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The IMF's Ibero-American economic 'models' bite the dust

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With the same morbid fascination that draws a crowd to the scene of a fatal car crash, the eyes of the world financial community are today riveted on Russia and Japan, two of the world's leading economies which are disintegrating in full public view. But while everyone is looking in that direction, a new round of financial and economic crises has begun to sweep the nations of Ibero-America, many of which are nearing conditions of chaos and ungovernability similar to those affecting Russia and Japan. Of particular note is the disintegration of the "Chilean model," held up since 1978 by the fascist Mont Pelerin Society as "proof" of the glories of London's free-trade policies.

In recent weeks, the Chilean, Mexican, and Venezuelan governments have adopted emergency measures to deal with their respective financial crises. Mexico's Zedillo government has just cut its budget for the third time this year, because of dropping oil prices. Colombia's President-elect, Andrés Pastrana, has already announced his intent to impose an economic "shock" program, as soon as he takes office on Aug. 7. Argentina has just cut $1 billion from its 1998 budget. Brazil is in a perpetual state of crisis, scrambling to pay more than $100 billion in domestic government debt which comes due in the third quarter.

The financial turmoil in Southeast Asia, a key market for many Ibero-American countries, and the related plummeting of commodity prices, are wreaking havoc throughout the region. But, in almost every case, governments are responding to financial upheaval by imposing the same genocidal International Monetary Fund (IMF) policies which caused their problem in the first place: more budget cuts, more privatizations, interest rate hikes, and more servility toward the international usurers' political demands. Argentine President Carlos Menem's recent hysterical declaration that dirigism "is dead," is only the most fanatical of the mentality existing continent-wide.

Chile evaporates

It's worth examining the Chile case in some detail, first because the loudmouth advocates of the British colonial doctrine of free trade have hawked Chile as an extraordinary success story, and second because the model is dissolving faster than you can say "Adam Smith." As early as last January, the *Wall Street Journal Americas* moaned that "Chile isn't Chile anymore."

The Chile model supposedly proved that countries could develop solely on the basis of radical free trade and whatever the "market" dictated—without interference from the state. Its backers at the University of Chicago and in the City of London pooh-poohed the reticence of other Ibero-American countries to completely abandon dirigist or protectionist policies, advising them to follow Chile's lead in dismantling the state and especially in creating a privatized pension system. The private funds, they explained, could be invested in the stock market and other speculative ventures with very lucrative results.

The truth is, that Chile was never anything other than the raw materials-exporting model which Great Britain historically imposed on its colonies. Its export-dependent economy relies on copper for 40% of its total exports, and to a lesser degree on other minerals and metals, and forestry and fishing products. With the deepening of the systemic crisis of the world economy, particularly in Asia, the model has simply unravelled.

Asia imports 33% of Chile's total exports: 34.1% of its copper and related products, 53.4% of its fishmeal, and 27.7% of its cellulose. Japan is Chile's second most important trading partner, the recipient of 16% of its total exports. Exports to Japan alone dropped 19.2% in the first five months of this year, due to the financial and currency turmoil in that country. For the same period, exports to South Korea dropped 58.9%. Last January, the daily *El Mercurio* estimated that total Chilean exports could drop 20% for 1998.

The collapse of the price of copper has meant catastrophe for Chile, which mines one-quarter of the world's supply. This year alone, the price has fallen 31%, and 45% since 1995. The average price in 1997 was $1.03 per pound, compared to $0.75 per pound today. Each 1¢ drop in the price translates into a $70 million yearly revenue loss for Chile. Moisés Labraña, head of the Chilean Mining Confederation, forecasts that the copper price could go as low as $0.65 per pound, threatening, among other things, the job security of 30,000 miners. In late June, Mining Minister Sergio Jiménez announced that the estimated 1998 profits of the state-run copper giant, Codelco, would be $500 million, 54.5% *lower* than last year's figure of $1.1 billion. Copper sales for June were 28% below June 1997.

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In this situation, the trade and current-account deficits are going haywire. Foreign investment, the key sustainer of the model, dropped 52.8% in the first five months of 1998. The current-account deficit is expected to reach a historic high of 6.8% of GDP by year's end. The Central Bank has had to spend $2 billion this year to defend the currency against speculative attacks—the peso is down 5.3% so far this year.

