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Banks threaten seizure of assets to smash Ibero-American debtors

by Mark Sonnenblick

Peruvian President Fernando Belaunde made a plea for mercy to the country's creditors in his year-end speech. In doing so, he ate his words of a week before in which he had threatened a region-wide debt moratorium if bankers pushed too hard.

Belaunde's turnaround came at the end of a marathon Dec. 26-27 cabinet meeting in which his debt negotiator, Chase Manhatten's former Peru representative Manuel Ulloa, conveyed banker threats to seize Peru's assets abroad if debt payments were not resumed. Belaunde countered with his fervent hopes that the Reagan administration would bail out Peru, if only to reward him for being one of most consistent supporters of State Department policy in Ibero-America since he first became President in 1963.

Belaunde guessed wrong. "U.S. officials say, however, that the Reagan administration currently is not willing to come to Peru's aid," the *Washington Post* later noted. On the contrary, State and Treasury officials are acting as sounding boards for the violent threats emanating from Peru's bankers. "The banking community can afford to eat Peru. They can take the loss and just cut the country off. Some bankers think the consequences could be rather salutary," a State Department official gloated.

Gross threats of asset seizures were first voiced on Nov. 26 by the City of London's *Financial Times*. During the first days of December, the New York banks passed the message to Ulloa that if Peru failed to come up with some $300 million in overdue interest by the end of the year, it would be crushed. *The Wall Street Journal* added its comments on Dec. 10: "A frustrated creditor bank might try to collect by attaching any assets Peru has abroad such as exports in transit. That in turn could set off a race in the courts with lenders vying for Peruvian holdings."

These threats are real because the banks are livid with anger that Peruvian President Fernando Belaunde finally gave up his abortive attempts to impose IMF policies on a hungry population, whose despair has been exploited by the genocidal Shining Path Maoist insurgency. Because his austerity has not been stiff enough, the bankers have refused to sign a $2.6 billion debt deal which had been announced in February. To compound the debt problems, the banks have wiped out more than half of Peru's $900 million trade credit lines since June.

The last straw came in December when Belaunde abruptly ended a nationwide state of seige and restored constitutional rule, telling the bankers that he planned to carry out democratic elections in April without the disruption caused by anti-austerity strikes and riots. "The big problem is Peru," the debt chief of a major California bank told *EIR* on Dec. 21. "In an operating sense the government has collapsed. Belaunde couldn't care less about economics; he's turned his back on the problem. The banks are going to have to write down their reserves against Peruvian debt next year."

Another banker said, "No one is talking about the debt bomb, at least in the short term. And in that light, Peru has behaved very badly. A lot of people are disgusted with Peru."

In the end, it was Belaunde who snapped. He replaced the finance minister with a Wells Fargo man, scraped up $50 million to pay interest for the first time since June, dropped demands that the banks restore credit lines, announced the coming of a new International Monetary Fund (IMF) mission, and warned his population that the New Year heralded "tough and severe" austerity.

Citibank vice-president William Rhodes, the spokesman for all the bankers in most of the debt renegotiations, proclaimed at a London banking seminar on Dec. 6, "For the first time in two years, no country is facing an immediate debt crisis." Rhodes painted a rosy picture of the debt crisis being solved through bankers and the IMF having persuaded debtor countries to agree to starve their populations and cripple their industries.

First Brazil, then Mexico, Venezuela, and Argentina agreed to subordinate their internal needs to an all-out effort to pay interest. With Washington backing up the IMF, smaller countries like Peru, Chile, or the Dominican Republic have precious little room to maneuver.

During the last year, some $50 billion flowed out of the capital-poor countries of Ibero-America to service debt payments. To make those payments, they cut off imports and dumped products at whatever price they could get on world markets. Brazil, for example, paid $13 billion in interest to

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the banks, an amount equal to its record trade surplus. The Reagan administration kept the door open so that Brazil could pour 59% more underpriced products into the U.S. market. That way, the administration could avoid sitting down with Ibero-American presidents—as suggested by U.S. economist Lyndon LaRouche in his Operation Juárez proposal—to work out a genuine solution, based on economic growth and development.

Mexico fails to pay

Back in late 1983, Mexico became the first in a string of major Ibero-American debtors to be granted "generous" terms on its refinancing of otherwise unpayable debt. Similar deals have been announced or are being negotiated with Venezuela, Argentina, Brazil, and Peru.

