

All of Ibero-America's debt agreements suddenly turn sour

by Mark Sonnenblick

In an Aug. 6 interview with Brazil's TV Globo, U.S. Secretary of State George Shultz boasted that his method of dealing with the Ibero-American debt crisis has had "constructive results over the past few years and the whole thing has kind of evolved." He called his method "the 'case-by-case' approach and a menu of options—kind of like a cafeteria line—something that has worked." The "menu" he is speaking of gives creditor banks their "freedom to choose" how to suck the blood of their bankrupt creditors.

In the case of new debt deals just concluded by Brazil and Chile, bank creditors will have several options for converting debt paper, which is unlikely ever to be redeemed, into ownership of those countries' rich mines, factories, and agricultural land. Chile has reduced its outstanding foreign debt by 20% through such means, but it has little equity left to change for the rest of the debt paper.

Shultz proclaimed Uruguay to be a "success story" during his visit there, "because it is a story of opening markets, of opening yourself to trade, of not having capital controls and exchange controls, and in general, of trying to free up the system." The 10% of Uruguayans who have had to flee their previously prosperous country in search of work as a result of such policies might not even laugh at Shultz's description. The "opening" of national economies preached by Shultz is nothing other than eliminating the function of the sovereign nation-state to protect its resources and its ability to promote economic progress from the ravages of international looters.

Since the debt crisis began in 1982, every Ibero-American country has tried playing by the rules set by the Reagan-Bush administration, and crawled to the banks for "case-by-case" debt renegotiations. Each country has agreed to an average of four debt "solutions" along Shultz's specifications, with its bankers and the International Monetary Fund. Yet, the more they starved their people and canceled development projects to meet absurd and unjust debt plans, the less able those countries were to pay.

The chickens are now coming home to roost, even for presidents who so feared angering Washington that they enraged their own populations by imposing austerity to pay the debts. Successive rollovers and postponements of unmeetable due-dates have just caused bigger and bigger crises.

Venezuelans clamor for moratorium

Even the continent's richest country, Venezuela, is now at the end of its rope. Venezuela paid \$32.2 billion in debt service between 1983 and 1987, and is committed to paying another \$27 billion by 1993. It is committed to paying \$5.1 billion this year, which is 59.3% of its expected \$8.2 billion in petroleum export revenues.

When Venezuela last renegotiated its \$56 billion foreign debt, the banks agreed that they would lend fresh money should oil prices drop. Oil prices are going through the floor, but the bankers have refused to increase their exposure. Venezuela would have to burn out the last \$2 billion of its liquid reserves to make a \$2.5 billion debt payment due in November, President Jaime Lusinchi told the Venezuelan nation in an Aug. 4 TV address. He said, "They lent us on the basis of oil, and on the basis of oil, we will pay them. . . . It would be foolish, and we are not foolish, to continue with the same debt treatment we have had up to now."

Rather than simply declaring a debt moratorium, as the daily *El Universal* had predicted, Lusinchi announced yet another mission to talk with creditors. Lusinchi advocated leaving the debt problem to the next administration, to be elected Dec. 4. His party's candidate, Carlos Andrés Pérez, reportedly met in Chicago in April with the U.S. banking elite, including David Rockefeller and Democratic and Republican congressional leaders. All agreed Venezuela should withdraw its \$1.2 billion contribution to the International Monetary Fund. Lusinchi's mission to Washington is to get the U.S. Federal Reserve to advance that money for 180 days, until Pérez is back in the presidency.

Former Finance Minister Iván Pulido Mora responded, "We are on the eve of another Black Friday, so we reiterate our call for a unilateral debt moratorium and the establishment of exchange controls." Many independent economists are echoing his call.

Colombia and Mexico spar with bankers

Colombia, the only one of the two dozen Ibero-American republics to have kept up on-time debt payments, has also been looted dry. The revised 1988 budget, presented Aug. 4, provides for 54% of expenditures to go to servicing the foreign debt. The creditors' cartel led by Chemical Bank is

holding up disbursements of \$1.85 billion in new money promised Colombia to maintain the fiction that it was paying its debts. Comptroller Rodolfo González García warned Aug. 4 that Colombia might have to declare a moratorium if the \$1.85 billion were not disbursed by the end of the year. The banks are making the money conditional on Colombia submitting itself to full IMF surveillance.

Mexican President Miguel de la Madrid dropped—and then retracted—hints he might declare a moratorium if creditors do not halve his country's debt burden. Having obediently slashed Mexican living standards in half over the past five years in order to service foreign bankers' every wish, even De la Madrid now finds himself compelled to fight the banks.

