EIR Economics

Venezuela: 'David can triumph over Goliath'

by Christian Curtis

Venezuelan President Luis Herrera Campins shocked bank, IMF, and U.S. Treasury observers at the Caracas OAS debt conference Sept. 8 by warning them to "grant favorable, dramatic surprises" to solve the Third World debt crisis, "before the developing world unleashes even more dramatic surprises." To make the point explicit, Herrera cited the case of David and Goliath, reading from the Bible. "Experience teaches us that it is not true that the powerful can do everything, and the weak can do nothing should they decide to confront the former," he said. "The lesson is very simple: when will and courage ally with imagination, there arise means, resources. The Biblical simile bears no relation with the situation we face, but it does no harm to recall it. Besides, we have not seen the last of slings, stones, nor Davids."

The Venezuelan head of government's speech stunned the creditors. OAS chairman Alejandro Orfila, a long-time friend of Henry Kissinger and the International Monetary Fund, wore a face of chagrin as laughter erupted around the hall. Afterward, Venezuelan Finance Minister Arturo Sosa was seen outside showing members of another Ibero-American delegation how stones are hurled from a sling, and corridor discussion throughout the afternoon centered around the need to "gather stones."

More than any formally signed communiqués and elaborate agendas argued over according to the usual OAS diplomatic rules, Herrera's remarkable comments (see excerpts below) and their impact represent what is really going on: Ibero-America's continued push toward a debtors' cartel. It is the "unseen" process of an increasingly similar method of thinking among Ibero American leaders, an "imponderable" factor—as Herrera put it—that is so enraging, and so frightening, to the usurers who have made a killing off Third World debt.

Venezuela's Finance Minister Arturo Sosa keynoted the opening session Sept. 5 by calling for the creation of "institutionalized mechanisms for the systematic exchange of information on how to deal with the foreign debt." Although he hastened to add that the formation of a debtors' cartel "is not viable in the foreseeable future," bankers around the world are not so sure. "Sosa urges coordinated action on Latin American debt," read the headline of the Sept. 6 edition of the *International Herald Tribune* in Paris. Throughout Wall Street, London, and Zürich talk is dominated by fears of a "debtors' OPEC."

A showdown

To be sure, no formal declarations of such a cartel came out of the Caracas meeting. Rather, the final communiqué with its explicit statements of support for the IMF reflected accommodation to the pro-IMF delegation of State Department and U.S. Treasury officials. As during the Malvinas war, U.S. muscle prohibited the OAS from reflecting the true thinking of the Ibero-Americans—a fact trumpeted as a "victory" by the international media. But the victory is at best a pyrrhic one. Most of the declarations from the debtors' side at the conference hammered away at two points:

First, Ibero-America as a whole will not submit to IMF conditionalities that undermine the region's aspirations for industrial development.

Second, the region's governments will not tolerate what Ibero-American officials and press now denounce as "usurious" interest rates and fees.

The chairman of the conference, Diogo de Figueiredo, secretary of the OAS's Inter-American Economic and Social Council, declared, "It is unacceptable to make financial adjustments in countries in crisis at the expense of their installed productive capacity, social peace, and political stability." Figueiredo, the nephew of Brazil President João Figueiredo, pointed out that the region's external trade has declined 30 percent the last two years. Other representatives from Ecuador, Bolivia, and Venezuela echoed the theme that Ibero-America will not sacrifice its sovereign right to develop.

But the most dramatic presentation of the debtors' outlook came from the head of the Latin American Economic System (SELA), Carlos Alzamora, who argued the necessity for "joint consideration of the debt."

Treasury courts disaster

The U.S. delegation, coordinated by Treasury Undersecretary Beryl Sprinkel, arrived in Caracas looking for a fight. They have adopted a posture that can only be seen as an invitation to debtors to halt payments, at a time when Brazil and Venezuela, in particular, are already resorting to what the Group of 30 financiers' lobby calls "default by attrition"—economically surviving by simply letting arrears, including interest, pile up.

Sprinkel's minions immediately raised a flap by demanding a change in agenda, allowing them to speak second from the podium. Treasury official Paul McConagle had the audacity to tell the Caracas delegates, "We have no evidence of a generalized debt crisis"; he reiterated the line that all negotiations must go through the IMF. Sprinkel did not help when he told the press that it is not true that the Fund imposes austerity. "The IMF is the object of what we could call unjust criticisms," he whined, "It is accused of forcing recessions, or depression, or unemployment in nations. . . . Some argue that the IMF forces austerity upon these countries."