Although it has not yet even been signed, the $48.5 billion Mexico package, announced in August as "the biggest debt restructuring in history," is already falling apart. Some 500 banks received telexes sent by Mexican Finance Minister Jesús Silva Herzog on Dec. 17 giving them the bad news that Mexico could not pre-pay $1 billion in debt before the end of the year. Mexican debt negotiators had promised in August to do that "as a sign of good faith." Silva said Mexico could not pay because the bankers had not met *their* promise to sign the contract by the end of the year. He, and Citibank officials, had hoped the deal would be signed in February, but other bankers told this press service it would not be until "the second half of '85," if ever.

U.S. Treasury helps Argentina sink

Argentina's creditors and the IMF gave themselves a respite at New Year's by approving its debt renegotiation plan at the last minute. The Argentine operation is one of those New Year's dramas which the Treasury Department has organized for various nations, including Argentina.

After all-night negotiations with the banks on Dec. 27, at which IMF head Jacques de Larosière made unusual appearances, Citibank's VP William Rhodes announced that Argentina's creditors had committed a "critical mass" of 90% of the $4.2 billion in new money they are providing Argentina over the next three years. That critical mass was demanded by the IMF, which met on Dec. 28 and approved Argentina's austerity program.

The IMF approval was announced, not by the Fund, but by the U.S. Treasury, which loaned Argentina $500 million of the $850 million Argentina paid on Dec. 31 to 320 creditor banks so that they could take Argentina off their "bad loan" lists and count its interest payments in their fourth-quarter profits. Argentina is expected to pay the rest of its $1.2 billion interest arrears and repay the loans from Treasury and various Ibero-American countries from the funds it hopes to receive from the IMF and creditor banks in February.

However, before the IMF will disburse those funds, Argentina will have to persuade the hundreds of smaller banks which are holding out to put in their share of new money. The banks will only sign the contract after the International Monetary Fund (IMF) locks Argentina into a depressionary austerity program that most Argentine citizens want to fight.

The terms given Argentina are far worse economically and politically than those granted Mexico and Venezuela in 1984. Instead of forcing Argentina to default on or repudiate some $25 billion in debts due before the end of 1985, the bankers are willing to stretch them out over 10 years, but at interest rates higher than those on most of the debt coming due, and with a hefty "front-end" fee.

Argentina will not touch a penny of the $3.7 billion in "new loans" which bankers will dribble to them during the next three years, but will instead use this liquidity to repay $1.2 billion already overdue and a small part of the future interest burden.

Debt is politics, not accounting

The smaller U.S. regional bankers who got nailed holding Argentine debt while grabbing for marginally higher profits from Third World lending may not be excited by the prospect of having their capital locked up in Argentina for another decade. But, for the larger oligarchic banks of Europe and their foot servants such as Chemical Bank and Bank of America, keeping the Ibero-Americans playing the debt game is a vital political question. For them, the important thing is how much of the natural and industrial resources of these countries they will be able to walk off with. Foreign bank representatives in Buenos Aires say that "with a lot of nerve you can make 25% a month profits" on under-the-counter lending to strapped Argentine industrialists and farmers. An Argentine lawyer told a judge on Dec. 26, "Some private bank agencies are loaning money at 53% monthly, taking advantage of the needs of some businessmen. Since the cost of living in December is expected to rise by not more than 19%, it is easy to conclude that such private *financieras* have committed the crime of usury."

One banker summed up the surrender of the Argentine debt negotiators: "Of course, the earnings are important, but more significant to most of us is the decided change of mood of the Argentines in this last round of talks." For a usurer, the key question is not how fast you can bankrupt your client, but whether you have the muscle to seize his properties once you have done so. It is easier to do if you control the judge. Though having promised not to, the Argentine government followed other Ibero-American governments in violating its constitution by submitting to the laws and courts of the lenders.

The bankers and the IMF are making the loans conditional upon Argentina reducing real wages by about 20%, further restricting imports, and exporting everything in sight. Tight money has already caused interest rates of over 2,000% and made businesses so short of funds that banks float bad checks for weeks, rather than bounce them, causing a chain letter of bankruptcies.