IMF endgame augurs revolution or starvation in Ibero-America

by Peter Rush

One year ago *EIR* identified 1988 as a year of greatly increased misery for most of Ibero-America, with worse to come in 1989. We reviewed how, despite the proof demonstrated in every available electoral forum that the people of the continent were fed up with the International Monetary Fund-designed "free market" economic policies being applied by their governments, the leading nations continued to seek agreements with the IMF and to impose ever harsher austerity in order to comply with those agreements.

Twelve months later, the grinding poverty has begun to spark a revolt, soon to be a revolution, that will sweep away the IMF regimes of the continent, and begin a political and economic renovation no less dramatic than that which occurred in Eastern Europe during 1989. The year saw a series of "shots across the bow" from populations seething with discontent, starting with the explosion of violence in Venezuela in late February, to violent eruptions in Argentina in the late spring, to scattered outbreaks of violence in Brazil in recent months, and signs that the Mexicans have likewise finally had enough.

Venezuela's Pérez leads the way down

Top honors for causing a nation's fastest plunge from mere stagnation to economic disintegration falls to the darling of the Social Democracy, Venezuela's aspiring dictator, Carlos Andrés Pérez, elected by default at the end of 1988. After his inauguration Feb. 4, CAP, as he is generally known, moved in less than one month to sign an accord with the International Monetary Fund committing him to measures intended to depress living standards sharply and free up resources with which to pay the country's $32 billion foreign debt. On Feb. 16, CAP announced that price controls would soon be lifted. Basic foodstuffs disappeared overnight from grocery shelves as storeowners started hoarding to wait for the price increases.

On Feb. 27, the same day he signed the infamous IMF agreement, CAP ordered Phase I of the agreement put into effect. Bus fares doubled to one-fourth the minimum wage, and gasoline prices increased by 94%. The response was instantaneous. A looting spree against stores began that went on for five days and didn't stop until 25-30,000 stores in Caracas and several other cities were stripped bare. As Army troops with orders to shoot looters began entering the city on the second day of rioting, Caracas became like Beirut, as store owners, looters, and Army troops and police battled on the streets. The official count when it was all over was under 300 dead and 1,000 wounded, but independent estimates put the death toll alone at well over 1,000.

Unfazed, CAP imposed Phase II of the IMF accord on schedule on March 15, devaluing the bolivar, freeing most prices, raising electricity rates, and moving toward reducing or eliminating most tariffs. As a result, Venezuela has gone into a depression. Its Gross National Product was down 10% this past year—more than the U.S. economy declined in the first year of the Great Depression of 1929-33—and 20% of the workforce is already out of work. Hundreds of thousands more are slated to be fired early this year. Workers have lost 70% of their purchasing power in 10 months, according to labor leader Juan José Delpino. Already in April, the Central Bank said prices had risen by 187%, while wages had only been increased by 30-50%.

The Venezuelans did not passively accept these developments. On May 18, the Venezuelan Labor Confederation held a totally successful one-day general strike, heeded by at least 98% of Venezuelan workers. No newspapers appeared, and even small and middle-sized industrialists backed the strike. Since then, numerous other strikes have taken place, including 200,000 teachers who struck on June 15. The press has been filled with reports of farmers, workers, and businessmen complaining that CAP's economic regime is destroying them and the country.

In the state gubernatorial elections Nov. 30, voters virtually boycotted the polls in protest against CAP's policies. In a country where voting is mandatory, and in which 80% voted for President a year ago, only 32% voted, and in 9 out of 20 states, including most of the most important and populous ones, CAP's party, the AD, was booted out of power. Most revealing was the election in Bolivar state, where a popular trade union leader from a small third party smashed both the AD and the ineffective Christian Democratic party, the COPEI.

CAP has still not gotten the message, but most observers believe that another explosion is coming that will make the Caracas rioting of last February appear mild by comparison, as economic conditions continue to unravel.

