Collapse of Ibero-American 'recovery' panics Washington

by Cynthia Rush

On June 24-25, eleven Ibero-American finance ministers met in Washington to discuss the "success" of the Bush administration's free market economic model for the continent. In a June 25 press conference following the meeting, Treasury Secretary Nicholas Brady waxed euphoric about the "new partnership" between the United States and Ibero-America which, he said, "has real substance; it's not just words."

What's happening in Ibero-America "is an American hemisphere success story," Brady gushed. "We have something here that works." At the same press conference, Venezuelan Finance Minister Ricardo Hausmann, whose country is in the throes of a severe political and economic crisis, denied that there had been any special emphasis placed on Venezuela during the discussions, and nonchalantly announced that his country had the "fastest-growing economy in the region."

Behind all the nice-sounding rhetoric is the truth that the model Brady was extolling not only *doesn't* work—not for Venezuela, nor any other country—it was falling apart at the seams at the precise moment the finance ministers were meeting. Its collapse will have a boomerang effect on U.S. creditor banks, which have been the largest beneficiaries of the speculative stock market boom which Brady refers to as Ibero-America's "economic recovery."

This was the real reason for the meeting. In the face of recent economic instability and political uncertainty in Ibero-America, the speculative investment and hot money flows which have bloated stock markets in Argentina, Brazil, Mexico, and Chile over the past several months, have now reversed themselves. Mexico's market dropped 15% during the last two weeks of June; Argentina's market lost over $7 billion during June, a decline of almost 22%; and Brazil's markets have dropped precipitously, along with the fortunes of the country's scandal-ridden President Fernando Collor de Mello.

What about Harvard?

So much for the genius of the continent's Harvard-trained finance ministers who were the object of lavish praise in the June 15 edition of *Business Week*. The magazine noted that Ibero-America's current "market revolution" is being carried out by technocrats and "whiz kids . . . armed with MBAs and economics PhDs from Harvard, Yale, MIT, and other elite American universities." Who better to carry this out than "the English-speaking economists, many with classmates in the banks and the International Monetary Fund?" *Business Week* asked. Mexican Finance Minister Pedro Aspe expressed relief to the magazine: "Thank God we didn't cut scholarships to the U.S." during the lean years, so young Mexicans could continue to be sent to the United States to be trained at Harvard.

But Harvard isn't going to bail them out of the mess the continent now faces. Ibero-America's touted "economic recovery" is a myth. The free market "reforms" applied by most of the continent's governments have destroyed these economies' ability to produce for anything but foreign looting, opening them up to both foreign investors or domestic speculators to make a quick killing in the market.

Most of the continent's economies are on the brink of disaster. Colombia's basic infrastructure has collapsed as a result of years of World Bank, and International Monetary Fund (IMF) policies. Electricity and water are unavailable to the population. Brazil is again facing hyperinflation and the collapse of Collor de Mello's "modernization" program. The Anglo-American political establishment may be forced to jettison Collor de Mello, but it is desperately trying to save the free market reform package that is the centerpiece of his government's program. The banking community has just extended a lifeline to Finance Minister Marcilio Marques Moreira, whose presence in the cabinet is considered essential to the continuation of IMF policy, in the form of a debt renegotiation package, to restructure $44 billion in medium- and long-term debt.

Even though the agreement is being hailed as "the end of the Latin American debt crisis," however, the *Washington Post* noted on July 8 that "the package could come unraveled because of either Brazil's extremely volatile political situation, or the nation's severe economic problems."

Even Mexico, hailed by the Bush administration as the "model" for the continent, is in a precarious situation. The virtual elimination of tariffs has flooded the country with cheap U.S. imports that have eliminated tens of thousands of Mexican manufacturing firms and hundreds of thousands of jobs. At the same time, these policies have saddled the country with a $13 billion balance of payments deficit in 1991 which was only paid for by vast influxes of foreign "hot" money.

The growing spread of epidemic diseases such as cholera and AIDS is a further reflection of the continent's economic breakdown.

