# Stock crash promotes revival of Ibero-American debtor unity

by Mark Sonnenblick

The countries of South and Central America have often been devastated by earthquakes. But the quake which hit the world stock markets on Oct. 19 may shake loose a solution for the Great Depression those countries have suffered since 1982 because of their $385 billion foreign debt.

They have often had to listen to Treasury Secretary James Baker III, bankers, and other characters sanctimoniously lecture them that they had no option but to "restructure your economy so as to create investor confidence." Most countries have applied International Monetary Fund (IMF) austerity prescriptions, which have never restored "investor confidence," much less brought needed economic growth.

"The strategy designed by creditor countries and banks to solve the debt problem has failed," declared Carlos Pérez Castillo of the Latin American Economic System (SELA). He calculated that the "unprecedented industrial recession" caused by debt policies, shrinking international markets, and lack of access to advanced technology has cut the region's industrial production by $50 billion from what it would be, if the 5.7% annual growth which prevailed from 1975 to 1980 had been continued.

The prices received for Ibero-America's exports (excluding oil) are lower in real terms than in 1932, the nadir of the Great Depression. Those prices dropped 12% in 1986 and by 9% more this year, before the stock market crash sent prices for metals and other commodities consumed in the developed countries tumbling. That puts debtors trying to earn dollars to pay debt on a treadmill. Even Peru, which has bucked U.S. Treasury Secretary James Baker III by limiting debt payments, is now finding it hard to shield its people from the crisis. The Mexican and Argentine governments, in contrast, are still banging their heads against the wall with one program after another to reduce consumption and starve their populations in order to export enough to pay part of their interest bills.

Now, confidence in the United States economy has been irredeemably shattered, even if the stock market bubble were pumped up again. It will be difficult to repeat the gambit used by Baker, and his predecessor Donald Regan, of stringing along debtors with promises the United States would buy more of their exports and "threats to lend" by the banks. If the banks were reluctant to lend new money to pay old principal and interest before, they are now both unwilling and unable. And—everybody knows it!

Mário Henrique Simonsen, the Citibank international vice president (who as Brazilian finance and planning minister borrowed much of its $112 billion debt) was reached in New York Oct. 19 by the Brazilian daily *Folha de São Paulo*. He commented, "What is really happening is a great panic that will inevitably lead the United States to inflation and recession; and that will be harmful for Brazil, dragging it, too, into recession."

If the United States were to follow IMF-style advice to cut the budget and reduce imports, it would guarantee that all the Third World debtors default, just as they did in similar circumstances in 1930-33.

And why not? "In 1980, the total Ibero-American debt was $250 billion; Ibero-American countries have paid the North $150 billion since then, but the debt is now $400 billion," Peruvian ambassador Carlos Alzamora observed to the United Nations Oct. 9. He concluded, "That strange arithmetic cannot be accepted by our population, because when they discover that 250 minus 150 equals 400, they feel they have been tricked and mocked." The floating interest rates they pay went up 1.5% from August to October, adding another $6 billion annually to Ibero-America's already unbearable interest burden.

## Brazilian debt showdown

On or around Oct. 26, the Interagency Country Exposure Risk Committee, will meet in Washington to decide whether American banks have to downgrade the $25 billion worth of Brazilian debt in their portfolios. Brazil declared a moratorium on interest payments on more than $70 million in medium-term debts to foreign bankers Feb. 20. That interest has been piling up at the rate of $450 million per month in blocked



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accounts at Brazil's central bank. Under U.S. banking regulations, a debt not serviced for six months becomes "nonperforming." If those regulations were enforced Oct. 26, the major U.S. banks would have to charge losses of over $2 billion on their fourth quarter balance sheets.

The bankers were suffering the jitters even before the value of their stocks fell by a third in mid-October. A senior New York bank executive told UPI Oct. 20, "The bankers more than ever need Brazil to suspend its moratorium. If [the banks] have to reclassify their loans, their stocks will fall more." The banker warned that if Brazil tried to "take advantage of the situation," the banks could retaliate by taking measures such as "cutting off credits in the future." The bankers cut off all new lending to Ibero-America for productive purposes in 1982.

