Click here for Full Issue of EIR Volume 12, Number 1, January 1, 1985

'Pragmatic' concessions to IMF may kill debtor nations

by Vin Berg

At the close of 1983, *EIR* warned Ibero-America's leaders not to continue in their adopted policy of short-term expediency, subjecting their economies to the kind recommendations of the International Monetary Fund. While they did so out of fear of invoking the wrath and countermeasures of the supranational financial institutions, we told them, often personally, that IMF austerity is more destructive than the consequences of a debt moratorium: IMF "austerity" is not a financial policy, not an economic policy, not a policy designed to enable you ever to pay your debts. It is a political policy aimed at the destruction of your nations and the mass murder of your peoples. Force a joint renegotiation of your debts by the collective threat of default—or prepare to watch the very social and political fabric of your nations systematically decimated.

Unfortunately, perhaps tragically, the governments of Mexico and Brazil determined the outcome of the battle over debt for the year 1984 by expediently making a deal for "favored treatment" over the other debtor nations of the continent. The consequences for the continent as a whole, including those "favored" nations, have been devastating. Step by step, every nation has been forced into "pragmatic" concessions to the creditors; step by step, they have handed over chunks of their populations, their productive capacities, and their very sovereignty to foreign creditors.

The opening of the Ibero-American continent to a flea market sale to creditors, in the name of "foreign investment" and "debt for equity," is now only a step away. In Brazil, proposals under serious consideration include payment of foreign debt by means of deposits of cruzeiros in accounts in creditors' names—with U.S. bank regulators instructed by Fed chairman Paul Volcker to look the other way when it comes to such non-dollar payments, which are contrary to U.S. banking law. Such cruzeiro accounts would be discountable, marketable, i.e., could be used to buy up the corporations and resources of the nation: "debt for equity." Mexico is under pressure for similar measures, including permitting indebted private firms to sell off their stock to foreign purchasers in lieu of debt payment, contrary to the nation's current 51%-49% domestic-ownership laws.

As U.S. Secretary of State George Shultz emphasized in speeches in Brazil on Nov. 12: "Open up the door to foreign investments and we will try to help you; but, if they don't, the developing countries will have even greater difficulties ahead of them." Public and private loans would become available only after governments permit "greater investment flows and voluntary conversion of debt capital into investment capital."

The road to genocide

In the corridor of a conference on debt held Nov. 10 in Iguazu, Argentina, Morgan Guaranty Trust's chief international economist, Rimmer de Vries, told reporters, "The debt crisis has been solved: Latin America will be a net exporter of capital for the remainder of the decade"—that is, it will pay out more capital than it receives, through continuing to import one-third to one-half less than it exports.

De Vries' evaluation supposes that the current rate of looting of the Ibero-American economies may continue indefinitely. Brazil's currency, for example, has been devalued 62.47% during 1984. Brazil's output is roughly 20% below the level of 1982. Brazil is importing virtually nothing but

© 1985 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

petroleum. Mexico and Brazil are suppressing imports even of spare parts and raw materials, let alone capital goods, and exporting everything that is not nailed to the ground at extreme devaluation prices. On the basis of this, both nations racked up trade surpluses roughly equal to their debt-service requirements for 1984.

What this means for the poorer strata of Ibero-America can be read from an estimate recently produced by SELA, the Latin American Economic System: Every 1% increase in interest rates is equivalent to 17 million tons of imported cereals. A ton of grain represents basic life support for one person for one year; a 1% rise in interest rates, therefore, compromises the existence of 17 million people under conditions where much of the continent is just at or already below the boundary line of survival.

As the impresario said to the desperate vaudevillian who offered to commit suicide on stage, "What do you do for an encore?"

With such brutal measures in force, for the moment, the largest of the debtors have been able to meet their interest payments, mainly from trade surpluses. However, since these surpluses have been absorbed by the United States, which can afford this only because of massive capital inflows which must soon end, the developing nations ability to pay their interest through exports must also soon end.

