EIR Economics

Payments squeeze to follow IMF packages

by Dennis Small and Mark Sonnenblick

To hear Secretary of State George Shultz and Treasury Secretary Donald Regan tell it, the International Monetary Fund (IMF) and the Ditchley Group creditors' cartel have resolved the world's financial crisis at a stroke—by announcing over $20 billion in financial bailout packages for the bankrupt Third World nations of Brazil and Mexico. On Feb. 25, Brazil signed over $9 billion in credit deals with the international banks, and three days later signed with the IMF for another $5.9 billion. Mexico in turn secured a long-awaited $5 billion jumbo loan with its bank creditors on March 4.

Most of the U.S. media celebrated the news as positive proof that the worst of the financial crisis had now passed. Shultz concluded that it augured the beginning of the long-awaited "economic recovery." And banker David Rockefeller went so far as to proclaim the end of the world debt crisis.

The facts say otherwise.

First of all, the terms of the IMF deals with the Mexicans and the Brazilians guarantee that these economies will be plunged into profound economic depressions—as a result they will be unable to repay their debt. Brazil's IMF "conditionalities," for example, include the destruction of the Brazilian labor force; a 20 percent cut in state company budgets; a $10 billion cut in government lending to private companies; a 23 percent currency devaluation; and the auctioning off of bankrupt Brazilian state companies and private firms to "foreign investors."

The terms the IMF is exacting of Mexico are equally destructive. And Venezuela, the only major Ibero-American nation not yet subjecting itself to IMF conditionalities, is expected to finally crawl to that august institution within a few weeks, after being hit with a full-scale campaign of financial warfare (see article, page 7).

Secondly, the monetary arrangements themselves amount to a dangerous pyramiding of insolvent paper, one that could well come crashing down before April.

EIR economists have discovered that approximately $40 billion in new short-term credit lines were extended to Ibero-American countries during the past six months (August to February) by New York commercial banks, in order to prevent the Ibero-American "debt bomb"
Combined with other debt obligations coming due at the end of this payment quarter, it is estimated by bankers in the United States and Europe that a total of $90 billion will have to be rolled over between March 15 and March 31. The biggest surge in the money-market lending, which occurred principally in the form of overnight federal funds loans from New York or other big U.S. banks to New York agencies of Ibero-American banks, occurred during the fourth quarter of 1982. Since figures on lending from that period have not yet been published, many bankers and financial officials are in the dark about this imminent $90 billion payments squeeze.

Looked at in this context, the much-touted bailouts for Brazil and Mexico have in effect poured another $20 billion in oil on a raging fire of $90 billion in already illiquid debt that, somehow or other, has to be paid or papered over once more before April 1.

The Brazil case

The hundreds of men with drawn faces who lined up to sign papers in New York on Feb. 25 were too well dressed to be on an unemployment line. They were representatives of 135 banks signing contracts at the Plaza Hotel to provide

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Brazil with $4.4 billion in new loans, and of over 400 banks agreeing to extend, for another eight years, the long-term loans coming due in 1983, which Planning Minister Delfim Netto estimates involves another $4.9 billion.

On Feb. 28, the scene shifted to Washington, where the International Monetary Fund (IMF) directors approved Brazil's three-year "stabilization program" and the $5.9 billion the IMF will dribble out over the period if Brazil complies with the rigorous conditionalities set for it. From the statements of Secretary of State George Shultz, hailing the signing of the Brazilian and Mexican negotiation packages as "the beginning of world recovery," one might conclude that Brazil has been handed $15.2 billion.

On the contrary, Brazil remains on the edge of bankruptcy. The cash flow situation is so tenuous that it took Brazilian Finance Minister Ernane Galveas almost half-an-hour to map out at the Plaza how Brazil would meet its complex pile-up of arrears, overnight loans, and "bridge loans" from the trickle of disbursements of IMF and bank credits.

One of those loans is $1.2 billion owed to the Basel-based Bank for International Settlements (BIS). When BIS managing director Fritz Leutwiler rebuffed a Brazilian diplomatic campaign and consented to extend the due date on $400 million only from March 6 to March 15, it upset the Brazilian plans so severely that Delfim Netto had to implore U.S. Treasury Secretary Donald Regan for another $400 million bridge to pay off the BIS.