An officer on the 14-bank Brazil Bank Advisory Committee, which has been meeting at Citibank, and the Arnold and Porter law firm with Brazilian negotiators, asserted, "There has to be a substantial payment, and we stress the word substantial. . . . It should be $600 to $900 million; and Brazil has the money now." Japanese banks gave similar ultimatums, but their Sept. 30 deadline passed with no payments. They are now writing off part of their Brazil debt.

Brazilian Finance Minister Luiz Carlos Bresser Pereira responded in São Paulo Oct. 16, "Those bankers who think the token payment would be the same as suspending the moratorium are fooling themselves. There are banks which are considering the hypothesis that Brazil would pay two months of interest, equivalent to $900 million, and that it would start to pay interest monthly. That is not a symbolic payment, but the normalization of payments; and that is not what the country intends. Suspension of the moratorium will only be decided after an agreement with the creditor banks. . . ."

Bresser is asking for $10.4 billion in new money to refinance all the interest due this year since the moratorium and a bit more than half of the interest anticipated for 1988 and 1989. A second part of the agreement would require longterm refinancing of the $70 billion at no premium over U.S. prime or London LIBOR interest rates. "After hearing that, I left here more scared than when I arrived," confided Libra Bank president Igor Cornelsen.

According to the Brazilian press Oct. 23, Bresser had agreed to a U.S. Treasury proposal to deposit the "symbolic payment" in the Bank for International Settlements, the Basel institution which protected the Nazi gold hoard. The money would be disbursed to the creditor banks only when the final agreements were signed some time next year. In the meantime, U.S. regulators would look the other way, as they have done since Aug. 20.

Citibank's Simonsen is, logically, among those demanding Brazil give up its trump card, the moratorium, blaming it for Brazil's current economic downturn. Simonsen is angling to get Bresser's job so he could practically sign a debt agreement with himself.

Brazilian patriots are pulling in the other direction. Former Finance Minister Dilson Funaro wrote an answer to Simonsen, in which he said, "The creditor banks and their innumerable internal spokesmen base their campaign for a symbolic payment on the argument it will cause a climate of good will.' . . . There is no evidence that concessions Brazil has made in negotiations with the banks have brought any more 'good will'. . . . On the contrary, concessions made by the debtor are followed by new and more severe demands by the creditors."

Funaro insisted, "We must defend the moratorium. . . . No matter how big our political difficulties are, the Brazilian government has no right to retreat on the positions taken and again delay the solution to a problem"—the debt—"which has blocked the development of the Brazilian economy during this decade."

A group of senators from the majority Brazil Democratic Movement Party told central bank president Fernando Milliet that the Wall Street collapse "is another reason not to resume debt payments now; we have to maintain our reserves in case the international crisis becomes worse." The same group commented that a symbolic payment "would be like giving the gold to the bandits." They are conscious that Brazil has 36 million undernourished children, that the majority of housing units do not have clean water and adequate sewage, and that most of the workforce earns under $90 a month.

Bresser is trying to "pay the debt with the hunger of the people." He will probably succeed in having Brazil export $10.3 billion more than it imports this year, $1.6 billion more than Funaro had planned. He did this by diverting food products and manufactures Brazilians should consume to the world markets. Since he took over from Funaro in April, he cut worker consumption by 15-20% from last year's levels. São Paulo industry fired 73,400 workers from April to August. The capital goods industry which, under Funaro, had been operating at almost full capacity, now has 60% of its potential unused. In the past three months, the productive sector has triaged its planned investments, the private Banco Bamerindus reported Oct. 14. The National Economic and Social Development Bank implicitly confirmed this when its budget for co-financing industrial projects allocated nothing for 1987.