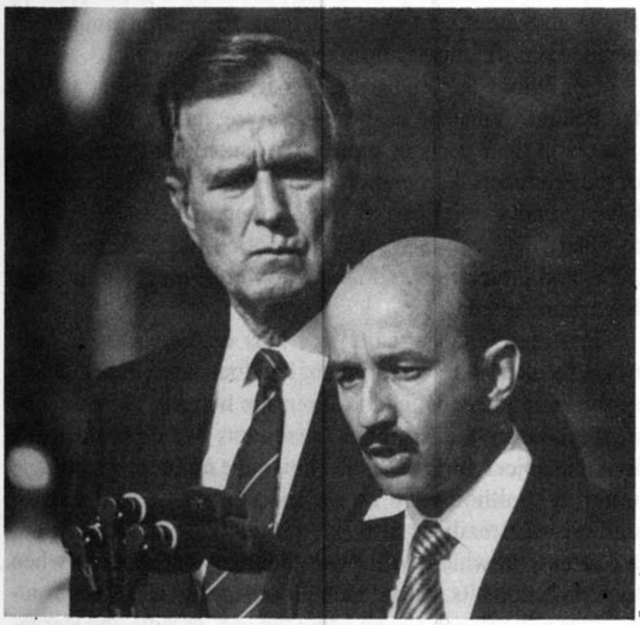
Betrayal in Argentina

Top honors for betrayal of pre-election expectations go to Argentina's putative Peronist President, Carlos Saúl Menem. After five years of hyperinflation, declining wages, and growing economic chaos under Radical Civic Union (UCR) President Raúl Alfonsín, citizens voted May 14 against the UCR candidate, Eduardo Angeloz, in favor of Menem, candidate of the Peronist Justicialista party. Menem won by a final vote of 48.5% to 37%, a spread of 5-10 points greater than forecast in the polls.

In the three months before the election, the economy had entered true hyperinflation, with inflation at greater than 50% a month, interest rates above 150% a month, and the currency at 20% of its February value in May. Wages fell 30% from December 1988 to the election. The message of the people was clear: We want new policies.

And Menem promised them just such new policies. In a March 26 article in *Clarín*, he outlined a series of infrastructure projects he wanted to implement on his election, including large irrigation projects, deep-water port construction, and hydroelectric and nuclear energy projects, among others. Menem's program also called for putting people to work in a "productive revolution" that would emphasize the physical economy at the expense of the paper financial one. He promised to stimulate the internal market by raising wages and controlling prices.

Following the election, inflation soared to 60% in May, and 130% in June. The price rises sparked supermarket looting in Córdoba on May 24, followed by much more violent looting May 30 in industrial Rosario, Argentina's second largest city, where mobs cleaned out stores and even attacked private homes. National Guardsmen were called in and arrested 1,000 people, including numbers of leftists and terrorists who had been leading and coordinating much of the looting.



Stuart Lewis

George Bush and Mexican President Carlos Salinas de Gortari: partners in one the year's biggest swindles, the Mexican debt "bailout."

By early June, Alfonsín was left with no choice but to resign six months early. He turned over power to Menem on July 8, rather than Dec. 10 as mandated by the Constitution. Menem immediately handed over the all-important finance ministry to the Bunge and Born grain cartel, in the person first of B&B executive Miguel Roig, who died after one week in office, and then of another B&B executive, Nestor Rapanelli.

The B&B program was, in fact, a classic "shock" program, based on devaluation, price increases, and wage restrictions. It is premised on free-market reforms and large-scale privatizations, most of which have yet to occur. As of this writing, the Argentine economy is a wreck again.

After several months of relative stability, the austral, pegged by Menem in July at the official rate of 650 to the dollar, collapsed in November to 1,000 on the black market. On Dec. 10, Rapanelli announced a package of measures, including a 50% devaluation of the currency, and a 40% increase in the prices of gasoline and public utility rates. Four days after announcing this package, Nestor Rapanelli resigned, a decision reflecting factional squabbling inside the Menem cabinet. Peronists inside the government opposed Rapanelli's commitment to orthodox monetary policies and their impact on a population fed up with IMF austerity.

The reality is that Menem has adopted a policy direction that has placed him in a showdown both with the Peronist-dominated labor movement, and with such important institutions as the Armed Forces. In October 1989, in an effort to ease tensions in the Army, Menem granted a pardon to Army officers charged with human rights violations and participating in rebellions against the Alfonsín government. Nationalists within the Army praised that action. But Menem subsequently allowed the high command to retire nationalist Army hero, Col. Mohamed Ali Seineldín, whose defense of the institution of the Armed Forces and the Constitution has earned him the respect and admiration of much of the officer corps. Menem's Dec. 13 confirmation of Seineldín's retirement will alienate the nationalist officers and heighten already existing tensions within that institution.

Mexico, Brazil, next in the barrel

The Mexican government of Carlos Salinas de Gortari spent 1989 playing out an enormous fraud on the Mexican people, known euphemistically as the Brady Plan "debt reduction" package, agreed on by the Mexican government and the country's creditor banks on July 23. The package was hailed by Salinas in a nationally televised speech that same night, as meaning that Mexicans "will no longer bear the burden of excessive indebtedness."

