EIR: Mr. Secretary, with respect to your statement that Mexico must politically submit to the IMF: Lyndon H. LaRouche, the editor of my magazine, this morning made two charges against the IMF Board of Governors to which I'd like your response. First, is it not in fact true that Mexico will not submit to the IMF, that in fact Mexico, Argentina, Brazil, Venezuela, and other nations are soon about to default on some $250 billion in foreign debt, and that this means the IMF is under the threat of the worst international financial collapse since the 14th century? And second, how do you answer the charge that IMF conditionalities have caused famine, epidemics, and homicidal strife throughout the developing sector amounting to crimes against humanity in violation of the Nuremburg code?
Regan: I'll try to dignify that with an answer. The International Monetary Fund is not on verge of collapse—

EIR: Not the IMF, sir, the system. The system.
Regan: The Fund has plenty of money, and it has the ability to borrow any additional funds it may need on the international markets. The U.S. has proposed a special emergency fund for use by any members facing emergencies. The international monetary system is sound, the situation with the international banking system can be handled, I expect no individual crisis which can shake the system.

As far as crimes are concerned, this is an erroneous charge. I don't think any such thing has happened.

In subsequent questions, Mr. Regan continued to insist that IMF austerity programs would prevent default.

Q: Mr. Regan, the nine largest banks in the U.S. have lent amounts surpassing 40 percent of their capital to Mexico. It is estimated that $240 billion in debt must be financed this year. You have said the IMF will not be expanded. What is the alternative to the IMF? What will you do about the U.S. banks?
Regan: They'll get along just like any other banks. Take Poland. The Poles haven't paid their debt, but their bankers are getting along fine. They've had rescheduling and stretchouts. These things can be handled. You don't get a default and total collapse of the banking system. We'd like to see the IMF handle it, but there are many other ways it can be done.

Q: But Mr. Secretary, Mexico cannot pay its debts.
Regan: Mexico has been over-ambitious. You have to cut your cloth to suit your pattern, and if the pattern is less revenue, you have to cut back. We've had to cut back. We don't have unlimited money. Others will have to do it too. It's tough.

Q: But Mr. Secretary, what about the so-called "IMF riots?" Doesn't the IMF cause political instability?
Regan: Look, belt tightening is something everyone has to go through, and it's up to the political leaders of these countries to explain that to their people.

'Mexico model' could rally the continent

by Cynthia Rush

Mexico's nationalization of its private banking system and imposition of other dirigist economic measures to defend itself from the IMF, has put the rest of the developing sector, and especially the debt-ridden nations of Ibero-America, on the spot.

The IMF is on the spot as well: it knows what Mexico's defiance of its policies signifies, and it fears that other Ibero-American nations may follow suit. The Sept. 8 edition of the New York *Journal of Commerce,* reported that Mexico's bold action "cast more gloom over the annual [IMF] meeting than has been seen in many years."

Delegates from Nicaragua, Venezuela and Brazil denounced IMF conditionalities and detailed the effect on their economies of Paul Volcker's interest-rate madness. The intervention by Brazilian Finance Minister Ernane Galvaes did not go unnoticed by strategists who are counting on keeping Brazil out of a "debtors' cartel" or away from plans for joint debt renegotiation, with promises of new credits and a better credit rating.

Brazil's leadership continues to insist that their country "is different," and knows how to "manage" its $80 billion in foreign debt. But Galvaes forthrightly attacked IMF policies. "The industrialized countries are blindly insisting on the maintenance of economic policies which have extraordinarily perverse repercussions on the developing countries," Galvaes told a luncheon gathering. Without the "leadership that can create an environment favorable to the development of the different regions of the world . . . our efforts will stand as a denial of the very essence of humanity, which is permanent growth."

As for Argentina, while Finance Minister Jorge Wehbe told the IMF that non-payment of debt would constitute "moral effrontery," and indicated willingness to subject Argentina to the austerity conditions of a "stabilization program," nationalists in the Air Force in Buenos Aires issued a sharp public declaration that further undercut the limited authority Wehbe had when he left home.

To those pro-British monetarists who want to give in to the blackmail of the international banks and unfreeze British assets in Buenos Aires in exchange for foreign credits, the Sept. 3 Air Force statement warned that "no demand for the prior lifting of the blockade [as a condition for] the refinancing of our foreign debts should be accepted." The document also proposed that frozen British assets be put into a special "reparations fund" to compensate Argentina for Britain's "illegal occupation of the [Malvinas] islands and for economic damages caused by the [British] maintenance of the zone of exclusion" around the islands.

