Ibero-America says no to the new Baker debt proposal

by Mark Sonnenblick

At the annual meeting of the Inter-American Development Bank (IADB) in San Jose, Costa Rica, March 25-26, Ibero-American debtors rebuffed U.S. Treasury Secretary James Baker's attempt to choke off one of the only remaining international credit sources which lends to countries without forcing them to submit to the ravages of the International Monetary Fund (IMF). Baker reportedly proposed to double U.S. contributions to the IADB if his ultimatum were granted, and to cut off contributions if not.

Baker demanded that the IADB stop issuing loans for development projects, and begin to impose "adequate conditionalities" of austerity upon recipient countries—like the IMF. The IADB is a small loophole in the IMF's credit monopoly, which Baker seeks to close.

The IMF has given Peru an April 15 deadline to pay $70 million in arrears, or find itself subject to total economic warfare. Peruvian President Alan García's declaration of independence from "colonial tutelage by the IMF" is not the "gesture of bravado" the *Wall Street Journal* says it is. García believes capital must flow into building the productive sectors and infrastructure needed for development, not to pay usurious interest. Peru says it cannot afford to pay more than 10% of its exports for debt service, without starving its people. And that 10% goes only to credit sources which continue to lend to Peru. That means not a penny for the IMF.

Yet, García has shrewdly avoided the temptation of haughtily walking out of the IMF. He will probably let the IMF, which has earned itself the hatred of even those countries which have licked its boots, arrogantly commit what will be widely viewed as "economic aggression" against Peru. Peruvian leaders seem ready to roll with the punches. They are betting on the IMF triggering such an outburst of solidarity with Peru from other debtors, that the move would backfire on the IMF.

Although debtor solidarity has tended to be exclusively rhetorical, it could become explosive under conditions of "a financial Malvinas" fought against Peru. The solidarity of Ibero-American countries in rejecting the imposition of IMF-style conditionalities at the IADB meeting was probably the broadest show of debtor unity to date. Even those nations which have submitted to IMF conditionalities stopped acting from short-sighted perceptions of self-interest and joined a solid debtor front in defense of sovereignty. That should, but probably will not, pop the complacent dreams of American bankers and financial media about how they have been able to divide and conquer debtors, since "every country's situation is different."

NSIPS/Stuart Lewis

James Baker III: His vaunted plan for dealing with the debt crisis was a desperate attempt to head off the threat of a debtors' cartel, and the threat of a banking collapse. But Ibero-America is not buying this—or his latest move to impose IMF austerity conditionalities on the IADB.

Debtors have precious little to lose in joining Peru. Baker's deputy assistant James Conrow told the IADB meetings that under the vaunted "Baker Plan," banks must receive "favorable earnings on assets." That burst the illusions of countries like Mexico of submissively negotiating interest rates lower than prime or LIBOR.

At the end of the meeting, IADB president Antonio Ortiz Mena, who backs the "Baker Plan" and opposes Peru's efforts to restructure the world financial mess, forecast, "Until well into the 21st century, Brazil, Mexico, Argentina, and Venezuela will suffer the same economic situation as today, due to the debts they face." He also put "Peru and to a lesser extent Chile" on his critical list.

An Ibero-American bank

The IADB is unique in that 54% of its capital was paid by Ibero-American nations, which gives them the majority to approve lending for projects, based on criteria of regional integration, economic development, or social welfare.

Treasury's James Conrow demanded:

- that the IADB give the U.S. Treasury, which provides only 35% of the capital, power to veto loans;
- that the bank be run by Wall Street and Swiss bankers;
- that conditionalities on lending be imposed.

In opening the meeting March 25, Costa Rican Finance Minister Porfirio Morera Batres synthesized the response of the Ibero-American nations. He deplored "the attempt to alter the normal functions of the bank to convert it into one more instrument for controlling Latin America's economic adjustment process. . . ."

He continued, "Today, the heart of the adjustment problem is not a lack of discipline, but the excess of discipline to which the Third World countries are inequitably subjected. Latin America clearly needs the assistance of the industrialized world. In exchange for it, however, it would not be legitimate, but rather would be perilous to ask us to give up . . . [designing] our own policies or to look impassively on the impoverishment of our people, many of whom are on the other side of the critical poverty line. Sooner or later, this road will lead to disruptions that make our societies ungovernable."

Kissinger Associates

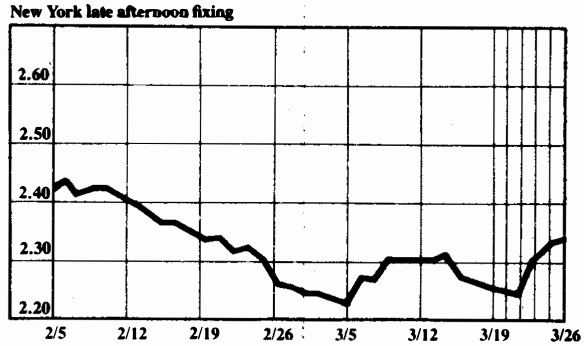
The marching orders for the banks come from Kissinger Associates, Inc, whose Alan Stoga claimed in the *Wall Street Journal* March 25 that debtor countries have imposed austerity on themselves, "but they've barely moved at all to revamp their own economies." The former head of the Rockefeller Commission on Western Hemisphere Debt, Robert Hormats, echoed, "The heart of the problem is domestic restructuring. Unless these countries put their own economies in order, any new money either will be misused or lost in capital flight."

"Restructuring" is a code word which means turning over to creditors a country's natural resources and its strategic industries built over decades by state investment. The *Journal* observed that state-sector industries are so central to countries' aspirations for escaping from poverty, "that revamping them risks sparking a revolt." It quoted a Brookings Institution expert, "The $64,000 question in the case of Mexico is what does structural reform mean for the political system? Throwing the existing government out?"

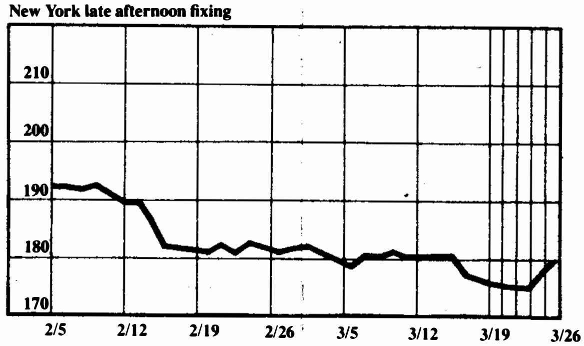
The paper also raved about Peru's "defiance" of the IMF and complained that "Peruvian President [García] hasn't used his political capital to begin restructuring Peru's badly tangled economy," as per Kissinger's orders. "If everything continues as is, we'll be confronting a crisis of major proportions," the *Journal* quoted Roberto Abusada, former vice-minister of finance who helped Dope, Inc. take over Peru.

Currency Rates

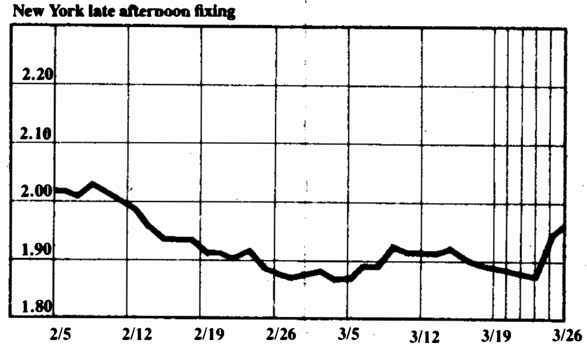
The dollar in deutschemarks
New York late afternoon fixing



The dollar in yen
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing