EIR Economics

Bankers demand blood as strikes hit Ibero-America

by Peter Rush

The Mexican government is fast learning the lesson that the reward for subservience is to be kicked in the teeth by one's masters. The lot of slaves is to do as they're told, and to receive little or nothing in return. Mexico has slavishly placed itself at the beck and call of the International Monetary Fund (IMF), the major creditor banks, and the U.S. Treasury, for the past six years, implementing all the austerity programs and "structural reforms" demanded by these entities. Now, in response to Mexico's pleas for major debt relief, it has gotten hot air from Washington and a slammed door from the banks, which makes it increasingly likely that, irony of ironies, Mexico may end up, however reluctantly, leading the continent in a debt moratorium.

The U.S. government's vaunted "debt relief" proposals, designed by Treasury Undersecretary David Mulford and misnomered "the Brady proposals," boil down to a pittance from the World Bank and IMF, and U.S. jawboning. If the banks were cool to the plan at the beginning, they have now congealed and are fast approaching absolute zero.

The only good candidate for aid, Mexico, is being told, in "Catch-22" fashion, that it is already doing so well that it doesn't need much aid, while Venezuela is getting no bank aid because bankers say they don't believe the government can hold the line on austerity. It seems that aid is being promised, on condition that brutal austerity be maintained for long enough to demonstrate government ability to permanently enforce it—at which point the country is informed that for this very reason, it obviously no longer needs the aid.

The Mexican and Venezuelan requests for debt reduction, and the ongoing financial crises of Argentina and Brazil, are furthermore occurring in the context of a strike wave unprecedented in recent years, which is sweeping several countries. The strikes have been engendered by the very austerity the banks are still demanding, and threaten the very IMF-approved programs the banks say they need more of, if they are to help out. At the same time, the banks are saying the strikes portend instability and make less likely any new money for the region.

The long-awaited negotiations between Mexico and the 15-member Bankers' Advisory Committee began May 2 in New York City, and were dead before they started. Speaking at the Council of the Americas the day before, Treasury Secretary Nicholas Brady had already revealed that "the parties appear rather far apart." A senior officer at a large New York bank heavily involved in Ibero-American lending, quoted in the *Wall Street Journal* May 3, was stronger: "The [Brady] strategy isn't going anywhere."

The banks, which had never signed on to the Brady debt reduction schemes in the first place, are still saying they can't see how they would work, and in any case are refusing any scheme that would reduce interest payments from countries like Mexico by more than a pittance. The banks' position is that only new loans can significantly deal with Third World debt problems. But since such loans would merely serve to capitalize some of the interest owed, while increasing the already crushing burden of total debt, such an approach rules out providing the net credits required to restart economic growth. The banks appear, as they have from the beginning of the crisis, supremely unconcerned about growth, and apparently continue to believe that blood can be squeezed from stones indefinitely.

Their attitude toward Mexico was revealed by the *Wall Street Journal* May 3, reporting on the first day of meetings between the Advisory Committee and Mexican negotiations. Reports the *Journal*, "The banks, united behind Citicorp in the Mexican negotiations, are in no mood" to accept secondary market value for Mexican loans. "They are eager to push Mexico into accepting a settlement similar to one they negotiated with Brazil last year." The Brazil settlement referred to gave no concessions on interest rate or debt relief, and

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forced Brazil to issue billions of dollars worth of highly inflationary cruzados, while the banks bought up Brazilian businesses in "debt-for-equity" swaps, swaps that Mexico flatly opposes. To propose such a "deal" to Mexico at this time is like shoving an electric cattle prod into the outstretched palm of a man trying to shake one's hand. The insult will not be lost on Mexico.

Underlining the impasse, Citicorp Chairman John S. Reed and his chief debt negotiator, William Rhodes, flew to Washington the night before the talks began, to try to convince Mexican Finance Minister Pedro Aspe to scale back Mexico's proposals to the banks the next day, though without apparent success.

Moratorium threatened

With each passing week, Mexican officials have become more strident in threatening that they will be forced to declare a debt moratorium if the banks continue to stonewall Mexico's demands for $4 billion per year in combined interest reduction and new loans. The latest, most explicit such public threat came from the unlikely mouth of Rosario Green, director of the Committee on International Affairs of the ruling PRI party, and executive director of the Committee on the Future of Mexican-U.S. Relations, whose U.S. head is Lawrence Eagleburger, just confirmed as deputy secretary of state and one of Henry Kissinger's top henchman in the U.S. government. Speaking to a joint meeting of the Finance and Program and Budget Committees of the Mexican Chamber of Deputies, Mrs. Green said, clearly on behalf of the Mexican government, that Mexico might be forced to declare a "temporary and selective moratorium" on its bank loans.

This scenario corresponds to advice to the Mexican government by nominally anti-IMF economists Jeffrey Sachs of Harvard and Rudiger Dornbusch of MIT, both of whom have said that the banks won't be able to do anything to hurt Mexico should it declare such a moratorium. But even the IMF, erstwhile fierce opponent of such measures, has already sanctioned countries suspending bank interest payments in cases where the banks refuse to help "worthy" countries such as Mexico; even the IMF can thus be expected to bless a Mexican moratorium. In fact, quite possibly it is the very intention of the banks themselves to force Mexico to declare a moratorium. This would both serve to up the pressure on the U.S. Treasury to bail the banks out, and to provide them a ready excuse to refuse new lending, which they consider throwing good money after bad.

Strikes spread

However, no matter how "managed" the IMF and Mexican authorities believe they can make such a moratorium, should Mexico really take that route, it would have potentially nonlinear consequences in provoking other nations to follow suit, and threatening the whole IMF-controlled gameplan for the Third World.

Moreover, strike fever is starting to spread in Mexico, threatening to undo President Carlos Salinas de Gortari's carefully crafted "Solidarity Pact," whereby workers agreed to suffer yet further cutbacks in real wages to pull down inflation. Forty percent of Mexico's employed teachers, 500,000 strong, struck for a 100% wage increase on April 17, rejecting the offer of 10% from the government. The pressure has forced the government to offer to increase the present $2,000-a-year salary by 25%, still a pittance, which the teachers have rejected, and the strike continues as of this writing.

But the offer of 25% has sparked unrest among other public workers, and led 23,000 bus drivers in Mexico City to strike May 3, snarling transportation and leaving hundreds of thousands of commuters stranded with no means of getting to work. The government, terrified of a strike wave, responded immediately by canceling its contract with the bus company, Ruta-100, effectively firing all the workers, and announced that it would replace the company with a new one. One thousand buses were borrowed from outside the city to provide interim service—at four times the earlier subsidized bus fare—but demand for transportation far exceeded supply. Thousands of bus workers, joined by striking teachers, held protest marches through downtown Mexico City, blocking several major thoroughfares. It is now an open question whether the heavy-handed government tactics will backfire and produce more of an explosion, or will succeed in temporarily suppressing, once more, the aspirations of labor for a living wage.

Venezuela, whose President Carlos Andrés Pérez has staked his political future on being able to impose IMF shock treatment and still stay in power, is likewise experiencing strikes and protests. However, unlike in Mexico, the labor movement is not tightly controlled by the government, although traditionally run by the majority Democratic Action (AD) party, and on April 27, the Venezuelan Workers Confederation (CTV) voted unaminously to hold a general strike May 18, explicitly against the entire economic package of the Pérez administration.

And in a speech to 100,000 workers on May Day, CTV President Juan José Delpino, a top official in the AD, used extremely strong language against his party colleague President Pérez. "This government does not belong to Democratic Action, but to [Central Bank head] Pedro Tinoco and . . . a few people who have nothing to do with the party," he said, and called on the government to cancel its economic program, which is impoverishing workers and enriching the wealthy. In the parade, workers carried banners such as "No to the package of economic measures," and "First the people, then the debt." In previous weeks, entire towns have staged one- to two-day "civic strikes," and agriculturalists have been warning that spring planting cannot proceed without economic relief.

All of this has not been lost on the international banks.