Said a member of the Mexican entourage, "The Americans are making dialogue impossible. It is clear they do not want to talk."

The U.S. team's penchant for "playing hardball" could well serve to strengthen Ibero-America's resolve. A month ago the pro-cartel leaders on the Ibero-American side were wary of this meeting, given creditor "assets" within the OAS machinery—particularly the U.S. delegation itself. Now the likely outcome is that the bullet-headed attitude from the creditors will convince all but the most timorous that unilateral debt action is the only policy course left open to them. As things stand now, they will take the results of this battle and move on to the SELA meeting beginning Sept. 12 in Caracas and the subsequent Quito conference of economic experts to further plan joint action, backed up by non-dollar trade agreements.

In fact, because of the behavior of the banks, this timetable may be moved up, and could even lead to "unforeseen consequences" such as blanket moratoria or defaults.

"We must admit that the present situation implies a great risk for the future economic development of the region and its capacity to face its commitments, as well as for the international financial system," warned Sosa in his opening address. IMF austerity, he said, "not only affects economic development but also runs unjustifiable risks to its social and political stability."

The IMF and the banks are now dealing from a position of weakness. In recent weeks their two biggest immediate problems, Brazil and Venezuela, have refused to fully implement the Fund's conditionalities, and arrears in both cases are rapidly becoming serious threats to bank balance sheets.

First, Brazil unilaterally told the Club of Paris official creditors that it was suspending not only principal payments, but interest as well—taboo in international finance. But the creditors dared say little. Then Brazil simply waltzed past the Aug. 30 deadline on a $400 million payment to the Swiss Bank for International Settlements. The Brazilians had already missed a similar amount originally due May 30, so they are now in double default. As recently as June or July, there would have been an uproar in the banking community over such audacity. But again, the event passed "almost unnoticed."

On Sept. 2, Brazilian central bank chief Carlos Langoni resigned, issuing a statement denouncing the IMF terms. Scuttlebutt in money centers tried to portray his ouster as meaning pro-Fund Planning Minister Antonio Delfim Netto was consolidating control and pushing for an early signing of the long-awaited third letter of intent with the IMF. But Finance Minister Ernane Galvêas' announcement of Sept. 6 dashed such hopes. There will be no signing in the immediate future, he said, precisely because of Langoni's departure. Besides, Galvêas added, Brazil's refinancing program does not depend on an IMF agreement. Jaws dropped around the world.

Brazil is in no hurry, Langoni confided off the record shortly before resigning. The country is using its $1.5 billion monthly earnings to pay off $600 million in oil exports, and another $900 million for crucial industrial inputs. Next to zero goes for paying debt.

The Venezuelans, too, are building up their currency reserves at the expense of principal and interest payments. Last week, Caracas announced—unilaterally—that it is "requesting" an extention of what was originally a 90-day moratorium last March. As creditors freely admit, they have no choice but to accept.

It is now the creditors' move. On Sept. 30 a hefty amount of Brazil's interest arrears will turn foul on the books of New York banks; according to New York State law, they must be declared non-performing, and will no longer be considered assets. It is also clear that the Ibero-Americans are calmly awaiting additional woes for the IMF when the Fund quota increase bill comes up before Congress. Word on the Hill, from the Fed, and the commercial banks is that the bill is in "big trouble."

Kissinger versus LaRouche

The confrontation in Caracas boils to down to two opposite approaches to the debt crisis: Henry Kissinger's against

EIR founder Lyndon LaRouche's. As this journal has documented, the Kissinger crew at Treasury is trying to use credit strangulation as a lever for gaining control over Ibero-American raw materials, especially oil. LaRouche, on the other hand, calls for Ibero-America to rescue the U.S. economy from the IMF by forming a cartel against the Fund, forcing a reorganization of the entire debt under a program of huge investments for trade and development.

The Caracas daily *El Mundo* of Sept. 6 carried a release from *EIR* under the headline, "Kissinger Tries to Take Over Resources of Latin America; Usurious Superpowers Bankrupt Poor Nations." It is not without significance that one of the three official photographs of Venezuela's Sosa shows him at the podium reading a copy of a book on LaRouche, *Will This Man Be President?*, by *EIR*'s editors.

