

Central banker's arrest: a warning to creditors

by Cynthia Rush

International bankers choked on Oct. 3 when one of their own—Argentine central bank president Julio González del Solar—was greeted by federal police upon his return from the International Monetary Fund's annual meeting in Washington and detained for 24 hours for questioning on his role in negotiating debt refinancing contracts with foreign creditors against the national interest.

González del Solar was released only after the U.S. Treasury and State Department resorted to Henry Kissinger's habitual tactic of "making a horrible example" of any country that challenges his policies of destruction. Washington sources have told *EIR* that State and Treasury threatened Argentina with a total trade and credit embargo if the ruling junta permitted nationalist forces to humiliate such a prominent ally of the banking community as González del Solar.

The central bank president had offered "absolute guarantees" for the refinancing contract between the state-sector airline Aerolíneas Argentinas and a banking consortium led by Morgan Guaranty which established jurisdiction of New York state courts over all aspects of the agreement. The same contract was to have been extended to all 31 state-sector enterprises, whose foreign debt totals \$8 billion.

Acting on a complaint raised by local attorneys accusing the central bank president of "treason," judge Federico Pinto Kramer of Rio Gallegos issued a ruling invalidating the Aerolíneas contract and put a halt to all further negotiations on state-sector debt. Creditors responded by freezing disbursements of a \$500 million tranche of a \$1.5 billion term loan and \$324 million tranche of an IMF standby loan. The government was given until Oct. 17 to reverse the judge's ruling or become the first debtor nation to enter officially into default.

While González del Solar was held incommunicado awaiting transfer to the Patagonian city of Rio Gallegos following his unceremonious arrest, Argentina's organized labor force, numbering 7 million workers, paralyzed the country Oct. 4 in a 24-hour general strike. Characterized by those on the scene as the most effective in recent history, the strike was called to protest not only the government's austerity policies but also its willingness to refinance the foreign debt on terms that "irreversibly damage national interests and national sovereignty and seriously compromise a future which does not belong to them."

The arrest of González del Solar—the first such high-level official to be detained in Ibero-America—unnerved the bankers and their political allies, who accurately fear that such tactics could spread to Brazil and other major debtor nations. Action to turn around the judge's ruling came directly from Henry Kissinger and State Department special ambassador Vernon Walters who maintains influence among certain factions of the Argentine Army high command.

Following a high-level emergency summit of army generals on the evening of Oct. 5, Army commander-in-chief Gen. Cristino Nicolaidis issued a communiqué stating the Army's view that "it is absolutely necessary that the country respect and fulfill its international commitments, as has been its custom throughout history." Interpreted by many analysts as a threat to cancel the scheduled Oct. 30 general elections, the communiqué also condemned "the irresponsible actions of certain sectors and individuals who are using the renegotiation of our foreign debt as a pretext." This latter phrase was an undisguised attack on nationalists within the Air Force who had backed Pinto Kramer. Action by these forces, the

communiqué warned, “seriously conspires against returning the country to constitutional normality.”

On Oct. 5, under acute pressure from circles in the Army and Navy, Judge Pinto Kramer was forced to release González del Solar and renounce jurisdiction over the legal investigation into the debt renegotiation. An appeals court remanded the case to a Buenos Aires court, where observers expect the case to be resolved in favor of the creditors.

A financial Malvinas

But the Argentine case, and that of other Ibero-American debtors, is far from settled.

Accounts from foreign bankers and other political and press analysts have tried to portray the Argentine events as the results of one provincial judge’s eccentric actions, or one more example of “irresponsibility” from the overly nationalistic and “emotional” Argentines. “Demonology must be on the loose when the head of the central bank is arrested for violating ‘sovereignty’ by repaying an airline debt,” raged a *New York Times* editorial on Oct. 5. Actions like Judge Pinto Kramer’s are “immature” sputtered an analyst from the Boston-based Arthur D. Little Company—“typical of Latin American and other ‘new’ countries.”

But what happened in Argentina is one skirmish in a much larger battle. With their predatory tactics for seizing debtor assets and natural resources—the “debt to equity” strategy outlined by Alan Greenspan and Henry Kissinger at an Aug. 27-29 American Enterprise Institute meeting in Vail, Colorado—the International Monetary Fund and other creditors have pushed relations with the Ibero-American debtors to the point of a “financial Malvinas.” If existing U.S. policy trends toward Ibero-America are not reversed, said *EIR* founder and U.S. presidential contender Lyndon H. LaRouche in an Oct. 7 statement, all of these nations will explode in social upheaval. “This vital part of the world’s food-producing potential will explode in social crisis,” LaRouche warned. “The food-producing potentials of Argentina and southern Brazil are of the highest strategic importance for not only the United States, but most of the world as well. . . . The economic strength and political stability of this hemisphere is the foundation of the United States’ economic strength. We need a strong Mexico, a strong Brazil, a strong Argentina.”

LaRouche calls on “relevant White House circles” to immediately reverse “the insane looting policies of the International Monetary Fund.” In the meantime, the debtor nations are drawing the line at creditor assault on their sovereignty. In Argentina, Judge Pinto Kramer’s detention of González del Solar was carried out on the basis of a law specifying that any government official who prejudices the country’s interests in negotiations with a foreign or international entity can be arrested and sentenced to a minimum of 10 years in jail. Although González del Solar is now back in Buenos Aires, the formal proceedings against him have not been dropped. As the *New York Journal of Commerce* lamented in its Oct. 7 editorial, the same law applied to Gon-

zález del Solar “could just as easily apply to other members of the uneasy Argentine negotiating team.”

If nationalist efforts have been temporarily stymied with the intervention of the Argentine Army, they will undoubtedly resurge after the Oct. 30 general elections, in which candidates of the mass-based Perónist party are expected to win. Perónist leaders have been most precise in identifying the debt renegotiation contracts as tantamount to the territorial occupation that took place in Ibero-America in 1903 when Teddy Roosevelt supported the European creditors who sent gunboats into Venezuela to collect their debts.

Continental ferment

The arrest of a prominent representative of the international banking community—González del Solar was formerly employed at both the IMF and the World Bank—lays the basis for staking out other Ibero-American central bank presidents and financiers who represent their nation’s interests in name only.

Many of these figures are part of Henry Kissinger’s financial and drug-linked mafia, which has preyed on the continent’s economies and its populations for decades. Brazil’s Planning Minister Delfim Netto, Peru’s Finance Minister Rodríguez Pastor—not to mention Kissinger’s polo-playing friend, former Argentine Finance Minister José Alfredo Martínez de Hoz—are all reportedly sweating it out at the thought that they might be next on the chopping block. Martínez de Hoz is already the object of an ongoing investigation into the size and origin of Argentina’s foreign debt. Political and labor leaders in Argentina charge that a substantial portion of the foreign debt contracted under Martínez de Hoz’s reign at the finance ministry (1976-81) is “fictitious”—that loans never reached their destinations, but ended up in a speculative whirlpool. According to two economists working on the investigation, the foreign debt could be overstated by as much as \$10.8 billion.

The mayor of the city of Rio de Janeiro has wasted no time in following Judge Pinto Kramer’s example (see article, page 6). Citing a clause in the Brazilian legal code that says that foreign loans must be used for “productive purposes” only, Jamil Haddad announced the repudiation of an “unconstitutional” \$150 million debt contracted under former mayor and Kissinger intimate Israel Klabin.

This action intersects growing opposition to the IMF. On Sept. 29, close to 100,000 people demonstrated in eight cities against the IMF under such slogans as “Moratorium Now, It Only Has to Be Declared,” “The People Are After Delfim’s Head”—a reference to the pro-IMF planning minister—and “One, Two, Three, Four, Five Thousand: The IMF Will Be Thrown Out of Brazil!”

Brazilian congressmen representing different political tendencies have responded to demands from U.S. Treasury Secretary Donald Regan that they approve the IMF-inspired Decree 2045, which slashes wages by 30 percent, with calls for “an intransigent defense of the sovereignty of the Con-

gress." A judge in the northern Brazilian region of Pernambuco has set a legal precedent with his ruling that workers have the right to strike against IMF wage-gouging policies.

