

International Credit by Peter Rush

The plan to destroy Argentina

Mexico, Brazil, and Venezuela are getting breaks on debt, so that Buenos Aires can be isolated.

A top Chase Manhattan source close to Henry Kissinger revealed on Aug. 30 that the generous 14-year loan stretch-out just granted to Mexico by major banks is part of a plan to isolate and crush Argentina. Once Mexico, Brazil, and Venezuela are "out of the way," he said, "we can tackle Argentina," declare it in default, and drive it toward Moscow.

The architects of the strategy are Henry Kissinger and Federal Reserve Chairman Paul Volcker.

Citibank sources announced on Aug. 29 that Mexico had received a 14-year stretch-out of debt principal due during the next five years, which will not have to be paid until 1998. There will be a grace period in 1985, during which Mexico pays no principal. Interest rates have also been marginally lowered, from almost 2% above the current 12% London Interbank Rate, or 14%, to an average of 1½% above, or 13½%.

In effect, Mexico will be paying only \$3 or \$4 billion in principal a year, starting in 1986. On top of that, of course, Mexico will have a \$12-13 billion annual interest bill, which will be paid from its export surplus.

On Aug. 28 Brazil also announced a new accord with the International Monetary Fund which bankers say will soon mean a principal stretch-out.

With the stretch-outs, however, are some painful conditions—if the debtors carry them out. Mexico has pledged to grant the private banks direct inspection over Mexico's internal financial affairs, "and the right to call the

country back to the negotiating table if they don't like what they see," one banker told the *Wall Street Journal* Aug. 30.

Brazil's new IMF program would require it to slash the budget and cut credit to the depressed economy.

In part, Mexico and Brazil, which have cooperated thus far with IMF austerity, are being "cleaned up" just before their own loan agreements collapse. "Everybody knows that Mexico will be in default as far as the IMF, that is, it will not be living up to its IMF dictates, by the end of the year, and of course, neither is Brazil, neither are any of 'em," said the Chase source. "So there's quite a bit of pressure on the majority of the banks to stretch out and lower the interest by year-end."

If this is not done, "the banks might have to take a big hit" on all the debtors going bankrupt, he said, and "no one in Washington in a political year wants a crisis."

But the main point is that Federal Reserve Chairman Paul Volcker wants to settle Mexico, Brazil, and Venezuela in order to "isolate, . . . tackle" and crush Argentina, he said. "There's a lot of internal pressure coming from the Fed to settle Mexico, Brazil, and Venezuela . . . in order to tackle the Argentine problem, which is unique and distinct, alone and by itself, before the end of the year."

"There is not a lot of good feeling for Argentina. The Argentines have serious problems. They may have to be dealt with a whole new way. . . .

Alfonsín has made up his mind that he won't squeeze down now. . . . The other three countries have bit the bullet, gone quite far down the road, restricting imports, fighting inflation, doing nasty, politically unpopular things. But Alfonsín has just not. . . .

"If you take a little bit of poison every year for six years, are you dead?" he asked. Alfonsín is balking at "taking a little bit more poison the first year and improving the situation."

"We can't stretch them out like the others if they won't deal with their own debt problems," he stated. "We want to let the situation get to the point where the other three are all settled, Argentina is by itself, with no IMF agreement, and at that point, the situation will have gotten so bad that they'll be forced to take action, external and internal."

At that point the banks intend to force Argentina into default. "Nobody can make them do it, other than shut off the money. That's not an arbitrary statement, to say that 'You've not been good boys, so we won't buy you a sucker'; that's just a fact of life. Nobody's going to give them any more money unless they take steps to cure their own acne. . . ."

The banks plan to simply force Argentina to pay up all debts or be declared in default, and force them into the Soviet camp. "If for some reason they can't pay their debts, ultimately their only trading partner will be Russia," he said, "The law is the law. Once the loans are 90 days past due, you have to write them down. . . . There's been quite a bit of Argentine loans written off already.

"Ultimately, Argentina is going to be in kind of a bad position. It takes foreign credit to handle foreign trade. They won't feed themselves as well as they have been living. Ultimately they will face a crunch. Their standards of living will have to change. . . ."