Creditor banks are the beneficiaries

One of the main ways this looting process worked over recent years has been through the process of "privatization" of what had been state-sector companies in Ibero-America: that is, selling off national assets to private, usually foreign, owners. More often than not, the people with the funds have been the same international banks that hold the foreign debt of the countries in question. So the bankers would trade in their old debt paper for equity in the newly sold companies, and then use these funds to speculate on the local stock markets.

The June 14 *New York Times* revealed that many of the largest U.S. banks are today reaping tremendous profits from these debt-for-equity deals, largely based on the inflated values of the newly privatized companies on the high-flying Ibero-American stock markets. In fact, David Rockefeller a few months ago boasted at a meeting of the Council of the Americas that it was banking activity in Ibero-America that was helping to bail out the U.S. banks from their otherwise deadly loan losses in U.S. real estate and elsewhere.

It must have been this which Treasury Secretary Brady had in mind when he repeatedly stated to the press after the meeting with his Ibero-American colleagues: "This is an American hemisphere success story. We have here something that works. It has energy, because it has worked. . . . It is a success that can be continued. . . . It is new. It is not words. . . . It's based on the fact that it works," etc., *ad nauseam*.

Situation is out of Washington's control

The Bush administration has already had to deal with last February's attempted coup in Venezuela, and the early-April events in Peru. Brazil and Bolivia are very shaky, and other countries will rapidly follow suit. Argentina's much-touted "stabilization" program, also based on stock market speculation, is starting to fall apart. Following the recent meeting in Argentina of the heads of state of South America's Southern Cone nations, who have formed the free trade-based common market known as Mercosur, the president of J.P. Morgan in Buenos Aires minced no words in describing Brazil as a "basket case" whose role in regional integration plans was doubtful. If, on top of this, the Ibero-American stock market bubble suddenly bursts, the U.S. banks—not to mention George Bush—will have huge problems on their hands.

It is this realization—and not some back-slapping over the Bush administration's "successes" in Ibero-America—that motivated the finance ministers' meeting in Washington. An article published in the July 1 *Christian Science Monitor*, written by the directors of the major Washington-based policymaking agency for Ibero-America, the Inter-American Dialogue, admitted that the ministerial meeting was organized very quickly, with almost no preparation, and not even an agenda, until the last minute.

Authors Peter Hakim and Richard Feinberg have figured out that the deepening misery created in Ibero-America by the "adjustment" policies they advocate, are the real cause of the instability afflicting the continent. They also know that Washington doesn't have the situation under control. "Unless Latin America's deep social problems were effectively addressed, the region's drive toward market reforms, open trade, and sustained economic growth would almost surely falter," they warned.

One of the weaknesses in guaranteeing continuation of the Anglo-Americans' free market reforms, they note, is the "lack of adequate institutional capacity to guide regional integration efforts." If these reforms are to be made irreversible, which is the Anglo-American establishment's goal, then some kind of supranational apparatus will be required to enforce the policy. "A new inter-governmental institution is needed to exercise leadership on regional integration issues," Hakim and Feinberg put it.

The June 26 *Financial Times* of London gave a further indication of Washington's concerns: a senior Treasury official who attended the June 24-25 meeting warned that "what now has to take place is not only a continuation of those reforms, but they have to become more broadly shared. Obviously, in order to keep the people of Latin America convinced that this is something good for them, the economic fruits of these reforms can't all be in the stock market; they have to flow down to the people."

From the Ibero-American side, there is a good deal of panic as well. Just prior to the Washington ministerial meeting, Enrique Iglesias, president of the Inter-American Development Bank (IADB), defensively insisted during a press conference in Venezuela that social unrest existing in several areas of the continent "must be attributed to disorders which preceded the adjustment [policy]. These programs facilitate social programs. If there are no orderly economies, social problems cannot be resolved."

On June 21, the Buenos Aires daily *Clarín* reported that the finance ministers were quite worried because the multilateral fund which is supposed to foment investment in the region "is in limbo because the U.S. Congress hasn't yet approved the first $100 million which the government in Washington was committed to approving." Similarly, a Reuters cable which appeared in the Venezuelan press on June 22 reported that the region is "afflicted with uncertainty over the U.S. elections," which George Bush could certainly lose, and characterized the political crisis in Venezuela as "very worrisome."