Ibero-America left with no choice but debt bomb

by Robyn Quijano

Ibero-America's foreign ministers and heads of state headed home from the Non-Aligned summit in New Delhi in mid-March to face a new level of disintegration of the continent's financial and political life. The imposition of conditions dictated by the International Monetary Fund—sharp devaluations and the doubling in prices of essential items—triggered general-strike activity throughout the continent. Military coup rumors were denied by the governments of Colombia, Venezuela, and Ecuador. All of Ibero-America began to look to the March 28-April 8 Buenos Aires meeting of the Group of 77 as an emergency strategy session to relieve the debt burden that is causing the triage of the continent's most advanced economies.

This reality has displaced the promises that an economic recovery is just around the corner which will somehow allow the continent to export its way out of the crisis. The choice is clear, and decisions will have to be made in coming weeks. Either the governments of the continent carry out the death sentence the IMF has passed on their populations, inviting the kind of social explosions that will end in military dictatorships, or they will wield the "debt weapon" in joint action to force the North to negotiate a new world economic order. This will be the only agenda item at Buenos Aires.

Results of IMF policies

Ecuador is a case in point. The government devalued its currency, the sucre, by 27 percent on March 17, and announced a 100 percent hike in fuel oil prices and other drastic increases in essential consumer goods, including a 40 percent hike in milk prices. The Ecuadorean United Workers Front trade union confederation called a general strike for March 24 and 25 against the measures which shut the country down.

Ecuadorean labor thus joined the continent-wide labor campaign against the IMF. The Group of 77 will be greeted by the reality of what is at stake in the current negotiations as the Argentine trade union confederation hits the streets in an anti-IMF strike on March 28, the opening day of the Buenos Aires meeting.

Ecuador's union leaders have put out statements that they are in no way attempting to provoke a military coup with their militant actions. But national governments have very little time to turn the current situation around before the continent's military forces start taking over.

On March 12, Colombian President Belisario Betancur made a special televised address to the nation to deny rumors of a coup and a major devaluation. During the next week Colombia was hit with $80 million capital flight, which forced the imposition of limited exchange control mechanisms, and the government announced that it is under "credit blockade" from the international banks.

In Venezuela, President Luis Herrera Campins was forced into emergency session with his defense minister on March 17 to quash rumors of a military uprising. Venezuela is the turmoil due to its recent devaluation and the credit cutoff that started several months ago to force that oil producer to bow to the IMF.

Venezuelan Finance Minister Arturo Sosa sent a telex on March 23 to the nation's creditors informing them of a three-month moratorium on principal payments on public debts falling due between now and July 1. The postponement, which affects an estimated $4 billion in short- and long-term government obligations, comes after Venezuela declared a moratorium on $7.5 billion in private debt at the beginning of March.

The announcement brings the total debt officially declared in moratoria by Ibero-American nations to over $15 billion within the past 10 days. Seven South American nations are now not making principal payments; the only major debtor yet to be heard from on the looming end-of-March deadline is Brazil, which has already begun to miss payments on import bills.

Actual non-payments are much larger than those recognized officially. Bankers in New York say they know of no one who has received any principal payments from Venezuela since late February, and the *Wall Street Journal* of March 24 cites London bankers reporting that Venezuela is one or two installments behind on interest as well. One bank is still waiting for an interest payment due Jan. 5.

The IMF team visiting Caracas has taken advantage of the financial crisis to leak its "recommendations" to the press: budget cuts, tight liquidity, higher interest rates, layoffs, selling off the state sector, and a devaluation.

Both labor and industrialists, however, say they will oppose the IMF policies. José Vargas, president of the largest labor federation, denounced the proposals as "contrary to our national sovereignty." Carlos Ramirez Machado, president of the Consejo de la Industria, an industrialists' lobby, said that "some of the IMF's recommendations are disturbing, especially since they expressly suggest that the government should prolong the recession."