In anticipation of this, the IMF is already demanding that the United States prepare to undergo the same austerity measures which have ruined the economies of Ibero-America. In a speech sponsored by Mocatta Metals on Sept. 24, billed as the "secret keynote" of the then-ongoing IMF annual meeting in Washington, Henry Kissinger set forth the policy:

"In recent years, those charged with international monetary arrangements have tried to establish the IMF as the global disciplinary force. . . . The U.S. and other major industrial democracies have been unwilling to modify their policies in response to IMF criticism. In fact, the U.S. has been tacitly conceded a dominant role for the dollar and a disproportionate autonomy for its decisions. . . . In these circumstances, the economic system operates—if at all—as crisis management. The risk is, of course, that some day crisis management may be inadequate."

Nearly a debtors' cartel

During the first six months of 1984, Ibero-American leaders appeared to be heeding our advice. If they spent much of 1983 closely considering adoption of Lyndon LaRouche's *Operation Juárez* program, they spent the first half of 1984 putting in place the mechanisms for doing so:

- A five-nation tour by Mexican President Miguel de la Madrid March 26 to April 7 focused discussion on closer integration of the economies of the continent, and, as if an afterthought, arranged for Mexico, Colombia, Brazil, and Venezuela to loan Argentina $300 million, while Argentina threw in $100 million of its own reserves, and the U.S. Treasury added another $100 million in addition to guaranteeing the other nations' loans. As a result, Argentina was enabled to meet $500 million in overdue interest by March 31. It was "a debtors' cartel to pay, not not to pay," as Mexican Finance Minister Jesus Silva Herzog put it. While some bankers rejoiced at the thought that other Ibero-American nations were now themselves "creditors" to Argentina, and thus might be expected to pressure Buenos Aires into a deal with the IMF, it was observed that, at root, Argentina's debt had been "regionalized." The combination that had enabled debt payment this time had also set a precedent for potential joint non-payment next time.
- De la Madrid's tour resulted in billions of dollars in trade deals and joint projects based on barter, reciprocal credits, and use of local currencies instead of dollars. It amounted to an economic defense pact. And in accompanying communiqués, the Presidents demanded lower interest rates, improved terms of trade, longer payment periods, and ample grace periods, as well as new credits and an end to IMF policies which mean "the destruction of our productive base."
- De la Madrid brought the results of his trip to Washington May 14 for discussions with President Reagan. In a toast to the President May 16, the Mexican President declared: "We know that you want to have dignified, prosperous, and strong neighbors. It is very important that a powerful nation such as the United States, which is the most powerful nation of all, can say to other countries, 'We have neighbors who are dignified; they are not slaves.'"
- After the Washington trip proved fruitless, on May 19, de la Madrid and the heads of state of Brazil, Argentina, and Colombia released a joint communiqué announcing, "We will not accept seeing ourselves thrust into a situation of forced insolvency and continued economic stagnation," and calling for "a meeting . . . of our countries foreign ministers and finance ministers, to which we shall invite the ministers of other Latin American governments . . . with a view to reaching solutions satisfactory to all the nations involved."
- On June 21-22 in Cartagena, Colombia, 11 Ibero-American debtor-nations' ministers convened, and in effect, formed a debtors' cartel. A program for debt relief in the "common interest" of all was issued, and a follow-up meeting was scheduled for Mar del Plata, Argentina, on Sept. 14-15.

Enter Kissinger

In sum, the March-through-June developments, which included formal declaration of default by Bolivia, had unified the continent in the clear direction of LaRouche's *Operation Juárez*. The Cartagena meeting de facto established a "debtors' cartel," although none of the participants wished to call it by that name. Otherwise, the meeting resolved to reconvene whenever emergency conditions, such as a rise in international interest rates, made joint debtor action advisable.

Predictable unhappiness on the creditors' side turned into serious fear in late June, when *EIR* founder Lyndon H. LaRouche, the author of the debtors' cartel proposal, visited Argentina for a week and met with President Raul Alfonsín—the initiator of the Cartagena Group meeting.

It was in the aftermath of the near-miss blowout of the international banking system on June 30, 1984, that the creditors decided to take action. Operating on the basis of a strategy delineated by Henry Kissinger, the creditors decided to divide the emerging debtors alliance by offering Mexico and Brazil special deals, and isolating Argentina for harsh retaliatory treatment. A banker closely associated with Kissinger told *EIR* frankly at the time: "[We have to] get the Mexicans, the Brazilians, and the Venezuelans wrapped up very quickly, in order to tackle the Argentine problem, which is unique and distinct, alone and by itself, before the end of the year."