Echoing the proposals of *EIR* founder Lyndon LaRouche, the Air Force explained that use of its debt as a "weapon" against Great Britain was valid, and was "one of the coercive measures that we possess."

IMF threat

The "warnings" to Mexico in Toronto flew thick and fast, all of them conveying the same message: either Mexico buckles under and accepts the austerity conditionalities of an IMF package, or it will forefeit the remainder of the BIS's $1.8 billion bailout loan, and subsequently be barred from all international financing. If Mexico doesn't reach an agreement with the IMF, a Citibank executive warned, "we'll force them to reduce their deficits the hard way—we'll cut them off from all financing."

"The conditions are draconian, and there will be no concessions," West Germany's Deputy Finance Minister Horst Schulman told reporters in Toronto. "The IMF is the guardian of world finances," and it must prevent any nation from taking similar action to that which Mexico just adopted. U.S. Deputy Treasury Secretary Beryl Sprinkel told reporters: "I would expect that significant adjustments would be necessary before the IMF makes its funds available," to Mexico, specifying the need for "belt-tightening" and a change in internal programs. "Throwing money at the problem" will not solve it; the U.S. government will "pressure" the IMF to take a hardline stance, Sprinkel grimaced.

BIS sources in Europe informed *EIR* on Sept. 9 that they intended to come through with the remainder of their bailout package, providing of course that Mexico adopts an IMF program, "as agreed."

A cartoon in the Sept. 9 issue of Mexico's leading daily *Excélsior* depicted a poor man, with rope around his neck. He turns to the IMF hangman, and says: "But if you hang me, how will you get my money?"

Ibero-America, whose combined debt is over a quarter of a trillion dollars does have the power to call the IMF's bluff. In the period following the Mexican bank nationalization, most of the continent's governments and political parties have been debating—and fighting—over the implications of Mexico's action and what their own response should be.

The debate is particularly heated in Venezuela, a country that has assumed a leadership role in Ibero-America in the post-Malvinas period and is targeted by the IMF and the banks for that reason.

As soon as news of López Portillo's attack on the promoters of capital flight and speculation had reached Caracas, that city's leading bankers went into emergency session with Finance Minister Luis Ugueto who assured them that Venezuela would not impose exchange controls or nationalize its banks as Mexico had done. Realizing that Venezuela now must take a stand, one high-level political figure confided to *EIR* that "there must be another way" to take on the financial oligarchy. "This makes things worse for us. Now capital flight will really increase."

However, as President Herrera Campins reported in a Sept. 7 speech in Maracaibo, he sent the director of the state planning agency Cordiplan, Dr. Maritza Izaguirre, to Toronto with strict instructions to "tell the IMF and the World Bank that the developing nations can tolerate neither the reduction of lending possibilities, nor the conditions that the Fund wishes to impose, especially on the Central American and Caribbean nations." Herrera Campins also blamed high interest rates for sabotaging the development plans of Third World nations.

The policy debate is also building up in Colombia, where certain factions within the government of President Belisario Betancur have begun to clamp down on the drug-related speculative apparatus that has thrived in the country under the two previous administrations.

Recent financial scandals that have put one bank president in jail and forced two others to flee the country, have revealed the extent of illegal operations in the economy.

Joaquin Vallejo Arbalaez, economic adviser to Belisario Betancur, told a meeting of bankers in early September that if the chaos represented by such scandals and illegal behavior "is not resolved," the government could be forced to nationalize the banking system as Mexico has done.

Speaking for a substantial faction in the mass-based Liberal Party of Colombia, Senator Rodrigo Lara Bonilla proposed that the State either purchase majority stock holdings in the private banks or convert federal funds lent to the private banks into stocks.

Lara Bonilla motivated his proposal by pointing out that the State has been deprived of vast quanitites of tax revenues by the private financial sector and yet is now being asked to bail out the "unscrupulous financiers" when their mismanagement of funds is exposed. On Sept. 21 a debate on Lara Bonilla's proposal will take place when Finance Minister Gutierrez Castro attends a full Senate plenary session.

The Venezuelan President

From a speech by Venezuelan President Luis Herrera Campins announcing the financing of the Zulia steel and coal project, given in Maracaibo on Sept. 7:

A project of this nature and scope also represents an injection of optimism which is constructive and creative in Venezuela at a time when continuous pessimism and negative predictions are attempting to crush our spirit. . . .

The world is experiencing a dramatic economic period, but we must have faith in our capacity to navigate stormy and difficult waters. The developing world, towards the end of 1981, owed more than $540 billion to the developed or industrialized countries, and this is one of the greatest problems that we confront. . . .

[At the North/South Cancún meeting in October 1981] I painted with objectivity and without alarmism the gravity of the situation that these [underdeveloped] nations are being subjected to, particularly when the interest rates rise in the international financial markets and all the development plans of the nations that want to develop are obstructed. In the [IMF/World Bank] meeting that is taking place in Toronto, the Venezuelan representatives and fundamentally the Minister of State, chief of the Coordination and Planning Office [Dr. Maritza Izaguirre Porras], took direct personal instructions from me to pose before the World Bank and the International Monetary Fund that the developing nations can tolerate neither the reduction in the possibility of obtaining loans, nor the conditionalities that the Fund wants to impose, above all on the Caribbean and Central American nations. . . .

In the midst of this world economic crisis, we have not gone into the trenches with our own Venezuelan national egotism. With the backing of the population, which understands that we cannot aspire to be an island of prosperity in a sea of poverty, I declare that we intend to maintain our policy of cooperation with Central America and the Caribbean. . . .

Venezuela planning minister

From an interview with Kathy Burdman with Dr. Maritza Izaguirre Porras, Venezuelan Minister of State for Planning and Coordination, on Sept. 8 in Toronto:

EIR: Does Venezuela support Mexico in its current negotiations with the banks and the IMF?
Izaguirre: Politically, we must respect the national sovereignty of Mexico. National sovereignty equals Mexico's right to order its own internal political affairs. Economically speaking, yes, we stand for international cooperation. We, too, have been suffering the "Mexican effect" in the international markets . . . in which banks have reduced lending to all of Latin America. So we must respond. We must have a coordinated response, we are all Latin Americans and must act together.

EIR: Do you support Mexico's recent nationalization action?
Izaguirre: Mexico is a sovereign state, and we support Mexico's right to do such things, if that is the way in which they need to act. I think the coming weeks are very important—how the international banking market moves, and how the Mexican nationalization actions and the Mexican negotiations with the International Monetary Fund will shape their internal response and the response of the rest of Latin America.

In our case, however, it is a different story. Since 1979 we have been trying to put our economy in order, and we've been successful in reducing inflation. We've been successful in trying to put our foreign debt in order. We have tough problems with our budget, because of the fall in the price of oil, which is due to the fall in demand in the industrial world, which has cut into our income. So we've reduced our budget, and we've tried to stimulate industry, agriculture, and construction.

But the outlook for 1982 and 1983 is very tough, and in our case as well, very difficult. International cooperation is the key. We have cooperation programs with the Caribbean nations, and with Central America, on oil and on other trade. And I emphasize that even though we, as well as other nations, have less money now, we intend to continue these cooperation programs.

EIR: Are you referring to U.S. Treasury Secretary Regan's abdication of similar responsibilities?
Izaguirre: (Laughs) I don't like to mention others. But as I say, even though our own people have some difficulty understanding why we must spend money abroad in this tough period, we still intend to continue internationally.

EIR: Do you agree with Nicaraguan Finance Minister Joaquin Cuadra Chamorro that IMF conditionalities unduly "interfere in borrowing countries' economic systems"?
Izaguirre: Regarding conditionalities, the IMF sometimes does not see clearly not only the economic conditions but the financial, social, and political situations in sovereign nations. They don't take account of the entire range of problems nations have. Nations must promote employment; they must raise the standards of their people. Politicians must represent their constituencies, they have the entire society to take care of. It is not so easy. . . .

EIR: If Mexico does not reach agreement with the IMF, and the creditors do treat Mexico and the rest of Latin America badly, what cooperation can you offer Mexico?
Izaguirre: We will work through SELA, and the governments of SELA, which is all of Latin America, will help Mexico, as we did Argentina during the Malvinas crisis. We should create some sort of similar scheme to help Mexico.

EIR: Is the Venezuelan government conducting specific studies on such independent programs for Latin America?
Izaguirre: Yes. After the Malvinas war, Latin America re-