

Latin America 1977: Industrialization vs. Debt

In late 1976 and the first weeks of 1977, Latin America witnessed the first signs of a deep fissuring in the continent, between those countries that are retaining their economic ties with the bankrupt Bretton Woods monetary system, and those that are shifting their alignment in favor of the emerging new monetary and trade system centered around the transfer-ruble and expanded trade ties among Comecon, Europe, and the OPEC countries in particular.

Within Latin America, it is broadly speaking the Southern Cone economies — those still most tightly linked to the dollar — that face the worst prospects for 1977-78; the Caribbean region on the other hand — the area most rapidly developing ties with the emerging new monetary system — has excellent prospects for dynamic industrial and trade growth even in the short term.

The recent meeting of the Comecon Executive Committee in Havana, Cuba, laid the institutional basis for incorporating the Caribbean region in particular into such expanded trade and development deals. (See EIR Vol. IV No. 4). Both Jamaica and Guyana have already established firm links with the Comecon. This move, along with the Venezuelan push for expanded trade within the region, and plans for rapid national industrial development, point to a strong growth potential for the Area. (See EIR Vol. IV No. 5 "1977 May Be a Boom Year for Jamaica").

In contrast, those Latin American economies still strictly tied to the dollar monetary system, are poised for a rapid plummet in real growth for 1977.

The main reasons for this are the unmanageable immediate debt burden these countries face, and the toll that meeting past debt payments — through stringent domestic austerity regimes — has taken on the viability of their respective labor forces.

The Chilean "Final Solution"

In Chile we see the "final solution" that Friedmanite monetarist policies have brought about. The Chilean economy today is so de-industrialized and shrivelled by austerity that is hardly merits being called a national economy at all. Although competent figures on the state of the real economy are hard or impossible to come by, it is the case that the entire monetary superstructure of that economy collapsed like a house of cards in late 1976 and early 1977. The fly-by-night financial institutions, known in Santiago as "crocodiles", which serviced up to half of the domestic corporate credit market, went totally bankrupt — leaving the Pinochet government trying to pick up the pieces.

Chile's disastrous prospects for the coming period are perhaps the best indication of the final resting ground of all those Latin American countries that have chosen to steer clear of the New World Economic Order out of loyalty to their creditors.

Chile: Nothing Left To Loot

New York Times Latin American correspondent Jonathan Kandell recently reported that there is no longer any smog over Santiago, Chile, an industrial city which was once covered daily with a thick haze produced by industry and commerce. The reason: as a result of monetarist looting policies dictated in 1973 by Milton Friedman on behalf of the New York banking community, industrial activity has virtually ceased in Chile.

There is no exaggeration in this estimate. After three years of liquidation of the Chilean economy by the Pinochet regime to meet Chile's debt servicing schedules to the New York banks, (the overthrown Allende government had declared a debt moratorium), the country is as devoid of wealth and wealth-producing activity as sixteenth century Mexico, after the Spanish conquistadors had reduced that nation's population by 90 percent in the course of extracting loot to pay Spain's creditors, the exhaustion of Mexico led to the fabled Spanish bankruptcy

which brought down all the major banking houses of continental Europe.

The situation in Chile was brought home with a vengeance to the New York financial community with the collapse of the entire Chilean banking system following the bankruptcy over the past two months of at least seven of the official loan-sharing finance companies which had been the only real source of credit in the country since 1974. The crash last month of a major bank associated with the finance companies and the ensuing panic among savers has terminated the last semblance of economic activity in Chile, providing an ironic epitaph for the nation's economic policies authored by monetarist quack Friedman, who was awarded a Nobel prize for his efforts only last fall.