Operation Juárez

Not only is Ibero-America's opposition to the International Monetary Fund widening, but it is finding programmatic content in the proposals of Lyndon LaRouche. The *EIR* founder's well-known Operation Juárez, a plan to reorganize the international monetary system along lines conducive to rapid industrial growth in both the advanced and developing sector, plus additional *EIR* exposés, are providing ammunition in virtually every debtor country against those factions whose loyalties lie with the international financial community.

Indicative of this environment is the response by Brazilian senator Saturnino Braga to the news that LaRouche had just announced he will seek the Democratic Party's presidential nomination in the 1984 elections. Told by correspondents of LaRouche's proposals for the formation of a debtors' cartel and the creation of an Ibero-American common market, Braga responded "this is perfect. This is in our interests. It is in the interests of Brazil and Latin America. It is even more important and significant that a candidate for the Presidency of the United States is making such a proposal. I am pleased with this news."

In Argentina, *EIR* press releases detailing creditor strategy for transforming debt into equity, to pave the way for asset and resource grabs, have had wide circulation. Later this month, *EIR* will release a Spanish-language book in Buenos Aires, "An Industrialized Argentina, Axis of Ibero-American Integration." With a prologue written by Lyndon LaRouche, the book is a detailed presentation of Argentina's development potential in the context of an Ibero-American common market arrangement. It can be expected to have reverberations throughout the continent.

In Brazil, there is a fierce battle raging within the military as the friends of Vernon Walters threaten to stage a coup if more nationalist-oriented factions insist on opposing agreements with the IMF. In the absence of an orderly reorganization of the international monetary system along the lines of LaRouche's Operation Juárez, the continent faces military coups and vast social and economic chaos. The end of October looms as a crisis period. A 30-day moratorium granted by foreign creditors to Venezuela will expire; Argentine elections are scheduled for Oct. 30; and Brazil is supposed to receive "new" money from the IMF.

For the moment, rescheduling talks in Argentina remain at a standstill, along with the disbursements of \$800 million in foreign credit. In response to this situation, the central bank has decreed emergency measures, including a 60-day freeze on dollar accounts and on regulations authorizing sale of foreign exchange. Unable to obtain dollars for imports, manufacturers are estimating that industry will run out of imported raw materials within 20 to 30 days.

Brazilians challenge legitimacy of debt

by Christian Curtis in Rio de Janeiro

The municipal government of Rio de Janeiro announced Oct. 4 that it will not meet interest payments due Oct. 21 on a \$150 million loan syndicated by the Bank of Montreal in 1979. There are two reasons: the first, as Mayor Jamil Haddad explained, "There is no other choice, since the money does not exist." Second, there is evidence that the debt is illegal under Brazilian constitutional law.

Section 4320 of the Federal Regulations on Public Budgets, an adjunct to the constitution, states that city and state governments can only borrow abroad, with congressional approval, "for productive investments and projects." According to charges made by the Haddad administration, former mayor Israel Klabin contracted the loan solely for the purpose of covering the 1979 budget deficit. "There is no evidence anywhere in this city that this money was used for productive purposes," Undersecretary for Planning Armando Aoad told *EIR*. "Since the debt was illegal, we see no reason we should pay. Furthermore, we can't."

EIR has independently documented Klabin's preference for speculative over productive financial activities (see *EIR*, Dec. 15, 1981). As mayor and then as head of the Rio state bank, Klabin made no secret of his ambitions to join the Trilateral Commission and to make Rio into "another Hong Kong," with an offshore money market which could facilitate the takeover of Brazil by the underground economy. Klabin hosted the Rio meetings of Henry Kissinger's Georgetown Center for International and Strategic Studies and the Club of Rome.

Theoretically, once the municipality of Rio defaults, responsibility for the Oct. 21 payment falls upon the federal government, which guaranteed the loan. However, "guarantees" from Brasilia, which is already in arrears by over \$3 billion to international banks, are far from solid these days. There may well be challenges to the debt's legality at the federal level; where opposition to Brazil's creditors is growing—even inside the government's own PDS party. And, finally, the municipality is not alone in questioning the constitutionality of refinancings. The state of Rio de Janeiro has an equally suspect \$150 million debt syndicated by the Bank