

# Rate Hikes Will Blow Out Ibero-American Debt

by Gretchen Small

Even a small increase in U.S. interest rates, of the sort now widely expected from Alan Greenspan's Federal Reserve, will blow out the entire debt bubble of the Ibero-American nations, along with the rest of the Third World. While significantly smaller, in financial terms, than other bubbles which are also about to be detonated by the interest rate hike—the combined real foreign debt of Brazil, Argentina, and Mexico totals, for example, some \$1 trillion, as compared to a U.S. mortgage market bubble estimated conservatively at \$12 trillion—this debt bomb's explosion would have scarcely less significant *political* consequences. Should governments not intervene to take charge, a regionwide disintegration looms, more dramatic in impact than the 1998-99 bankruptcies of the Russian GKO and Brazilian debt markets. It would surpass, in social horror, even the destruction wrecked by the collapse of Argentina's banking system and government, and subsequent default, in December 2001.

*EIR's* Feb. 27 issue warned that Brazil's debt will blow the moment the conditions which favored Brazil's creditors in 2003, end (low U.S. interest rates, a devalued dollar, a low country-risk rate, high foreign investment, and the Lula government's honeymoon with expectant voters, who were willing to tolerate his even more brutal austerity than his predecessors'). That reality is here. With over \$500 billion in real foreign debt, Brazil is the Third World's largest debtor. And when it goes, the whole neighborhood follows.

## Bankers Eye the Blood of the Poor

This problem has now dawned on the world's financial pundits. Since April 2, everyone from the International Monetary Fund (IMF) to the World Bank, the Inter-American Development Bank to London's *Economist* magazine, have issued warnings that an interest-rate hike threatens the whole Ibero-American debt. But their proposals have been uniformly psychotic and genocidal, proposing to *increase* the rate of looting now to "soften" the effect of the coming crisis—on the banks.

IMF chief economist Raghuram Rajan warned on April 14 that when U.S. interest rates rise, as is "inevitable," it will bring "serious adverse effects" on the "emerging markets," as the bankers view Third World and former Soviet bloc nations. So, too, this specter dominated the discussions among the more than 7,000 people who huddled in Lima, March 29-31, for the annual meeting of the Inter-American Development Bank (IDB).

IDB chairman Enrique Iglesias had one message. Ibero-America is enjoying an economic recovery, he claimed, by which he meant that capital inflows—buoyed by high commodity prices on the world markets, unusually low global interest rates, and a devalued dollar—have allowed Ibero-American nations to meet, by and large, agreed foreign debt payments. But, he warned, these "favorable" circumstances are about to disappear.

The *Wall Street Journal* captured the surreal quality of the Lima discussions in an April 12 article musing upon the irony that while Ibero-America is "booming," the region's overall debt-to-GDP (Gross Domestic Product) ratio rose from 1997-2002, from 37% to 51%, despite billions of dollars in privatizations of state services; foreign investment dropped by 20%; unemployment rose from 10% to 15%; and 20 million more people, at least, fell below the poverty line. "If all this is occurring in good times, many at the meeting wondered, what can Latin America expect when borrowing rates begin to rise again, as they must as soon as U.S. rates go up?," asked the *Journal*.

The bankers demanded that provisions be taken, therefore, to *increase* the rate of looting from the region. Modernize the State yet more, by privatizing its responsibilities. Rip up the labor laws. Provide more enticements for foreign investors. Governments must "refrain from making unilateral changes to ground rules and agreements" with the private sector, Iglesias instructed. No "changes" such as *enforcing* the contractual obligations of the privatized state companies to provide adequate services and continued investment, as Argentine President Nestor Kirchner is mooting.

These are the very policies which have bled Ibero-America to death. Iglesias admitted at the conference that at least 44%, or 227 of the region's 480 million people, now live below the poverty line. Since most of the banks and state sector companies, and many of the pension systems, have already been seized, the financiers are looking for means to

extract the needed wealth from this mass of people. As Hernando de Soto told the *Wall Street Journal* after the IDB meeting: "The poor are our only hope."

The IDB conference included a seminar on how to turn remittances—the money sent home from the U.S. by millions of Hispanics to keep their families alive—into the new stream of liquidity which can bail them out. Remittances could total \$450 billion to Ibero-America over the next decade, yet only 5-10% of the households that now get remittances, do so via a bank, an IDB study presented in Lima estimated. So, a "remittance industry" (!) is being organized.

## The Brazil Volcano

Such fascist schemes may extract more wealth from the starving, if they are allowed to, but there is no saving this debt bubble: It is already unpayable, and an interest rate hike will only make it more so. The issue is political: How can the governments of the region survive the next explosion? How can they keep their nations intact? As Democratic Party Presidential candidate Lyndon LaRouche emphasizes, they will have to join with other nations to break with the system crushing them.

The IMF's chief mechanism to ensure public debt payments in Ibero-America, is through the conditionality of the primary budget surplus, calculated as: government revenues, minus all expenditures *except* debt payments. This has made the region's governments into vehicles for siphoning off the international banks' required portion of national GDP.

In 2003, inheriting a bankrupt economy, the Lula government of Brazil chose to make debt payments its first priority. In its first year in office, it achieved a record primary surplus of 4.38% of GDP. That covered only *half* of its interest payments due, however. Brazil paid a staggering \$50 billion in interest in 2003, 40% of the entire government budget. And yet its total debt *grew*!

To generate a surplus in the first quarter of 2004, the government disbursed only 2.8% of the total investment budgetted for 2004: 344 million of the 12 billion reals budgetted, to only 80 of 323 investment projects approved. As of March 26, not one real had been spent on "social inclusion" programs, nor on science and technology. Only 12.7 million reals had been spent on irrigation projects, and 71 million reals on fixing Brazil's rotten highways, zero for new railroads.

The Lula government now faces a social and political crisis which it may not survive. Protests engulf the country. The Federal police have been on strike for over a month, and a million public workers are set to meet in mid-April to discuss a national strike. Military families have taken to the streets, and they are being backed by the military high command. The Landless Movement (MST) and its Jacobin allies are keeping their promise to make this a "Red April," invading farm properties daily. Some say Lula could be ousted, as was Argentine President Fernando De la Rúa in December 2001. But Argentina is a country of 32 million people; Brazil, 170 million.