Under the destructive austerity regiment prescribed by Friedman, even bread is becoming a luxury: as of December 1975, the average white collar worker had to

Purchasing Power Of White Collar Workers In Chile

| DATE | MIN. SALARY KILOS BREAD PER DAY | MIN. SALARY KILOS BREAD PER HOUR | HRS. WORK TO BUY 1 KILO BREAD |
|------------|---------------------------------------|--|-------------------------------------|
| SEPT. 1973 | 22 k. | 1.45 k. | .69 HRS. |
| MAY 1974 | ----- | .41 | 2.54 |
| SEPT. 1974 | 11 | ----- | ----- |
| NOV. 1974 | 9 | ----- | ----- |
| FEB. 1975 | ----- | .17 | 5.78 |
| MARCH 1975 | 4 | ----- | ----- |
| DEC. 1975 | 2.84 | .16 | 6.10 |

SOURCE: ANDRE GUNDER FRANK, "GENOCIDIO ECONOMICO EN CHILE: SEGUNDA CARTA ABIERTA A MILTON FRIEDMAN Y ARNOLD HARBERGER," IN CHILE AMERICA (ROME), Nos: 19-20-21 (JUNE-JULY 1976), 39.

work more than 6 hours to earn the cost of 1 kilo (2.2 pounds) of bread (see table). According to an April 1975 study, "Whereas in 1969, fewer than 30 percent of Chile's population had incomes insufficient to meet minimum caloric and protein requirements, our results suggest that 85 percent of Chile's population are now below the poverty line and suffering from malnutrition, while 60 percent of all households (primarily blue-collar workers) are in conditions of extreme poverty and malnutrition. With the statutory minimum family income implemented by decree-law in January 1974, a family of average size, allocating *all* of its expenditure to the purchase of food could, (in terms of March 1974 prices) purchase less than half the food necessary to meet minimum caloric and protein requirements." (1)

The fascist Pinochet regime has recently announced an end to free public education as well, imposing tuition charges that will eliminate all but the wealthiest students from the nation's schools.

Under the impact of this unravelling, last month saw the first public demonstration against the Pinochet regime since it took power in the 1973 CIA-run coup against Salvador Allende — by small investors in the bankrupted finance companies who had previously been partisans of Pinochet.

The Crocodiles

The now-bankrupt finance companies got their start in 1974, with Gen. Pinochet personally encouraged some of his fascist backers to establish a black market in credit. Pirating government money and student welfare funds to get off the ground and keeping almost no reserves, these fly-by-night loansharks, known as "crocodiles" among Chileans, then lent out vast multiples of cash to businesses strangled by the regime's monetarist policy of credit restriction.

Their rates were 40-60 percent per month, with the

1. Michel Chossudovsky, "Chicago Economics, Chilean Style," *Monthly Review*, Vol. 26, No. 11 (April 1976), 16.

fascist Catholic organization, Opus Dei, running the largest of these usury rackets. At their height, they numbered 200 "informal" firms, and 24 "official," and had a monopoly on credit in the economy. The firms rapidly pyramided their meager starting capital into financial control over perhaps half the private companies in Chile, casually "eating up" industries which could not keep up with debt payments.

According to an article headlined "Money Troubles for Monetarists" in the January 19 *Financial Times* of London, their bubble burst as a result of Pinochet's "success" in cutting Chile's inflation rate to a mere 174 percent in 1976, as per Friedman's prescriptions. The crocodiles' bankrupt victims were consequently unable to repay loans granted at 500 percent interest.

Wall Street Banks Burned

Top Wall Street circles are in a panic over the situation. Not only is the unravelling of the credit system a bad portent for Chile's future debt paying ability, but, according to widespread reports in the financial community, several major New York banks were heavily invested in the bankrupt finance companies.

Citibank in particular, sources reveal, was deeply into the "crocodile" firms under the table, and has taken a bad beating from their failure. Despite Citibank denials, the sources say the bank, which was the first foreign bank to resume operations in Chile following the Pinochet takeover, bet heavily on the crocodiles' operations, both because of their monopoly on credit, and in expectation of high profits from the crocodiles' usurious interest charges.

Pinochet has attempted to mollify the angry investors in the companies by promising to repay them from government funds. And the government can boast that it was able to pay off the entire \$900 million due its Wall Street creditors in 1976 without any refinancing by paying them a full 45 percent of its export earnings. But the prognosis is that there is little future for Friedman's austerity and debt-repayment gameplan in Chile.