This divide-and-conquer strategy was also helped along by an all-out offensive launched over the summer by the drug-running mafia to overthrow the constitutionally elected governments of Colombia, Bolivia, and Peru. The first two were strongly committed to joint debtor action (see page 54).

With this as background, Henry Kissinger himself deployed to Buenos Aires in mid-September, precisely the days of the Mar del Plata meeting of Sept. 14-15.

At that meeting, debtors did keep their "club" intact, called for the "politicization of the debt," and demanded a summit of the Western industrial governments with the debtors for early 1985 to discuss the debt as a bloc. "A direct political dialogue on the debt problem is essential," the communiqué stated.

This call created visible friction at the U.S. Treasury, which issued a statement reaffirming its support for the "case-by-case approach" of the IMF. The British foreign office called in seven Ibero-American ambassadors on Sept. 14 and told them bluntly that Britain would go to all lengths to stop a debtors' bloc.

However, Henry Kissinger, on the scene, succeeded in persuading the debtors to take no action, and the U.S. banking system received a reprieve from a large hit by several debtors at once. Specifically, Mexico and Brazil opted for the Kissinger plan. For the remaining months of 1984, at least, they cut a separate deal with the banks, and have been granted long-term stretch-outs of their debts. In return, both countries acted at the Mar del Plata summit to quash any firm joint debtor action.

Kissinger advised U.S. Treasury Secretary Donald Regan to pay lip service to the idea of a North-South dialogue on debt, which the latter did by announcing that such talks could occur in the context of the April 1985 IMF interim committee meeting. In other words, the "dialogue" will not discuss whether, but only how IMF austerity is to continue being imposed.

Kissinger is at this point fully in the driver's seat insofar as defining overall creditor strategy is concerned. His mid-September visit to Argentina consolidated his position as *the* go-between on the debt question. He was able to deliver a New York meeting with Argentina's top bank creditors to President Alfonsín, and likewise delivered Alfonsín to the bankers.

Three features have characterized Kissinger's approach on the debt question all along, three features which are now operational policy for the creditor camp as a whole:

1) *Divide the debtors*. This is the guiding conception behind the deals with Mexico and Venezuela. As one banker quipped to the *Wall Street Journal*, "Two down, two to go."

2) *Remove the weapon of default*. As far back as 1983, Kissinger had urged that circumstances be created where debtor threats of default not be able to credibly blackmail the creditors into concessions. Argentina is slated to be the test case of this strategy. As of Sept. 30, U.S. banks had written off 20-40% of their Argentine loans. Thus, even if Argentina actually declares a default in response to unacceptable IMF/creditor pressure, the banks would be in a position to "take the hit." This, of course, would not work to the degree that Argentina is supported by other debtors.

3) *Exchange debt for equity*. *EIR* first revealed this to be the emerging creditor strategy in September 1983, when it was discussed at the secretive Vail, Colorado meeting of Kissinger and his banker friends. Now it is fully operational, with Brazil and Mexico being subjected to particular pressure to transform whole chunks of their debt into national assets, which they would then hand over to their creditors.

Recolonization?

Proposed changes in Mexico's central bank law announced Nov. 12 exemplify the process by which Ibero-American debtor nations might literally be recolonized. The new legislation would build IMF conditionalities directly into the ongoing management of the Mexican economy, making the organs of the Mexican government a creditors' instrument for the looting of the country. In constitutional terms, the enactment of this legislation would return Mexico to the status of the pre-1910 Porfirio Díaz regime.

The new law would eliminate the obligation of the Mexican central bank to absorb whatever deficit the government may incur by purchasing the obligations of the government; instead, the government must replenish any borrowings from the central bank after each 30-day period, funding its deficit through the "private market." Were this law to be accompanied by denationalization of Mexico's banks, as some bankers expect, control of the government's finances would be turned over to a private banking oligarchy whose principal allegiance is to the same financial interests that sent Maximilian of Hapsburg to Mexico as creditors' viceroy more than a century ago.