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International creditors go for Ibero-America's crown jewels

by Mark Sonnenblick

Venezuelan central bank chief Pedro Tinoco confirmed on March 29 the plaints of Venezuelan industrialists that new policies imposed on them by the International Monetary Fund (IMF) would drive whole sectors of the economy out of business. He confessed that "in capital goods, the effect is hard and traumatic." But the longtime Rockefeller representative offered the beleaguered industrialists a way out. He suggested that they recapitalize their businesses by selling them to foreign investors, through a new "facility for exchanging debt for investment."

Venezuela's Finance Ministry had just issued a decree inviting investors to buy its unpayable dollar debts on the secondary markets at 30% of their nominal value and sell them to the central bank at 40-50% of nominal value, paid in the local currency, the bolivar. They could use these bolivars to buy bankrupt companies for the proverbial nickel on the dollar. Aluminum plants, coal mines, iron mines, agro-industries—everything except petroleum—would be open for such swaps. London's *Financial Times* noted that the combined effect of this opening and 150% devaluation of the bolivar on Feb. 27 made Venezuelan assets a real bargain.

The devaluation, and the simultaneous "shock" doubling of domestic prices, provoked riots, which led to 1,000 dead, three weeks of martial law, and, in the words of ex-President Rafael Caldera, "the shattering of Venezeula as a showcase of democracy." For businessmen, the devaluation meant disaster. They had over $6 billion in outstanding import bills, to be paid in dollars. This would not have been any problem, had President Carlos Andrés Pérez ripped up contracts under which the government had pledged to provide dollars for paying these bills at the old, far lower, exchange rates.

Pérez announced a scheme by which the government would halfway honor its obligation, leaving businessmen to pay more than double the bolivars for the remaining $3 billion. The Venezuelan Industrial Council protested, "In the majority of cases, the cost will be two and a half times greater than the assets of the affected industries." *Zeta* magazine on March 16 quantified, "At least 10,000 small and middle industries will be forced into bankruptcy by the imminent impossibility of paying $3 billion in letters of credit."

At his March 20 press conference, Pérez tried to get himself off the hook by blaming the IMF, but ended up confessing that he had surrendered economic sovereignty to the IMF. "The IMF refused to allow the Venezuelan government to recognize this exchange differential," he said, "given that they were not going to give loans to pay situations such as this, and on the international basis that he who imports bears all exchange risks. . . . The Venezuelan state first had to fight very hard with the IMF . . . so that it would accept that the Venezuelan state commit itself to pay 50% of these exchange risks. In the end we achieved this; . . . we could not have signed a letter of intent with the IMF on any other basis."

Venezuela is a case study of how the IMF wrecks a country's productive sector in order to facilitate its being gobbled up by international asset-strippers. The political willingness of former Socialist International vice-president Pérez to subject his nation to such looting, is what has made Venezuela "the first beneficiary" of whatever emerges as the so-called Brady Plan for debt renegotiation.

Debt for equity

With the Brady Plan, as in all other shell games, the victim's eye is distracted. Reality is not the "debt reduction" which fills pages of newsprint. Rather, the creditors are shifting into their endgame strategy for seizing the physical assets and political reins of the debtor countries. This strategy was outlined by Alan Greenspan (now the Federal Reserve chairman) and Henry A. Kissinger at an August 1983 Vail, Colorado, meeting of the American Enterprise Institute, and exposed exclusively in *EIR*. They foresaw that the ballyhooed "solutions" to the debt crisis would fall apart in a few years. They argued that the interests of creditors was not to get their money back, but to use the debt as a bludgeon to gain control over the debtors' resources and industries.

Since 1982, the Third World has killed its people to pay interest, only to see its debt increase from $850 billion to $1.3 trillion, according to the latest IMF figures. The IMF did not allow any of that money to be used for productive purposes. The Brady Plan would reduce annual interest payments for the top 20 debtors by a grand total of $3 billion a year, the World Bank calculates. The 3% rise in interest rates

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in the past 12 months itself adds $30 billion a year.

What has the United States gained? The biggest banks have registered record profits, frequently on the same debts they have taken tax losses on. The Brady Plan hub-bub is being used by the banks to lobby for more bailouts. But the U.S. productive economy has suffered along with the Third World debtors. The latest estimates are that the United States has lost $175 billion in exports to Ibero-America since the crisis began.

