

EIR Feature

Ibero-American Blowout Is Systemic, Not ‘Contagion’

by Cynthia R. Rush

Less than one week after Lyndon and Helga LaRouche completed their mid-June historic visit to economic giant Brazil, where the Democratic Presidential pre-candidate was made an honorary citizen of the industrial city of São Paulo, and welcomed with the respect and affection he deserves, Brazil’s debt bomb began to explode—just as LaRouche forecast it would. The reverberations were felt throughout Ibero-America and internationally, as panicked investors, analysts, and policy-makers debated not *whether* Brazil would default on its \$500 billion in foreign obligations, but *when*.

First came the plummeting of the currency, the real; next the São Paulo stock market (Bovespa) and the country’s most widely traded bonds on June 20 and 21, which trend continued into the following week, bringing the real to a near-record low of 2.8885 to the dollar; and then Brazil was classified as the second riskiest country in the world after Argentina, and on a par with Nigeria. Both Fitch and Moody’s rating agencies downgraded Brazil’s debt on June 20, and as *EIR* goes to press, its “country risk” rate, the percentage it must pay over comparable U.S. Treasury notes when it borrows abroad, is over 17%. A J.P. Morgan report explains that the country risk rate is so high because “there is a fear of default in six months,” while former Central Bank President Alfonso Celso Pastore argued that that time frame is too long. “The default could occur in two months,” he told Argentina’s daily *Clarín*.

The implications of a default by Brazil, the Third World’s largest debtor, have escaped no one. Given the fact that the financial unraveling occurred only days after LaRouche’s numerous meetings with São Paulo’s elites, the Bush Administration almost certainly feels compelled to assess, and counter, the effects of LaRouche’s visit. *Folha de São Paulo* reported on June 18 that U.S. Assistant Secretary of State Otto Reich, who is not exactly respected by the Ibero-American diplomatic corps, will be traveling to the region in the second week of July, visiting Brazil, Uruguay, and Argentina. Reich will purportedly be scoping out Brazil’s electoral process,



A demonstration in Buenos Aires, as Argentina becomes more and more ungovernable. As Lyndon LaRouche has insisted for two years, so Argentine Finance Minister Lavagna stated June 22: The financial collapse is global, not a “contagion” from Argentina.

but will undoubtedly try to measure the impact of LaRouche’s forceful intervention, which contrasted so sharply with the foolish and dangerous blunders that typify U.S. foreign policy under Bush.

Nowhere is that contrast more evident, and the respect and love felt for LaRouche expressed so movingly, than in the June 10 ceremony at the Saõ Paulo City Council, in which LaRouche was named an honorary citizen of the Saõ Paulo, with its 18 million inhabitants the world’s third-largest city. The speeches by Dr. Enéas Carneiro, founder of PRONA (Party for Rebuilding National Order), and PRONA councilwoman Dr. Havanir Nimtz, published in this package, were a fitting and eloquent tribute to LaRouche’s lifelong commitment to the betterment of humanity, and as someone who, in Dr. Havanir’s words, “is no spectator of history. He has already become part of history.”

It’s the System

As chaos erupted in the third week of June, analysts in London and on Wall Street, as well as Washington policymakers, scrambled to explain the Brazilian debacle as the result of “contagion” from Argentina’s crisis. The International Monetary Fund failed in its attempts to isolate Argentina from the rest of the region, they despaired, and now not only Brazil, but also Uruguay, Paraguay, Chile, Peru and Venezuela had caught the disease. On June 20-21, and then leading into the fourth week of June, currencies in all those countries fell dramatically, as a number of governments tried

to stem growing popular resistance to IMF demands for austerity and privatization policies purportedly intended to “stabilize” their economies.

In a brief moment of truthfulness, Argentine Finance Minister Roberto Lavagna told a group of Brazilian businessmen in Buenos Aires on June 22, that it’s wrong to say that “contagion” caused the crisis. It’s actually due to the “non-functioning of the international financial system, which, since the 1990s, has provoked a series of crises, including in developed countries.” But then Lavagna returned to lead his government’s tortured efforts to convince the IMF to roll over its debt, which is not likely to happen.

Mexican Finance Minister Francisco Gil Díaz added to the panic when he announced on June 20, “We are facing a problem similar to that of Argentina,” just before it crashed. Tax revenues are low, budgetary expenses are high, and assets to sell to generate additional revenue are limited. His solution was to demand passage of a brutal tax reform package, not unlike that put through in Argentina last year by Finance Minister Domingo Cavallo.

Typically in a class of his own, U.S. Treasury Secretary Paul O’Neill boisterously announced on June 21 that Brazil’s problems had absolutely nothing to do with economics. “The situation there is driven by politics. It’s not driven by economic conditions,” he said, adding that people are worried about the possible election next October of Workers’ Party (PT) candidate Inacio “Lula” da Silva, supposedly because he threatens not to pay Brazil’s foreign debt. So, “throwing

U.S. taxpayers' money at a political uncertainty in Brazil doesn't seem brilliant to me." It's "intellectual fiction" to say there's an economic problem in Brazil, he argued, concluding that sending IMF money would be a waste.