Reuters wire service reported May 4 that "bankers are reluctant to commit new funds [to Venezuela] because they see no guarantees Venezuela can repay them," in the words of one foreign banker. A diplomat is quoted saying, "Creditors may worry that if there is more labor unrest and violence, Pérez may be tempted to back down on the austerity measures," and in fact, he has already felt forced to offer minor concessions in this direction. As a result, the banks have refused Venezuela's request for a $600 million bridge loan, unless Venezuela pledges its gold reserves and oil sales as collateral, which Venezuela has refused to do. As in Mexico, conditions imposed to please the bankers are engendering popular resistance that the banks are using as an excuse not to lend more money.

Strikes in Brazil, chaos in Argentina

For the same reasons, Brazil is now in the throes of a strike wave. Government sector wages were held constant for three months in 1987 while inflation surged, and fell in real terms again this winter, and workers are demanding catch-up pay. Over 2 million workers are now on strike, including 700,000 teachers, who are demanding an increase to $2,640 a year base pay, and 182,000 autoworkers in São Paulo demanding an 84% increase. Fifteen thousand police in Rio de Janeiro struck for a 52% increase, and a wave of murders swept the city.

As well, 300,000 workers at the Central Bank and government-owned Banco do Brasil are on strike, and a government threat to fire them merely inspired more workers to join their comrades on the picket lines. Even the government statisticians are on strike, creating financial and economic havoc, according to the government.

Meanwhile, Argentina has gone the route that Mexico was about to adopt 18 months ago, before it coaxed labor into the "Solidarity Pact" by which inflation was lowered at worker expense. The Argentine government finally caved in to the grain cartels and speculators and freed the exchange rate, in its latest economic package announced May 1. As a result, Agentina's currency, the austral is now trading at less than 25% its February level, inflation in April is said to be 40%, and prices for many basic items are two to three times their February levels. The May 1 measures decreed yet another price freeze, which has been universally condemned as ineffectual and unenforceable, plus other measures that have already been tried, and failed, including an export tax and tightened tax collection efforts. The government was careful to raise public service fares and rates 20% and fuel 25% just before the price freeze. Immediately, the price of beef, exempted from controls, rose 30%. Summing up the mess five years of his administration has created, President Raúl Alfonsín ruefully commented, "We are likely to hand over a nation in crisis to the next government."

Without *real* debt relief, Argentina today is the mirror of all of Ibero-America tomorrow.

The IMF's policy will new post-Ramadan

by Thierry Lalevée

The recent ethnic riots between Mauritania and Senegal, and the mid-April social crisis in Jordan which led to the dismissal of Prime Minister Zayd al Rifai on April 23 are the latest effects of the International Monetary Fund's structural adjustment policies. Local observers expect that in the immediate aftermath of the Muslim holy month, Ramadan, ending in mid-May, more social and political crises of that kind may erupt, especially throughout North Africa.

The rationale is that many governments have borrowed heavily on their financial and food reserves to ensure that during that month, there are plenty of supplies to feed the various celebrations. Heavy austerity in line with the IMF demands is expected to be imposed immediately thereafter.

North African instability

Especially considered as risk areas are Algeria and Egypt. Egypt is struggling to avoid ratifying a new deal with the IMF by June. However, Cairo has been presented an ultimatum from the U.S. administration concerning its economic and military aid if basic arrears in payment of the debt service are not made by June 30. And this payment depends on Cairo's ability to strike a deal with the IMF by mid-June.

Local sources are reporting that Egypt's letter of intent with the IMF is ready to be signed; the terms will include an average of 30-40% price increases in items like fuel and electricity, and the phasing out of subsidies on key commodities like rice and sugar.

Ultimately the IMF program also includes drastic changes in the state and public sectors. Already electricity rates for industries are being increased by 40%. Egyptian officials are gearing to face social turmoil during the summer. Algeria is not too far from facing a situation similar to that which sparked last October's riots.

Some basic economic changes since last fall, and an exceptional $1 billion French credit earlier this year, have fallen short of meeting Algeria's immediate needs. Over the last two years, it has faced a 13% decrease in agricultural output because of the combined effect of the drought and the locust plague.

As of mid-April, for the first time since independence,