Speculators make bloody example of Ecuador

by Cynthia R. Rush

Within the first two weeks in March, the nation of Ecuador, on South America's Pacific coast, has virtually disintegrated before the eyes of the world. In a single day, Wednesday, March 3, speculators launched a ferocious attack on its currency, the sucre, causing a 26% devaluation in just a few hours. Falling from 10,000 to 18,000 to the dollar, the sucre finally "stabilized" at 13,000. Since Feb. 12, when the government abandoned any defense of the sucre and opted for a floating exchange rate, the currency has been devalued by more than 50%. Central Bank president Luis Jacome, who has since resigned, called the March 3 attack a "speculative wave without precedent."

In the days following March 3, Ecuador plunged into political chaos and violence. As *EIR* goes to press, the crisis is deepening, with no end in sight. Rather than take the only sane option—of imposing currency controls and other protectionist measures—President Jamil Mahuad, a devotee of the Club of Rome's Malthusian strategy, who earned his free-market credentials at Harvard University, insanely demands that his nation swallow the International Monetary Fund's (IMF) genocidal prescriptions, even if this leads to his nation's demise.

Why was Ecuador singled out for "trashing," the term which the IMF's chief economist Michael Mussa is so fond of? This small nation of 12 million has been clobbered by the decline in world commodity prices—it is totally dependent on export revenues from oil and bananas—and by El Niño-related floods, which caused $2.6 billion in damage to its agricultural sector in late 1998. Oil revenues declined by $600 million last year. Combined with the cutoff in international credit lines which followed the explosion of the world financial crisis in the summer and fall of 1997, these factors made Ecuador a very vulnerable target.

Moreover, its Congress had so far refused to approve an IMF-dictated austerity package intended to reduce a $1.2 billion government budget deficit, and the labor movement was mobilized against plans to open up the state-owned oil and electricity sectors to private capital. It also demanded the rescinding of last September's elimination of state subsidies on gasoline and electricity, which had jacked up prices for those services by 400%.

International speculators, who take their orders from London and Wall Street, went in for the kill. Their aim was to make a bloody example of Ecuador, to deliver the same message they have sent to Iraq, through merciless bombings: Capitulate, or we will destroy you. And, as in the case of Iraq, that message is meant to be heard by other nations around the world. As the *Washington Post* baldly stated in its March 17 issue, Ecuador's crisis is the result of its failure "to make serious progress" on neo-liberal reforms, "because of domestic political opposition and rampant corruption."

'Africanization' is the future

Ecuador's closest neighbors in the Andean region—Peru, Colombia, Venezuela, and even Chile—are monitoring developments there with obvious trepidation. *EIR* bureaus in Lima, Bogotá, and Caracas report that television and radio networks in those nations carried detailed, hour-by-hour updates of the situation in Ecuador, from on-the-scene reporters, throughout the turbulent week of March 8-12.

And well these countries should be afraid. They, like the rest of Ibero-America are struggling with banking, financial, and debt crises, while speculators attack their currencies, and foreign creditors demand deeper austerity. It would not take much for them to become "new Ecuadors." As the Colombian, Venezuelan, and Peruvian chapters of the Ibero-American Solidarity Movement (MSIA), the co-thinker organization of American statesman Lyndon H. LaRouche, Jr., warned in a statement released on March 16: "What is happening in Ecuador is but a foretaste of what will happen in short order to every nation in the Andean region, and to Brazil as well, whose government believes it has bought life insurance by putting megaspeculator George Soros's man at the head of its central bank."

Entitled "No To the Africanization of South America; We Must Annihilate Narco-Terrorism," the MSIA statement underscores that unless Ibero-American nations immediately adopt measures to defend their sovereignty—both economic and political—"they will soon suffer the same fate as Ecuador, or worse. Most immediately, the entire Andean region, in particular, will sink into chaos, war, and genocide" of the kind which has turned much of Africa into a horrifying killing field.

