Across Ibero-America, Debt Collection Kills

by Gretchen Small

Across Ibero-America, governments are scrambling, hand-to-mouth, to keep alive the fiction that their nations' debts can be paid, and that they—and their foreign creditors—are not utterly bankrupt. The debts are so large, and the physical economies are so looted by 20 years of cannibalization to pay those debts, however, that none of their schemes is working.

Brazil, for example, despite the $30 billion bailout package announced by the International Monetary Fund on Aug. 7, is still headed straight towards an Argentine-style blowout of its almost $500 billion in government and corporate foreign debts. Since anyone with a brain knows this, capital is fleeing the country, and bankers are refusing to extend new loans, or roll over old ones as they come due. The Central Bank could not roll over $2.1 billion in dollar-linked debt and swaps which came due on Sept. 11, despite offering interest rates of over 30%, on paper coming due only months from now. The demand for dollars to pay debts and to pull money out of Brazil, in turn, drives down the value of Brazil's currency, the real, which lost 5.5% of its value in the first week of September. Because 46% of the government's $1 trillion-plus "domestic" debt is indexed to the dollar, every drop in the real automatically increases the country's dollar debt and hastens bankruptcy.

Cut off from the foreign capital flows it had relied on—on IMF instructions—the government has announced it will cut another $2.6 billion out of government expenditures, and use that money for debt payments. That strategy, too, only ensures more rapid bankruptcy. Among other things, a previous budget cut in 2002 forced 44,000 military recruits to be sent home without pay. The government has also slashed the number of priority infrastructure projects from 67 to 24—all that's left of hundreds originally planned; private contractors working on the projects want to sue for breach of contract.

But as Argentina proved in 2001, such cuts, as a way to generate funds to pay the debt, are insane. As spending is cut, tax revenues from the economic activity sustained by that government spending also collapses, requiring more cuts, in an endless downward spiral.

Uruguayan Holocaust Next

Uruguay, which received a $3 billion bailout from the IMF in early August, may be forced to default on its debt even before Brazil. The government denies it will ever default, but on Sept. 2, Finance Minister Alejandro Atchugarry announced that the government has insufficient funds to pay pensions, salaries, and state suppliers. The debt is sacrosanct; wages and pensions *will* be paid for September, he insisted, but payments to suppliers will have to be reduced. October is another story. The Minister admitted that in the current crisis, it is impossible to impose new taxes. Official unemployment is at a record high of nearly 17%, while wages fell by 10% in the last three months alone. Industrial production collapsed by 11.3% in the first half of 2002; transport and communications by 5.8%; construction by 12.6%. Exports, measured in dollars, were 20% less than a year ago. Electricity usage (residential, industrial, and commercial) fell. Even consumption of potable water fell!

Uruguay's social fabric is unravelling. Strikes occur daily. A frantic President Jorge Batlle forbade a leading military figure, Col. Carlos Silva, to deliver a speech prepared for his retirement ceremony, declaring it "inconvenient for national interests;" but a national daily printed it anyway. Silva warned that the country faces its worst crisis since its founding, because of economic policies imposed by "technocrats . . . whose objective is to limit our sovereignty and independence to the maximum, transforming us into a mere supplier of cheap raw materials." Uruguayans are being "enslaved . . . to increase our immoral debt and colonial submission."

Eating Less and Less

The debt collection schemes will not stop default, but they are producing genocide. Take the case of Argentina, whose debt pyramid collapsed in December 2001. Just released official government statistics reveal a catastrophe: Argentines now consume 38% less pork, 29% less chicken, 20% less dairy products, and 7% fewer eggs, than they did only one year ago. Officially, beef consumption has fallen by only 1%, but private economists estimate it has really fallen by 4% this year. Argentina is not alone. Across Ibero-America, food consumption has declined dramatically over the past year, as the economies collapse under the weight of debt payments.

In Mexico, 53.7% of the 100 million inhabitants are classified as poor, according to a recent study by the Ministry of Social Development. While the average daily wage for the poor is 34 pesos, or a little over $3, the study admitted that many people make much less than that, and are unable to purchase enough food to cover the most minimal caloric requirements. In Venezuela, a study by one private firm found that the average monthly family income fell by 67.5% in the first half of 2002—in a country where 80% of the population was already ranked as poor. On Sept. 2, the national supermarket association reported that supermarket sales in Venezuela had fallen by 12% this year, and they project they will fall 14-15% by the year's end. Food prices have risen some 20-25% since the currency, the bolívar, was allowed to float in February, leading to a 47% devaluation so far this year.

Living standards are about to fall even faster under the Chávez government's new austerity package, which went into effect Sept. 1. Its measures include a 16% tax on electricity and agricultural goods!