## Argentina plays the IMF game

Argentine President Raúl Alfonsín has tried and failed with so many varieties of "economic shock," that there were rumors in early October he would resign. Instead, he devalued his currency, the austral, by a third, raised taxes by $2 billion, and gasoline and public service prices by 15%. To forestall a general strike, he gave private employees small wage increases. But he again cut wages of public-sector workers, who had already lost 30% of their buying power.

Alfonsín's program is recessionary and shrinks the tax base, while raising tax rates. The economy produced 4.2% less during the first half of this year than the first half of last. His real intent was to cut imports and raise exports, because he projected that a $900 million trade surplus for the year would not pay Argentina's $4.4 billion interest bill, $700 million higher thanks to U.S. rate increases.

Argentines groaned on hearing of the tax increases, but the World Bank was ecstatic and the U.S. Treasury announced it would join in a $500 milllion bailout loan, so Argentina could pay overdue interest. "The willingness of the United States to participate in this multilateral effort indicates strong support for Argentina and its economic reform efforts," declared the Treasury.

## New options for debtors

On Nov. 26, the Presidents of Ibero-America's major democracies will hold their first regional summit since 1825. It was expected that the meeting would be dominated by the disastrous policies of the three biggest debtors—Brazil, Mexico, and Argentina—of subordinating their economic policies to the will of their creditors. Now, the creditors have lost their magic powers, and their "threat not to lend" has less credibility than ever. Prospects for exports to the United States are dim.

In this context, the ideas proposed by Lyndon LaRouche in 1982 for refinancing the debt long-term and at low interest, while financing $500 billion annually in exports from the developed countries to develop the South, could replace the no-win debt strategy all countries but Peru have followed.

Peruvian President Alan García, in an interview Oct. 10, called for the creation of a common market to unify the economies of the continent. García reiterated, "Only the construction of an Economic Market can allow Latin America to assert itself on the world scene, and give it instruments with which it can develop its potentialities."


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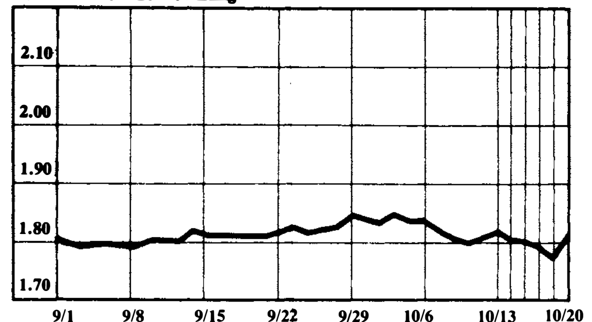


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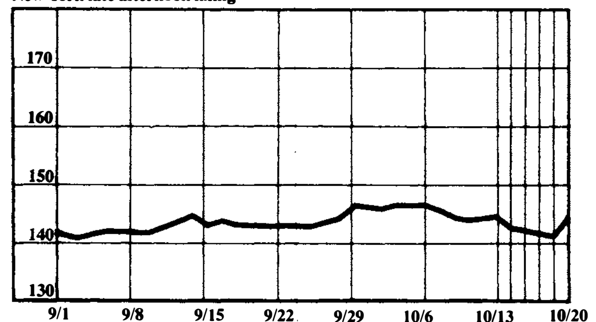


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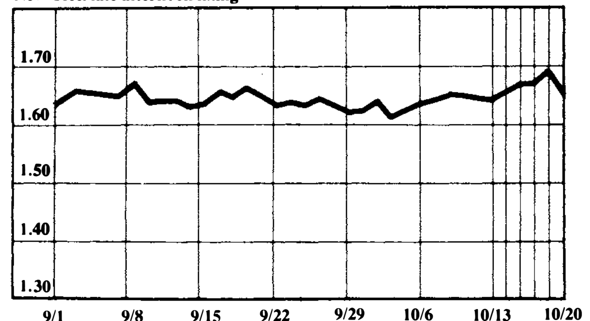


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