In early December, Mexico's chief debt negotiator Angel Gurria released a statement detailing what the deal will finally mean for Mexico: Its annual interest payment outflow will decline about 8%, from $10 billion to $9.2 billion, and its total debt will decline less than 1%, from about $105 billion to $104.4 billion. Mexico's interest bill has gone up in 1989 by several times more than the interest saving in this deal, due just to rising interest rates. What is left is a balance of payments deficit of over $5 billion, and no way to pay for it.

Meanwhile, Salinas has been busy turning the economy into a wasteland. The fundamental policy of his government is to make Mexicans pay, through taxes and other means, for the government to be able to pay the debt. Salinas has refused to permit the guaranteed price paid to the farmers to rise with inflation, such that most farmers are not being paid enough to even meet their costs of production. Agriculture output is plummeting, compounded by a severe drought, as farmers by the hundreds of thousands have drastically scaled back their plantings. More than 60% of the entire federal budget goes to pay debt service, most of it to a handful of Mexican oligarchs who "invest" in Mexican government internal debt.

Most recently, with the failure of the Brady Plan package to help meet interest payments, Salinas has proposed a whopping new tax package to soak everyone from retirees and the handicapped to the already-devastated farm sector. The measure is so outrageous, that major sections of his own PRI party have deserted him on this issue, including his own agriculture secretary, and the national president of the PRI. Almost every segment of the population is also up in arms, from labor unions to peasant federations, making outbreaks of strikes and possibly violence increasingly likely, as the daily life of most people continues to worsen with no end in sight.

In the case of Brazil, *EIR* warned exactly one year ago, that if Brazil's economic policies were not drastically changed, the country would witness rapid institutional breakdown, and "a second Nicaragua, but with Brazil's size, could emerge in Ibero-America in the short term." Brazil is reaping the results of having rejected the debt moratorium and industrialization plan of former Finance Minister Dilson Funaro in 1987, imposing instead IMF austerity and disinvestment of key sectors of the economy. In the Dec. 17 presidential runoff election, Ignacio "Lula" da Silva of the leftist Workers Party (PT) was defeated by pretty-boy oligarch Fernando Collor de Mello; both candidates came from outside the traditional party system. An outcome of political and economic upheaval is almost certain. With inflation now running at 50% a month, the highest in Brazilian history, a ferocious round of capital flight is expected which would further collapse the currency and increase inflation, in a short-term hyperinflationary spiral to disaster.

No meat, no milk, no butter, no food

The bottom line result of continuing to apply IMF austerity to service the $400 billion foreign debt of the top four debtor countries of the continent, was the collapse of major sectors of their countries to African levels of hunger, malnutrition, and disease. In 1989, Ibero-America couldn't even supply its people with enough food to live on. From Mexico to Argentina, report after report has documented the extent of growing malnutrition, especially among children whose mental and physical development are being permanently retarded by lack of adequate nutrtion.

"Hunger Threatens Mexico," was the banner headline of the Sept. 4 *El Sol de México*. Mexico produced less food in 1989 than in 1980, to feed 19 million more people. Grain imports soared to 12 million tons, the highest in Mexico's history, and fully 55% of domestic production, and 35% of total consumption, even as 24 million acres of arable land are out of production. Eighty percent of Mexican children are reported to be malnourished, and 5% die before their fifth birthday. Forty-two million Mexicans, 50% of the population, by official admission, are poor, and 30 million in rural areas live in extreme poverty. "Today . . . hunger in its most dramatic manifestations . . . threatens the nation: The malnourished 75% seem to announce that in the decade of the nineties, Mexico could go the way of Cambodia or Vietnam," said the *El Sol de México* article.

Yet the Mexican government now proposes to increase taxation of farmers, even while the budget allocation for agriculture has been cut by 83% since 1980, beef consumption per capita has fallen from 35 to 15 pounds per year, and the shortage of milk has reached a crisis following the collapse of domestic production (down 36% from 1980 to 1989) and the recent suspension of 10 million pounds of powdered milk imports from the United States.

Conditions in Venezuela, Brazil, and Argentina are not far behind. Venezuelan producers are facing 20-80% increases in their costs of production, such that the president of the Producers Association of one state said, "Farmers will have to find another line of work, given that it is impossible to plant." Per capita food consumption has fallen at least 30%, and production and consumption of meat and poultry have plummeted.

In Argentina, starvation for tens of thousands is only being forestalled by government handouts and private charity-run soup kitchens, and millions are hungry. Nine million of the country's 32 million inhabitants are reported to be living in abject poverty, 14 million have no running, potable water, 17 million have no indoor sanitation. And tens of millions of Brazilians also live on the edge of catastrophe, a catastrophe which will strike them by the millions when hyperinflation hits. Either a totally new political and economic order will arise to sweep away the old, or riots and starvation will kill millions of people next year in a holocaust of unimaginable proportions.