"There is no way of avoiding this reality," the MSIA insists. "As LaRouche has repeatedly warned, the disintegration of the world financial and monetary system has reached the point where nations and entire regions are seeing their economic and social existence completely torn to shreds in as little as 48 hours, victims of the pirates charged with pillaging and looting to feed the speculative bubble. The efforts of two or three generations are turned into rubble in the blink of an eye, when George Soros and his ilk come on the scene."

The road to Hell

Ecuador's descent into chaos occurred with lightning speed, following speculators' March 3 attack on the sucre. On March 4 and 5, citizens mobbed the banks to remove their funds, in anticipation of a further devaluation. Fearing the collapse of the banking system—six banks, including the nation's largest, Filanbanco, S.A., have been taken over by regulators since last December, and another eight are reportedly in trouble—President Mahuad first announced a bank holiday for March 8, and then extended it for the rest of that week. People with automated teller machine cards were able to get some cash, but the vast majority of citizens, especially the poor, had no way of accessing money to buy food or pay bills.

Popular rage exploded. The United Workers Front called a general strike for March 10 and 11, while oil and electrical workers threatened to paralyze those industries. Mahuad responded by declaring a 60-day state of emergency, and deployed the Army and police to guard oil and electricity installations. Security forces used tear gas against protesters in Quito and elsewhere. Indigenous groups affiliated with the National Confederation of Indigenous Nations, set up roadblocks with burning tires on highways leading into the capital.

In a nationally televised address the evening of March 11, Mahuad announced a package of radical austerity measures, including a partial freeze on sucre and dollar bank accounts (about one-third of the total), effectively confiscating funds to guarantee payments due on Ecuador's $16 billion foreign debt. Depositors are allowed to withdraw up to half their checking accounts greater than $158, and the other half will be frozen for a year; half of sucre savings accounts greater than the equivalent of $395 may be withdrawn, while the other half is frozen for six months. All dollar savings accounts and 90% of all dollar checking accounts over $500, will also be frozen. In addition, the price of gasoline was nearly doubled, from $1 a gallon to $1.90; the value-added tax (VAT) was increased from 10% to 15%, taxes were imposed on luxury items and provisions established for punishing evaders.

In an attempt at blackmail, Mahuad announced that when Congress approves the VAT tax, the price of gasoline would "gradually" be reduced. He also reported that once reforms were in place, he might consider applying a currency board system, of the type George Soros intimate Domingo Cavallo set up in Argentina in 1991, and which is modelled on 19th-century British colonialism. According to the Argentine daily *Clarín,* Mahuad had a three-hour telephone conversation on March 13 with Cavallo to discuss "convertibility," as the Argentine system is called. Later, however, he reportedly dismissed the convertibility plan as unworkable.

When banks reopened on March 15 under heavy police guard, a strike by taxi and bus drivers to protest the fuel price hike, prevented many people from getting to the banks, and withdrawals weren't as great as anticipated. But riot police were deployed against stone-throwing students and workers who jammed city streets with burning tires. Businesses are closing in Quito, and food supplies are reportedly dwindling due to the disruption of transportation into the capital. The Congress met only on Tuesday, March 16, but failed to approve the austerity measures. Finance Minister Ana Lucía Armijos was sent to Congress to seek allies to help get the package approved.

While opposition to the package is widespread, no one has offered a viable programmatic alternative. The powerful Patriotic Front, which is leading nationwide protests, is a jacobin coalition of indigenous movements, students, and unions which lines up with London's continental alliance of narco-terrorists, the São Paulo Forum. It has called for an indefinite national strike to overthrow Mahuad, and to replace him with a "national salvation government."

Amidst reports that Mahuad may be seeking a compromise, offering to lower the gasoline price increase and increase the VAT tax, the IMF and other foreign predators have made clear that unless the government capitulates completely, it can expect no "help" from them. In mid-March, Mahuad announced that an agreement with the IMF would be signed "in coming weeks," making $930 million available, so Ecuador would not default on its debt. Not true, said IMF Managing Director Michel Camdessus, speaking from Paris at the annual meeting of the Inter-American Development Bank. "There is no unity in Ecuador behind an emergency program. . . . I cannot tell you that we will have a program soon." The U.S. State Department has also urged Ecuadorans to line up behind Mahuad's policy.