The fragile debt-pyramid holding up Brazil's $88 billion debt could crash down again at almost any moment. It is vulnerable to a political decision by the banks or by Brazil, and to Brazil's inability to export $500 million more than its imports each month. Morgan Guaranty's diminutive vice-president Tony Gebauer admitted to *EIR*, "there is no guarantee" of the Brazilian program if there is no economic recovery in the United States. But he professed to be "more optimistic, since there will be very strong limiting of imports by Brazil to compensate for any problems meeting export goals."

IMF straitjacket

When the smoke clears, it will be seen that Brazil has gained little by choosing the path of bilateral debt renegotiation with the IMF and the banks rather than forming a debtors' cartel to force joint debt renegotiation—except for an increasingly rigid IMF straitjacket on its economy. As in the case of Mexico, disbursements of the $4.4 billion "jumbo" loan from the banks have been made conditional on IMF quarterly inspection approval.

From what *EIR* has learned to date, the IMF has ordered Brazil to: 1) implement large "shock" devaluations; 2) reduce imports by 17.5 percent from 1982 levels and 40 percent from 1980; 3) destroy the Brazilian labor force through changes in the wage indexing system and outright fraudulent indexing; 4) reduce population growth; 5) impose "the end of heavy industrial projects," in the words of the IMF Brazil-desk officer; 6) eliminate $10 billion in subsidized credit to agriculture and industry; and 7) encourage "foreign investors" and asset-strippers to buy up control over capital-starved public and private enterprises.

For decades, far-sighted military and civilian planners in Brazil have taken great pains to build up and protect the kind of industrial base which would make Brazil one of the most prosperous and powerful nations on earth during the 21st century. It is precisely Brazil's capability for becoming a world leader, for becoming "the United States of the Southern hemisphere," which the forces behind the IMF want to eliminate. The feudalist mentality behind the IMF thinks of itself as a neutron bomb, a weapon which eliminates the population and the flag from the target area, leaving the natural resources for the invading force.

The IMF makes no bones about its intention of causing revolutionary changes in Brazil: "The strategy of growth with continuously increasing indebtedness must be changed," states a confidential memorandum written for IMF directors by the staff on Feb. 11. An IMF economist stated in an early March discussion that the program for Brazil is meant to induce "a deliberate recession." He added that 1983 Gross National Product will be brought down by 3.5 percent, and industrial production by much more. In 1981, when a similar GNP reduction was effected, industrial production fell by 14 percent.

"There will be an end to heavy industrial development projects," the economist declared. The Feb. 11 confidential IMF staff memo states, "The volume of investments by state companies will decline almost 13 percent this year due to the advanced state of some big works, such as Itaipu Dam, and the deliberate slow-down of some projects. The main reductions were programmed for investments in steel (−57 percent), roads (−28 percent), hydroelectricity (−23 percent), and nuclear energy (−22 percent). In addition, no new big investment projects will begin in 1983, except parts of the Carajás project which are totally financed abroad." The IMF economist added, "There is no such thing as 'Greater Carajás;' it is just some mines, a railroad, and the hydroelectric power needed to operate them."

Denationalizing industry

When Delfim Netto signed Brazil's letter of intent with the IMF on Jan. 7, one of the only examples he found to refute widespread accusations that the IMF program had been "imposed" on Brazil was that fact that the IMF yielded on its insistence on a "shock maxi-devaluation," and instead tentatively accepted Brazil's long-time practice of devaluing frequently by small percentages, so long as they were 1 percent per month ahead of inflation. On Feb. 18, when the Banco do Brasil was heading toward $1 billion in arrears and Brazil was desperate to get the long-delayed IMF and banker signatures on its loan package, the central bank issued an unsigned note reporting the cruzeiro had been devalued by "30.0002 percent."