The real author of the Brady Plan, Treasury undersecretary designate for international affairs, David Mulford, told the Inter-American Development Bank conference on March 21, "the heart of the problem is still the reform of [debtor nations'] economic policies to produce key structural changes and sustain economic performance." The U.S. insists, he said, that "an integral part of the approach would be for debtor nations to maintain viable debt-equity swap programs." Mulford said such swaps had helped reduce the debt of several important countries and would be a key element in any future debt reduction program.

Mexican Finance Minister Pedro Aspe responded by describing how Mexico's recent experience with such operations proved disastrous, even from the perspective of someone striving to fulfill an IMF letter of intent. Aspe said, "The first problem confronting the Finance Ministry is how to obtain the necessary pesos to pay for the swap. If the pesos come from the central bank, this creates additional inflationary pressures, or the loss of international reserves. If, on the other hand, the pesos come from the market via public debt issues, then this will result in higher domestic interest rates and the crowding out of other investments." It also entailed "a substantial fiscal cost, since we are exchanging foreign debt for domestic debt whose cost is normally greater, so increasing the operational [budget] deficit." Aspe then questioned whether it was right for his government to "subsidize direct foreign investment and the international banks, when money was scarce and the people were suffering great hardships."

Aspe, as could be expected, melted under questioning from Mulford. He said Mexico would continue exchanging debt for equity—investments in tourism. Mexico plans to put $3 billion into building 50,000 more tourist hotel rooms during the next six years. This could provide some waiters jobs, bring in another $2 billion a year from visitors. But its biggest impact will be to help Mexico's financial sector compete with Miami and Los Angeles in laundering the $500 billion worth of narcotics money.

The World Bank is helping that process with a "financial sector structural reform." A "confidential memo" from the World Bank's directors to the Mexican government, outlining the "conditionalities" of that reform, surfaced in the daily *El Financiero* March 14. It demands that the banking system be deregulated, privatized, and opened to full play by foreign banks. It further demands that state-owned banks cease providing agriculture, industry, and housing construction with loans at below market rates.

Allan Meltzer, a professor at Carnegie-Mellon University who prepared the international debt section of the latest Economic Report of the President, opined in the *Wall Street Journal* on March 29 that the central problem any new debt plan must address, is how to force debtors to let their countries be ruled by "market discipline." "This can be done by tying any net new lending by official agencies to reform. Specific targets, applicable to each country, should be set—the number of state industries sold, the amount by which subsidies are reduced, or the number of prices decontrolled."

IMF domination will also become permanent. Up to now, countries committed themselves to behave according to IMF rules for one, two, or three years. Any Brady Plan "beneficiary" will have to subject itself to 20 years or more of debt bondage to IMF overlords in order to "enjoy" IMF or World Bank guarantees on its slightly reduced debt.

Brady Plan guarantees on debt for equity investments entail further encroachments on sovereignty. Brazil's *Veja* weekly gave this example March 15: "A creditor bank exchanges a $100 million debt for a $65 million investment in Brazil. . . . In the extreme hypothesis that in the future profit remittances abroad were prohibited [by Brazil] or a new government nationalized the company, the international fund would reimburse the creditor."

The media and government officials have been universally optimistic about Washington's willingness to change debt policies. But Saúl Ubaldini, the head of Argentina's powerful Peronist General Labor Confederation, warned, "Behind this supposed reduction of debt payments, we will probably find a new plan that will bring increased suffering to our people."

Bankruptcy or sovereignty

It has suddenly become fashionable for debtors to use debt moratoria as pragmatic bargaining tactics to obtain marginally better deals. Brazil, Venezuela, and Ecuador stopped paying in March; Argentina ran out of dollars months ago. Mexico will stop payments "if the creditors do not promptly agree on new radical measures to alleviate the foreign debt crisis," the daily *Diario de México* reported March 24. "If I were a Brazilian, I wouldn't pay," professed Industrial Bank of Japan Deputy President Yoh Kurosawa March 28, in a plea for rapid agreement upon and implementation of the Brady Plan.

Dilson Funaro, the former Brazilian finance minister who shocked bankers by imposing a principled moratorium on Brazil's debt on Feb. 20, 1987, has an opposing view. Funaro, from what the Brazilian press describes as his deathbed from a recurrence of Hodgkins disease, was asked about his health. He replied, "What is important is Brazil's sovereignty, solving the country's structural problems and the question of the foreign debt, which must be treated with dignity."