Menem, the Peronist candidate in Argentina's May election, or Leonel Brizola, the left-wing leader in Brazil. . . .

'Bury the Baker Plan'

This commentary by Jim Hoagland appeared in the Washington Post *on Feb. 3:*

It is time for Washington to lean on American banks to offer relief on a debt burden that is now sharply distorting global trade flows and contributing significantly to the persistent U.S. trade deficit. . . . Until now, U.S. debt strategy has dictated that the bankers should not be asked to take losses on mountains of debt they built in the 1970s. Manufacturers should. The rescues designed by the U.S. Treasury and the International Monetary Fund have been based on the principle of keeping the banks whole. . . .

When [the Baker Plan] was introduced nearly four years ago . . . [it] was supposed to trigger fresh loans and other capital flows into 15 targeted debtor nations. . . . Instead, there has been a net flow of $43 billion from the 15 Baker Plan countries back to the banks. . . . Sen. Bradley (speaking at the Davos conference) attributes the loss of many of the 1 million jobs eliminated in U.S. manufacturing over the past decade to the closing down of markets in indebted developing countries. They can no longer afford to import American technology or goods because they are forced to spend 30 to 50% of their foreign-exchange earnings on repaying debt. It is the American manufacturer rather than the American banker who has been paying the price of the current debt strategy. . . .

Jim Baker did a logical and fair thing by giving the first crack at fixing the debt problem to the people who had created it: the bankers and their Third World clients. The plan didn't work. Time for a quiet burial.

Interview: Jeffrey Sachs

'Harsh adjustments' needed to stop inflation

The interview excerpted here with Professor Sachs, a monetarist economist from Harvard University, was conducted in Venezuela on Feb. 2. Venezuelan President Carlos Andrés Pérez has contracted Sachs to design a plan for "the progressive liberalization of the economy."

Sachs: I think that the time has come for a united Latin American position, the time has come to reduce the debt, rather than to continue to build the debt, and I must say that, in that regard, I'm not absolutely happy with Mexico's negotiating position right now, because it's tending too much toward [getting] new money and not enough toward debt reduction, and as I understand from press reports, the government is saying that it needs about $7 billion a year. . . . I think that's a mistake. What Mexico needs is debt reduction, it doesn't need new debt, and it should be working, absolutely single-mindedly, for reducing the debt, not for new loans right now. It's a big mistake to be going after new lending.

EIR: And why not negotiate a new world monetary system?
Sachs: I don't think so. . . . I think that the monetary relations among the big countries are under control right now. There is a target exchange rate system that is operating. . . . The big problems in the world right now are the debt and U.S. macro-policies, not so much the need for global monetary reforms. . . .

EIR: When you are talking about "harsh, serious real adjustments," you are talking basically about the IMF conditionalities, aren't you?
Sachs: No. I believe in certain parts of the IMF program, which is budgetary control and liberalization of the economy, and I think that Mexican economic program is in the right direction, very much so. But what I disagree with the IMF on, is the amount of debt that can be paid. I don't believe this foreign debt can be paid. So I want to look at an IMF program that means a real adjustment program, and a real reform program, rather than just a collection agency for commercial banks. And my problem with the IMF comes down to the fact that they're trying to defend the banks, rather than to help the countries.

EIR: So, you don't see the IMF adjustment program as a debt-collection policy in itself?
Sachs: No. . . . What I'm saying is the IMF programs are directed too much toward repaying the bank debt; they ought to be directed toward helping the countries to grow. The kind of measures that the IMF recommends are basically in the right direction, in the sense that budgets have to get under control, trade should be liberalized, exchange rates should be at realistic levels. But the populations of Latin America are being squeezed to the bone, and as you said, they're starving right now in many countries. So, the time has come to recognize that the debt is unpayable, and has to be cut sharply.

EIR: Not a new monetary system?
Sachs: They don't need a new monetary system. They need a new arrangement for the debt, and on that I think that Mexico and the other countries ought to work together. And that's what Carlos Andrés Pérez called for today, and I wholeheartedly back. And it's time for a Latin American approach to this issue, with tough negotiations, serious negotiations, united negotiations, all directed toward one goal: reducing the debt.