The bi-daily economics intelligence newsletter *BC* reached the correct conclusion: "The fact that European bankers were happy with the maxi-devaluation shows it was the fruit, not of policies which could be easily explained, but of pressures we are suffering as debtors, to conclude agreements. . . . It is no secret that the maxi will permit the sale of national businesses in vital sectors under better terms for the foreign purchaser." First the maxi forces a company to come up with 30 percent more cruzeiros to pay each dollar in foreign debt; then it permits the foreign purchaser to pay 23 percent fewer dollars for properties in Brazil.

Never since 1964 has the capitalist sector been so angry at the government. Antonio Ermirio de Moraes, head of Votorantin, Brazil's largest industrial conglomerate and a prime target for such takeover, called the maxi "an act of treason by the government."

For the IMF, Brazil has not yet thrown its doors open wide enough to foreign buy-ups. The IMF economist source complained, "Until now, Brazil has not allowed foreigners to own much of its industry. The country is too nationalistic. This is a political problem. If they want to grow at 8 percent a year and can't generate the funds domestically, they will have to allow in foreign investors. They will have to modify their laws against direct foreign investment. They have to decide whether they want to be owned by foreigners."

The Brazilian government has made itself increasingly captive to Brazil's foreign creditors as it has alienated one internal sector after another. Business, labor, and the nationalist bureaucrats are in open revolt.

The IMF, he said, is now enforcing what they can of what is, under Article 29 of Brazil's letter of intent to the IMF, "the end of all restrictions on dividend and royalty payments and profit remittances abroad [out of Brazil–ed.] by foreign investors." he added, "We'll have to see if foreign investors have confidence in Brazil."

Killing by the index

If the IMF cared about inflation, it would not force devaluations and high interest rates. In reality, it is more concerned with reducing imports and, ultimately, with reducing population. Thus, all recent IMF reports have demanded that Brazil slash real wages.

On Jan. 26, President João Figueiredo put his name on a decree ordering a 10 percent reduction in the wages of lower paid workers and most others. The IMF's Feb. 11 confidential staff report says, "The new wages policy is superior to the old one, but [private sector wages] still are an inflationary factor."

After the maxi-devaluation, however, a new confidential IMF report observed that "the average real wage in the private sector and state enterprises will decline by 2.5 percent in 1983" and those of central government employees by 7.5 percent. The IMF mandates, "The National Index of Consumer Prices, which is used for wage adjustment, will be modified to exclude the affects of acceleration of devaluation and of corrective price increases, so as to facilitate changes in internal relative prices and in international transactions."

Sure enough, on Feb. 28, the technical director of the government statistical agency, IBGE, resigned in protest over orders from Delfim Netto that the cost of living index be distorted by "purging" those items which show rapid price increases; this would be a rerun of Delfim's cheating workers of 33 percent of their income by similar statistical lies in 1973-74.

IMF officials refuse to speak on the sensitive question of population control. Demands for population reduction as a condition for bank lending, were, however, made sickeningly explicit by David Rockefeller's aides Russel Marks and Robert Hormats in connection with the launching of Rockefeller's Commission on Western Hemisphere Debt at the Plaza Hotel the day before the Brazil loan ceremony.

Population control has been taboo in Brazil not only due to the great love shown the Pope in the world's largest Roman Catholic nation, but also due to a belief by the military that a large population is a vital factor in national strength. Yet, suddenly, President Figueiredo delivered a polemic against population growth and the growth of cities in his March 1 State of the Union address to Congress. That, and Figueiredo's public flirtation with Transcendental Meditation guru Maharishi Yogi, point to the degree of demoralization inside the Brazilian regime.

The Brazilian government has made itself increasingly captive to Brazil's foreign creditors as it has alienated one internal sector after another. Business, labor, and the nationalist segments of the bureaucracy are in open revolt. So far the military, the final arbiters, have been very quiet. Bankers, such as Bob Lorenz of Security Pacific, have warned the productive sectors that "a military reaction is a perfectly justifiable fear in the later part of this year" if producers fail to fully cooperate with the IMF program. Yet there are also signs that, at some point, the military could dump the debt and the IMF dictatorship.

To prepare for the worst, Figueiredo has given one of his brothers command over the Rio military region and another command over the perennial launching pad for coups, Rio's Vila Militar.