "big three" of Ibero-America, Mexico, Brazil, and Argentina. In Mexico, the decision was made to pay the debt by shifting manufacturing production from producing for the internal market to producing for export. On the one hand, inflation not matched by wage increases has lowered real incomes by 45-55%. The buying power of wages in Mexico had fallen by 57% between 1982 and July 1987, according to Gustavo Varela, the President of the National College of Economists. A calculation by the Economic Commission for Latin America shows the minimum wage falling by 45% over the same period; 43% of the employed workforce gets only the minimum wage, equivalent in August 1987 to $3.10 a day, and at least 33% of the workforce earns less than the minimum.

According to the leading retail association, retail sales of basic consumer goods has fallen 25% just since January of this year, while buying power of the minimum wage has fallen 42%. The National Polytechnic Institute reports that 50% of the Mexican labor force is either unemployed or underemployed.

However, Mexican industry, although it has not grown appreciably since 1982, has not collapsed by the same percentage. Thanks to brutal devaluations of the peso, which fell from 27 to the dollar to 1,700 before the mid-November devaluation, Mexican manufacturers were enabled to sell their products abroad for very low prices, calculated in dollars. Due to the corresponding increase in import prices of capital goods, Mexican industry has been unable to afford more than a minimal amount of capital investment, and its export boom is not based on true efficiency of production—gross investment in plant and equipment in Mexico was 31% lower in 1986 than it was in 1980, according to the Inter-American Development Bank. But it has brought in foreign exchange dollars to replace the income lost when the oil price collapsed in 1986.

Brazil similarly shifted into a sharp balance of trade surplus, exporting billions in manufactured goods annually that would otherwise have satisfied an internal market, and real incomes, likewise, have fallen sharply since 1982. Now, having promised to break its debt moratorium, Brazil is confronting escalating inflation, increasing social unrest, falling investment—capital investment in 1986 was 30% below the level of 1980, and has fallen further since then—and increased debt payment demands.

Argentina in mid-November found itself facing the total exhaustion of its reserves, and was reliably reported to have been very close to being forced to declare a debt moratorium of its own, at which point the IMF decided to release some more money. However, with inflation likewise spiraling out of control—wholesale prices in October rose 30%, a 2,200% annual rate—and entire provinces going bankrupt, Alfonsín has proposed to take $4.5 billion out of the economy to pay debt service in the form of new taxes. Here, industry has collapsed farther than in Brazil or Mexico, because as purchasing power has declined, so has manufacturing output. Capital investment in 1986 was off 52% since 1980, and has continued to fall.

The only nation to have bucked the trend is Alan García's Peru, where payment on debt service has been limited to 10% of total exports, and where production for domestic consumption has been encouraged. Nonetheless, as one of the poorest countries on the continent, Peru cannot continue to go it alone indefinitely. Hence, García's urgent plea for the major countries of the region to join him.

The issue of the common market

However, there is no indication that the "big three" of Brazil, Mexico, and Argentina are prepared to follow the implicit suggestion of President García for a unilateral declaration on the debt. What they are expected to do is present a three-point program addressed to the industrialized nations. According to the *Wall Street Journal,* the three will propose: 1) that by one means or another, the net outflow of capital from the continent be ended, by either more new loans, reduction of debt service, or a combination of both; 2) that countries not be forced to sign agreements with the International Monetary Fund in order to get bank financing; and 3) that the process of negotiating new loans be vastly speeded up. If the first point were to be won, it would reverse five years of capital looting, in which upwards of $150 billion of capital, exclusive of flight capital, have left the continent in the form of debt service payments earned by strongly favorable balances of trade (but under conditions of extremely unfavorable *terms* of trade).

But as always, the issue is how to take these proposals from the drawing boards to the real world. The only solution is a common market, and a common stance on the debt issue. In none of the opening speeches was there any indication of a readiness to adopt such a common stance, or create a truly effective common market, other than on the part of García.

Even so, reality is fast forcing the governments to take some sort of action. In Mexico, the devaluation of the peso led to immediate 50% inflation in consumer goods prices. In response, the labor movement is demanding wage increases of 46% and up, on threat of a general strike. With the stock market collapsed and the peso fast becoming worthless, de la Madrid can no longer hope to avoid a social explosion.

In Argentina, the latest round of sharp price hikes, with a wage freeze, has led the CGT labor federation to call a 36-hour general strike Dec. 2-3 for higher wages, while the industrialists are lobbying strenuously against the tax-increase package, saying it will put them out of business. Entire provinces are issuing their own currencies, because they have been cut off by the central government. Even Colombia, which has refused to ask for any debt renegotiations, finds itself without financing for basic projects, because its request for a $1.06 billion loan has been held up for one year.