In his meetings in São Paulo, LaRouche tore this line to shreds. The cause of Brazil's financial meltdown, he said, lies in the systemic *global* crisis, which is hitting that country as it also hit Argentina, and is bringing down all other Ibero-American economies. There is no "Argentine crisis," or "Brazil crisis," just as there was no "Asia crisis" in 1997, or "Russian crisis" in 1998. LaRouche repeatedly pointed out that the events of the latter part of June are the lawful result of the insane "wall of money" strategy which the IMF, together with narco-legalizer and speculator George Soros and his friends, erected around Brazil in the Fall of 1998 and early 1999, following a financial crisis and currency devaluation which threatened to bring down the world financial system.

In the wake of the August 1998 Russian debt moratorium and GKO bond crisis, speculators and hedge funds pulled their money out of all emerging markets, causing a huge drain on Brazil's reserves. The IMF and Group of Seven put together a hyperinflationary \$42 billion bailout package for Brazil, whose real intention was to bail out the hedge funds and speculators, while imposing draconian austerity measures—higher interest rates, gouging wages and labor benefits, privatization of state assets, and fiscal austerity—to gut the country's productive capabilities and living standards.

It is this "rope," which Brazil was handed in 1998-99 (including naming as Central Bank president, Soros's former employee Arminio Fraga), with which it is now hanging itself, LaRouche said. And this is precisely the way the Anglo-American financial oligarchy intended it to be. Brazil is more vulnerable today because the Cardoso government's continuous application of the austerity and privatization policies imposed as part of the 1998-99 bailout package, has encouraged speculation and foreign looting. Its June 13 announcement that it will increase the primary budget surplus from 3.5 to 3.75% of GDP, will only exacerbate the crisis.

Just 'Politics?'

In a June 22 statement, "O'Neill's Hooverville Trolley" (see box), LaRouche warned that the Treasury Secretary's statement that Brazil's current crisis is "an intellectual fiction," is "cooking that [U.S.] administration in the same pot as Herbert Hoover's 'chicken in every pot.'"

The assertion that PT Presidential candidate Lula is the cause of Brazil's instability is equally ridiculous, LaRouche said. Lula is a fraud, whose Jacobin "anti-globalization" movement is part of the Anglo-Americans' own strategy for smashing the sovereign nation-state. Moreover, over the weekend of June 22-23, at the PT national convention, Lula opened the gathering by reading a "Letter to the Brazilian People," in which he promised that the PT will be as "fiscally responsible" as required, in order to honor all of the current government's debts and contracts, and maintain all the essen-

tial elements of President Fernando Henrique Cardoso's disastrous IMF-dictated policy.

This includes maintaining a primary budget surplus by cutting expenditures to ensure that a revenue surplus is available for debt service; keeping inflation within a certain band; and continuing the floating exchange rate. Lula now says that while it would be nice to change Brazil's economic policy, it can't be done until the markets are calmed down. "Although I may not like it, we cannot avoid the IMF," he told *Clarín*.

Were it true that politics are driving the financial meltdown, the markets might have rebounded in response to Lula's reassurances. They didn't—because there are more important things to worry about, such as Brazil's public debt. Several factors combine to make this the country's real vulnerability. For example, in just 30 days, short-term bonded debt that comes due over the next 12 months has increased by an incredible 40%. In mid-May, debt that matured between July 2002 and June 2003 totalled 110 billion reals, but by mid-June, it had increased to 154.4 billion reals. Even more dangerous is the fact that a large percentage of this debt bubble is indexed either to dollars or to short-term interest rates, both highly unstable reference points. Indexing debt to dollars is the same insane policy which blew out the Mexican peso in 1994, and for Brazil, is a short fuse to a similar explosion.

Where Are the Courageous Leaders?

O'Neill's "it's all politics" statement enraged the Brazilian government, provoking President Cardoso to immediately call George Bush, to protest that the Treasury Secretary's loose lips had roiled the markets. But for unexplained reasons, Bush didn't take the phone call, and Cardoso had to let off steam instead to National Security Adviser Condoleezza Rice. Finance Minister Pedro Malán and Arminio Fraga got through to contacts at the Treasury Department, and shortly afterward, O'Neill issued a "clarification," praising Brazil for implementing "the right economic policies to address the current difficulties," calling it a "critical regional and global partner of the United States," whose "economic fundamentals are strong."

But this didn't undo the damage to U.S.-Brazilian relations, which have deteriorated due to several past displays of the Bush Administration's imperial foreign policy. On June 24, in a series of previously scheduled meetings in São Paulo, U.S. Ambassador to Brazil Donna Hrinak had to deal with the fallout from O'Neill's remarks, although she almost certainly was also trying to counteract the effect of LaRouche's visit to the city. Hrinak, who is only an ambassador, told a luncheon address to the Council of Latin American Businessmen, that O'Neill was only speaking for himself when he made his dismissive remarks, and not the Bush Administration!