Battle preview

The annual meeting of the Inter-American Development Bank (IADB) opened on March 20 in Panama with a preview of the battle that will take shape in Buenos Aires.

At the meeting of 2,500 government, IMF, World Bank officials, and private bankers, the Ecuadorean delegation floated a proposal for a debtors' cartel. The proposal was initiated by Ecuadorean president Osvaldo Hurtado in a letter to every other president of the continent; Hurtado describes the current crisis as similar to the Great Depression of the 1930s, and calls for a "Latin American action plan" to resolve the debt crisis.

Alfredo Vergara, an Ecuadorean delegate at the Panama meeting, said, "We believe the external debt of some Latin American states have common factors that join us together. We feel that financial conditions must be somehow more flexible." He said that there has been "more than a little support" for President Hurtado's proposal among the debtor nations. Reportedly it is the smaller nations that have responded most readily to the initiative, which includes a debt moratorium for the rest of this year, a stretching out of the debt over six years, a reduction in the spread (the cost to borrowers above the banks' cost of obtaining funds) and provision of new loans to the cash-strapped economies.

The proposal contemplates a limited bargaining bloc of smaller debtor nations to form a group that could have some power at the negotiating table. Although the New York *Journal of Commerce* reported on March 20 that "rumors of a debtor-nation cartel that would include Brazil and Mexico have been coming out of Brasilia," the Ecuadoreans do not believe that the $200 billion debt of these two countries will be part of their bargaining chips.

IADB head Antonio Ortiz Mena, an arch-monetarist, nevertheless demonstrated the panic of the banking community that the Ibero-Americans as a whole may "stop talking and do something." When asked in Panama about his opinion of the debt cartel idea, he called it "suicidal." Things are not as bad as they seem, was the line, asking the developing sector to hold its breath, wait for the recovery, and cooperate with the IMF.

"The apocalyptic predictions of the recent months are not acceptable because they are based on erroneous conceptions," Ortiz Mena told the IADB board of governors. He qualified as erroneous any "suggestion that some countries are in danger of bankruptcy, and exaggerating the magnitude of the crisis through the manipulation of gross figures, and through stressing the magnitude of the foreign debt of a country or groups of countries. Reality says otherwise, and we have reason for discrediting the alarmist tone that the debate respecting the foreign debt of Latin America has taken on."

The reality of coup plots, destabilizations, devaluations, and destitution has made it impossible for most of the governments of the continent to accept Ortiz Mena's forecast.

Venezuelan President Herrera Campins underlined the gravity of the economic crisis in a meeting of the Andean Parliament on March 18, stating that foreign indebtedness is the major problem of the developing sector. He attacked the "real offensive of the nations of the North against institutions of mulitilateral cooperation to force us to go to a forced bilateralism out of necessity. . . . But we developing nations . . . must stick to multilateralism as the best stage for the hard and deep struggle in which we are involved." He continued: "Current events push us toward an authentic pact of thought, will, and asperations. Together we can do great things, venture great enterprises."

Herrera has had important experience in this fight, since a broad-ranging operation was run to keep his government out of the Non-Aligned movement after he had announced his intention to join.

Ibero-American leaders stressed in late March that they see the only possible defense of the continent in joint action, and understand they will have to fight to defend that right. Colombian President Betancur responded to a U.S. journalist who asked why he did not make his nation's recent entrance into the Non-Aligned movement part of his electoral campaign last summer, "If I had said that I never would have been President of Colombia, because your country would have mobilized your power to prevent me from winning the presidency."

Mexican Foreign Minister Bernardo Sepulveda made the following statement on the anniversary of the birth Benito Juárez: "Though some obstacles [to solving the crisis] are internal, others are international. To remove them requires the organization of the international world, and as a starting point, a militant and pronounced effort of the progressive forces among the community of nations. We can't even attempt effective solutions to the crisis if we don't think beyond our borders."