Why? Because he fears that if he does not immediately bring home some dramatic debt relief, he will be unable to impose his hand-picked successor as President, Carlos Salinas de Gortari, no matter how big a vote fraud the ruling PRI party concocts. The real winner in Mexico's July 6 presidential elections, Cuauhtémoc Cárdenas, has promised he will "suspend servicing the foreign debt under current terms." Everywhere Cárdenas goes, Mexicans demand that he keep up his battle for debt moratorium. And, as London's *Financial Times* admitted, "Cárdenas holds all the political cards."

De la Madrid spent his whole presidency ravaging Mexico, to undo what his predecessor, José López Portillo, had done six years ago, on Aug. 20, 1982. That was the day López Portillo kicked off the "debt crisis" by declaring a moratorium and demanding that the world economy be reformed to permit his nation to continue to grow and develop. But López Portillo and the others who tried in the past to fight the banks alone (Peru's President Alan García in 1985, or Brazil's Finance Minister Dilson Funaro in 1987) did not succeed.

Mexico paid \$8.1 billion in interest, \$4.7 billion principal, on its debt in 1987. In 1988, its debt service due increases to \$16.1 billion, confidential studies by the Finance and Public Credit Secretariat calculate. Although Mexico's \$103 billion debt is no bigger than it was last year, higher dollar interest rates have raised this year's interest bill to \$9.4 billion.

Banks up against the wall

The less stupid bankers realize they must give De la Madrid and others big debt relief, or see political power suddenly shift into the hands of leaders who are ready to unite to force a new international economic order. The author of Bolivia's shock austerity, Harvard's Jeffrey Sachs, says, "We're going to have to worry about politics more than in the past. Anyone watching Latin America can see the region going sour."

The major U.S. banks would go bankrupt, however, if they cut Ibero-American debt service to sane levels. They have addicted themselves to looting the Third World, to make

up for losses from the collapse of American industry, energy, farming, and real estate. So they demand that debtor countries cut consumption and investment still more, and open up their assets to the bankers.

But debtor governments cannot do this without repressing their people. Argentine President Raúl Alfonsín warned July 26 that debtors are being treated the way the Versailles Treaty savaged Weimar Germany after World War I: "The economic reparations were very difficult for the defeated; the result was the appearance of Hitler. . . . Today, Latin America faces similar situations, but the Versailles Plan is applied to us."

Alfonsín has reason to say this. Argentina's inflation rate climbed over 600% annually in July. The country is bankrupt and \$1 billion behind in its debt payments. It has not paid many of its debts for over 90 days, which means U.S. banks have to put them in their "bad debt" piles.

In a last-ditch effort to get bankers to postpone debt payments, Alfonsín closed his country's banks for the first three days of August, and imposed an "economic shock" package of more austerity. Planning Minister Mario Brodersohn announced that the government would cut off all funds for the large, half-finished Yacyreta hydroelectric project. The state phone company and airline would be auctioned off, he said. While prices rose 25% in July and another 30% in the first week of August, the minimum wage was frozen. Alfonsín is running into stiff resistance, and opposition Peronist candidate Carlos Menem is likely to beat Alfonsín's social democratic party in the 1989 elections.

Governor Menem explained patiently to George Shultz Aug. 3, that Argentina must have a five-year rest period "in which it will not be subjected to the bloodletting that the payment of debt service signifies—a period in which to permit growth in production." Shultz said no, instead demanding "sound macro-economic policies and long-term structural reform." That means Argentina must shut down its industry and allow Bunge & Born and the other big grain cartel companies to ruin its rich agriculture.

Moscow and Washington against debtors

Mikhail Gorbachov seems to have promised Ronald Reagan that Moscow will help Washington discourage debtors from joining together to force a new, growth-oriented economic order. "Unpredictable" actions on the debt or politics are undesirable in Ibero-America, announced Viktor Volski, head of the Soviet Institute on Latin America, in an interview published in Argentina July 27. Volski centered his attack on the Peronists: "Extremes are no longer wanted. . . . In the U.S., it is often thought that Peronists are unpredictable. Here, we have the same analysis."

After rejecting any moratoria or "unilateral action" on the debt, Volski specified that the debt crisis is "a global, not only a Third World problem." Therefore, as "Gorbachov told Reagan at the summit . . . we must consider organizing an international conference" on the matter.