The United States doesn't have a monopoly on foolish behavior, however. Ibero-American Presidents are whistling past the graveyard, ignoring what LaRouche said in Brazil about the systemic global crisis, and insisting that *their* crises are somehow different from Argentina's.

Argentina's President Eduardo Duhalde, whose tenure is now in doubt, came up with a desperate scheme to form a united front between Mexico and Mercosur countries (Common Market of the South: Brazil, Argentina, Uruguay, and Paraguay, plus associate members Chile and Bolivia), and to have them invite Mexican President Vicente Fox to act as their interlocutor with the United States. For what? To use the negotiating power that comes from the fact that Argentina, Brazil, and Mexico together have about \$1 trillion in foreign obligations, and demand an end to IMF genocide? No! Duhalde's proposal is to unite in order to convince the Bush Administration to have the IMF immediately grant yet another bailout package to both Brazil and Argentina!

Fox, who will attend the July 3-4 summit of Mercosur in Buenos Aires, was chosen because he supposedly has great influence with Bush, even though Fox's own government and the Mexican economy are crumbling, along with the North American Free Trade Agreement (NAFTA), and all his campaign promises of "special treatment" by the United States.

Duhalde had hoped to have a private meeting with Cardoso, prior to the Mercosur Presidents' meeting, to present

a unified stance to creditors. He erroneously assumes that Brazil wields great power in Washington, and that if he sticks to Brazil like glue, this will benefit Argentina's cause.

But Cardoso is avoiding Argentina like the plague. He told reporters on June 25 that in recent phone conversations with Duhalde, he had never discussed any idea of devising a common Ibero-American strategy. Brazil's economic problems are "different" from Argentina's, Cardoso insisted, and then went on to reference O'Neill's clarification, as well as statements by Federal Reserve Board Chairman Alan Greenspan, as proof that "Brazil's economic situation is very solid. We don't have the same problem which other countries have." Recent economic turbulence was fed by people who don't know Brazil, he added. "Everyone who has an effective notion of what's happening in Brazil, knows that the financial situation is under control."

A joint debt renegotiation by Argentina, Brazil and Mexico could function, but only if it were organized around LaRouche's policy of putting the entire world financial system into bankruptcy reorganization. That is the issue now on the table, and pressingly so.

LaRouche on 'O'Neill's Hooverville Trolley'

This statement by Lyndon H. LaRouche, Jr. was issued by the LaRouche in 2004 Presidential campaign committee on June 22.

Those old enough to remember, may recall the famous cartoon series, "The Toonerville Trolley." Treasury Secretary Paul O'Neill should remember how President Herbert Hoover went down to disgrace in the matter of the continuing Great Depression of 1929-1933. Hoover was, personally, a nice guy. I am informed that O'Neill is, too. The fact remains, that he is a lousy economist and apparently has a poor memory for crucial facts of U.S. history.

Just so you don't forget the connections, think of the Bush Administration as "Paul O'Neill's Hooverville Trolley."

It was not the 1929 crash that ruined Hoover's Presidency; it was his repeatedly making exactly the same politically fatal mistake which the Bush Administration's O'Neill and others are making right now. The people blamed Hoover's predecessors, Calvin Coolidge and Andrew Mellon, for the 1929 crash; the suffering citizenry came to hate Hoover bitterly for the latter's promises of a non-existent recovery.

O'Neill's statement, that the present financial crisis of Brazil is "an intellectual fiction," is cooking that adminis-

tration in the same pot as Herbert Hoover's "chicken in every pot." The difference between the early 1930s and now, is that the Democratic Party, so far, refuses to play "Franklin Roosevelt" to Secretary O'Neill's replay of "Hoover."

In fact, I am the only notable leading figure in the world today, who is addressing the need for steps to bring about an actual economic recovery in the world today. There is a growing number of persons who are interested in hearing what I have to say, but no leading figure outside my immediate circles who is presently prepared to tell the plain truth about the presently onrushing, global economic breakdown crisis of the present world monetary-financial system.

To understand why more and more leading and other figures, such as Secretary O'Neill, repeatedly say the silliest things about the great issues of this time, is that, despite the fact that they now know of the proof of my strategic assessments, they are unwilling to face the reality which I represent. In fact, the most frequent excuse for pessimism uttered, to my face, by leading circles in various parts of the world, is that no one in the U.S. government or U.S. party leaderships has the brains to support my proposals.

Anyone who thinks that the U.S. population is "not ready to deal with LaRouche," is being no less stupid in their behavior than poor old Paul "I'm in a state of denial" O'Neill. For Democrats, that goes double. The only truthful ones are those who say, "I would rather go straight to Hell tonight, than be caught saying anything truthful about LaRouche."