Continental solidarity in the form of an Ibero-American common market and a common strategy for defending the resources, infrastructure, and industry from IMF looting is already under serious negotiation.

The oil and energy ministers of Brazil, Venezuela, and Mexico met on March 23 in Mexico to discuss a joint defense strategy against the Anglo-American efforts to force Ibero-America to become a "Western Hemispheric Reserve." In particular, Mexico and Venezuela have come under heavy pressure to end all "South-South" collaboration on energy strategy—whether with OPEC or the Mexican-Venezuelan aid program for Central America—and agree to sell all their oil cheaply to the United States as the price of any financial aid package.

Brazilian Energy Minister Ceasar Cals reported to the press in Mexico that under discussion at the energy ministers' meeting is the creation of a "Latin American market for Energy and Hydrocarbons" to "confront the manipulations of the industrialized countries against Third World nations. This will contribute," Cals explained, "to the development of Latin America, enabling the political stabilization of the region." Cals added that Brazil is interested in barter arrangements of Mexican oil for Brazilian manufactured goods, but discussion on this latter point would wait for Brazilian President Joaõ Batistate Figuereido's visit to Mexico in the middle of April.

Venezuelan Oil Minister Calderón Berti stated that Venezuela will maintain its commitment to the San José accord, the agreement between Mexico and Venezuela to subsidize the sale of oil to the Caribbean and Central America for political reasons, even though this means a "sacrifice" for the country economically. Calderón Berti added in his press statement that Mexico, Brazil, and Venezuela plan to accelerate the creation of the tri-national oil company, Petrolatin, in order to aid other Third World countries.

Bankers in New York stated March 23 that one of the conditions for any refinancing package for Venezuela was that Caracas pull out of the San José accord, and the government is now split over what to do. When Venezuelan financial officials announced that the government would abandon the accord, an immediate statement contradicting the report was issued by the foreign minister and then the oil minister.

Interview: Ecuador's Foreign Minister

'Political will could solve economic crisis'

Over the past month, EIR *has had the opportunity to speak twice with the foreign minister of Ecuador, Luís Valencia Rodríguez, about the economic and political issues facing Ecuador and the Ibero-American continent. The first interview was conducted in Cartagena, Colombia on Feb. 19, by* EIR*'s bureau chief in Colombia, Carlos Cota Meza.*

Cota Meza: What is the basic purpose of the letter sent by your President to the heads of state of the region?

Valencia: On Jan. 16 the president sent a letter to the executive directors of SELA [Latin American Economic System] and CEPAL [Economic Commission for Latin America] in which he emphasized the crisis every country of the region suffers today. This is the most serious crisis of the postwar period, similar only to the Great Depression of the 1930s. It is possible that we are on the brink of a great collapse; that is what we have to assume. By asking these two entities—SELA and CEPAL—to prepare a Latin American response, a Latin American plan of action to this crisis, President Hurtado is opening the door to a broad debate on the subject.

As for the magazine that you represent, let me tell you that Ecuador has received an enthusiastic response from your director, Mr. LaRouche, indicating that [the President's] proposal is a project worthy of the support of all the region's heads of state.

Cota Meza: Mr. LaRouche has emphasized that the only alternative for restructuring the international financial order, or creating a new world economic order, is to declare a joint moratorium on the debts of the Third World.

Valencia: I would have to say that there have been a number of proposals, including Mr. LaRouche's, indicating that after the Bretton Woods agreements were established in 1944 and even with the restructuring of the entire economic and financial system in effect to date, this system no longer responds to the world's needs. Today the world is different, and it is therefore necessary to totally restructure the existing financial and economic system, including substantial changes in the Bretton Woods agreements. This would mean altering the structure and mechanisms established within the International Monetary Fund, the World Bank, and the GATT [General Agreement on Trade and Tariffs]. All of these are fundamental changes that should and must be studied in great depth.

As for a moratorium on the Third World's debts, this