To deal with this instability, and restore "investor confidence," on June 25 the Finance Ministry and the Central Bank announced a dramatic austerity program of budget cutbacks—$685 million for the year—and higher interest rates, designed to "curb consumption." Since the announcement, the average overnight interest rate has soared to more than 30%, and the peso dropped by another 1.15%. Central Bank Governor Carlos Massad has ruled out a peso devaluation, and is prepared to raise interest rates even further, despite the negative implications for domestic business.

Building the bubble

Chile's Frei government is so desperate for cash, that it has decided to loosen its modest controls on foreign speculative capital. There is some irony to this, as in the financial turmoil of recent months, many international bankers and government officials who hysterically reject economist Lyndon LaRouche's proposals for a New Bretton Woods system, have proposed controls similar to Chile's to curb speculative capital flows. Chile's controls in any case were very mild, requiring foreign investors to deposit 30% of their funds in the Central Bank for a year. Now, that percentage has been reduced to 10%, apparently based on the reasoning that speculative capital is better than no capital at all.

Worse, on July 9, the Central Bank also introduced dollar-denominated Treasury notes, similar to the *tesobonos* which were at the center of Mexico's financial blowout in 1994. Central Bank Governor Carlos Massad promises that the Chilean notes won't be like the Mexican ones, because they will have maturities of three or more years.

Hogwash. This is just a variant of the hyperinflationary measures several governments have adopted, under the guise of "attracting foreign investment." Through the issuance of dollar-denominated bonds, and the creation of derivatives markets, which have begun to sell dollar futures in particular, they are creating new and dangerous speculative bubbles which have led to a rapid growth in bank debt, the collapse of privatized pension funds, and the imminent bankruptcy of national banking systems in general.

Aside from having a substantial derivatives market, Brazil has its own version of *tesobonos,* the notorious dollar-denominated NTN-d's, which amount to 18% of the total federal government debt, or nearly $50 billion.

In Peru, a large portion of the domestic speculative bubble is the private banks' foreign debt. Now at $3.5 billion, it has grown at rates of 200% over the last two years. As exposed as they are, the banks have nonetheless insanely opted to increase that exposure by setting up a futures market to sell forward dollar contracts to local companies, as a hedge against a probable devaluation of the national currency, the sol. According to the Central Bank, dollar futures worth $2.5 billion have been sold through June, the figure originally estimated for the entirety of 1998!

In Mexico, the Banco de México, the Central Bank, reportedly has a daily turnover of $9 billion worth of derivative transactions, which are largely dollar futures. This has permitted Mexican authorities to cover for the fact that their own reserves are shrinking.

Argentina is in the process of setting up its own futures and options market. Some officials are estimating that the launching of the market later this year could double the $6 billion in over-the-counter derivatives traded last year in Argentina.

And what about the private pension funds, considered the cornerstone of the Chilean model, which were to provide a whole new pool of liquidity from which to profit?

Chile privatized its system in 1981. As the international financial crisis worsened in the 1990s, foreign banks pressured seven other countries—Peru, Colombia, Mexico, Uruguay, Argentina, El Salvador, and Bolivia—to at least partially privatize their systems. Of these, Chile's system is in the worst shape. Having reached the high point of $33 billion last year, the funds are now shrinking. Why? One-third are invested in the Santiago stock market, which has lost nearly 20% of its value in the first half of this year, added to the steep drop following the October 1997 global financial shock.

Financiers insist that the "solution" to this problem is to eliminate the requirement that the private funds invest all but 12% of their assets inside Chile, thus transferring the savings of Chileans outside the country altogether.

The situation is no better in Argentina. In this mixed system, private pension funds total $10 billion, of which 63% is controlled by foreign banks, among them the British Empire's historical bank of the drug trade, the Hongkong and Shanghai Banking Corp. As in Chile, a sizable portion of the private funds is invested in the stock market, which has collapsed 32.74% since July 1, 1997. Five of the largest private funds are reporting outright losses, and the system as a whole has barely gained 1.1% so far this year.

The same is true for Mexico, where foreign banks, predominantly British, were offered the right to administer newly privatized pension funds, as an added incentive to buy up bankrupted Mexican banks, cheap. At the end of June, there were emergency meetings between government regulators and pension fund administrators, over the news that the most recently formed funds showed losses for the first half of 1998. Subsequently, the private funds issued a "clarification," that they hoped the "reduction in profitability" would be reversed in the second half of the year. However, this did not stop the government from freezing, at least for now, plans that had been all set to go, to extend the privatization program even further.