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Hyperinflation looms in Ibero-America

by Peter Rush

Scarcely two weeks after the end of the eight-nation Ibero-American heads of state summit in Acapulco, Mexico, Nov. 29, the "big three" countries, Mexico, Brazil, and Argentina, face hyperinflationary collapses of their economies, provoked by five years of trying to pay their foreign debts.

Lyndon H. LaRouche warned of exactly this danger, in an article written on Nov. 21, following the devaluation of the Mexican peso, and published in the Dec. 4 issue of *EIR*. With the forced peso devaluation, "Mexico's peso and markets exploded into a Weimar-style hyperinflation," he wrote, and "nearly every nation in South America is but a few steps behind Mexico. . . . Argentina is at the brink of similar developments," as is Brazil.

This reality is now being acknowledged elsewhere. "Latin America will be the next financial 'hot-spot.' The region's countries are rapidly approaching the zone of currency hyperinflation," Scandinavian banking sources told *EIR* Dec. 9. The bankers explained that they had arrived at their evaluation, because these countries "cannot export more, and cannot impose more domestic austerity; they have decided the only way is to depreciate their currencies."

Brazil: the anti-inflationary plan which Finance Minister Luis Bresser Pereira put in place last July has broken down. Inflation in October rose to 9.2% (188% at an annualized rate), and to 12.8% in November (236% annual rate). Many expect the rate to reach 25% by December or January—1,355% on an annual basis. Most analysts believe that hyperinflation is inevitable within the next three to six months. Nationalist economic analysts estimate that Brazil's currency will blow out by June, at the latest.

Government finances are on the brink. According to the Sao Paulo representative of Libra bank, Igor Cornelsen, Brazil not only "has the highest inflation in the world," but its public deficit, "if measured as it is in the U.S.," would be as high as 30% of the Gross National Product. The Brazilian government has introduced a new form of government paper, the Treasury Financial Bond, "to cover budget deficits and extend credit in the form of anticipation of tax revenues to municipalities and states," *O Estado de São Paulo* reported on Nov. 27.

President José Sarney just released the proposed 1988 budget, in which fully 40% of the general operating budget of 4.7 trillion cruzados is allocated for debt—1.88 trillion cruzados.

Argentina: *EIR* correspondents in Buenos Aires report that hyperinflation is certain by spring. In October, retail prices rose 19.5%, and wholesale prices an astounding 30%, forcing price controls to be imposed in early November. While lowering prices from these levels, the controls have failed to stem inflation, which nonetheless grew at the brisk clip of 12% in November.

The effect of October's inflation was to collapse consumer spending. Sales of household appliances in November fell 40% from October; textile sales were off 30%, cement sales are 30-40% below the beginning of 1987, and shoe sales are close to 40% off January 1987 levels. Gasoline consumption has fallen 20%, car sales are off a like amount, as are auto parts sales. Steel sales are 20% down, the domestic market for chemical industry sales has fallen 20%, and even food products fell 10% last month.

The effects of these declines will show up in figures to be released later in December. Already businesses have responded by laying off workers and shortening hours. Store and factory closings are in the offing. The decline in real incomes has already hit government revenues. For November, tax receipts are down 10%, which in real terms is a fall substantially greater than 20%. The government deficit is 8.5% of the GNP and rising fast. In order to be entitled to receive more money from the International Monetary Fund in early 1988, the Argentine government is committed to reducing that deficit by half, by raising taxes an unimaginable $4.5 billion—a "recessive shock" opposed by every economic sector.

The collapse of the domestic economy has made a debt crisis inevitable for 1988, a reality which is beginning to sink in with the international bankers and their mouthpieces, President Alfonsín's admirers. "In the past few weeks, Argentina has risen to the top of the list of trouble spots in the debt crisis," the *Washington Post* admitted on Dec. 8. The day before, the *Wall Street Journal* wrote that Argentine creditors and government officials alike assume a debt moratorium is coming sooner, rather than later, in 1988.

Argentina's "liquid reserves are now below $1 billion—enough to cover only two months of imports—and gold reserves are another $3 billion. Something must happen soon. They can't continue to service their debt," *EIR*'s European banking sources commented Dec. 9.

The final document from the Acapulco summit, calling for lowering of interest rates and other measures to permit the debtor nations to overcome their economic problems, has been sent to every government and major bank in the world. As Peru's President Alan García commented on his return to Lima, the summit's importance lies in setting up a mechanism for the Ibero-American countries to coordinate strategies for their common problems.

Coordination is already increasing. In January, García will meet in a mini-summit with Argentina's Alfonsín and Brazil's Sarney to discuss, among other things, establishing just interest rates for their nations' debt.

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