Bank of America talks about Ibero-American debt crisis

The following interview with Bank of America Senior Vice-President for Latin America James Williamson was conducted Sept. 6 by EIR*'s Kathy Burdman.*

EIR: Will there be a debtor's cartel formed at the OAS meeting?
Williamson: It is possible, yes, very possible. They could form some debtors' organization. That in itself is not the end of the world. It depends on what they want to do with it. On the one hand, it could have a lot of teeth. It could—on the outside possiblity—declare a joint debt moratorium of several countries. That would be terrible. But what is more likely is that they will just get together to try to get, jointly, better terms.

EIR: How would the bank creditors react?
Williamson: It depends on the form it takes. Naturally if they go so far as to declare a joint debt moratorium, the reaction would be extremely hostile. We would cut them off from credit forever. It would be terrible for them, and I think they realize it and they won't do that.

EIR: What if they stop short of a full moratorium?
Williamson: If they just ask for better terms, we could live with it.

EIR: What will the U.S. delegation there under Beryl Sprinkel tell them?
Williamson: That there is no need for any joint debtors' organization at all. That it just doesn't serve any purpose—from the U.S. standpoint, at least! They will say that the United States just doesn't like it, is against it, and use all our influence.

EIR: Could that be the message the United States delivered when they took the floor at the closed door session?
Williamson: Yes, I think that's possible, the U.S. really wants to defuse it. They will tell them that a joint moratorium will result in a total cutoff of trade between the United States and the rest of the region.

Of course there are other things the U.S. government can do, other than confrontation, to try to diffuse the situation. The U.S. government can do more of these Exim Bank loans, of course, such as were just given to Brazil ($1.5 billion) and Mexico ($.5 billion). And there will be some U.S. loans.

EIR: U.S. loans? You mean Treasury loans?
Williamson: Yes.

EIR: But why should the Treasury give Brazil money now? Even when [BIS head Fritz] Leutwiler brought the world to the point of bankruptcy in June, Donald Regan refused to make a loan to Brazil.
Williamson: It depends on the global situation, too. . . . The IMF is in a lot of trouble.

EIR: You mean because the IMF bill may not make it through conference?
Williamson: Not only is the IMF bill stuck in conference; what's more, there is great question whether the IMF will ever reach any agreement with either Brazil or Venezuela. The IMF's strategy in both those cases is tenuous. The United States may have to come up with money to forestall the situation.

EIR: Is the Treasury worried that unless something is done by Sept. 30, U.S. banks will have to begin reporting Brazilian loans as non-performing?
Williamson: Yes. The Treasury can figure it out, they have better figures on this than the banks.

Something has to be done, soon. It's getting really hard to hold the situation together. Brazil can't go on like this, not paying and not making any agreement with the IMF. The Langoni resignation, is very serious.

EIR: More serious than the confrontation with the BIS?
Williamson: Yes. Langoni opposed the IMF and this will influence other people. The trend is that Brazil won't be able to reach an agreement with the IMF. This is what I meant when I said they will try to get better terms. Langoni is looking for better terms than the IMF wants to give, or the banks up to now. He wants to stretch out the [debt principal] maturities and have more reasonable interest rates.

There is a whole group in the Brazilian Congress which agrees with him, which has been asking for the same thing—

better terms, a stretch out. In fact, this may be what the OAS comes up with.

EIR: What do you mean?
Williamson: The OAS, as I said, forms some sort of debtors' organization, and they request that the banks begin to stretch out the existing debt principal to 8 to 10 year maturities, and lower interest rates by a few percentage points.

EIR: How would the banks react to that?
Williamson: We would not look on it favorably, but it would be something we could deal with—certainly better than a moratorium or an outright debtors' cartel. We would not refuse to consider it.

EIR: Who's pushing this idea?
Williamson: Langoni, as I said. He wants it. And he's got a group in the Brazilian Congress that supports it.

EIR: Who's pushing it at the OAS?
Williamson: Venezuela might bring it up, the finance minister, [Arturo] Sosa, likes the idea. He's been trying to do the same thing on his own, just Venezuela and the banks, and he hasn't been successful. So he might figure there is strength in numbers.

SELA head warns of grave crisis

The following are excerpts from a presentation made by the outgoing president of SELA (Latin American Economic System) Carlos Alzamora to the specially convoked meeting on debt of the Organization of American States in Caracas:

On behalf of SELA—which has so tenaciously promoted joint consideration of the problem of the foreign debt, which we have begun to open up here—we feel an inescapable responsibility to contribute to the clarification of this subject, in the clear and frank language demanded by its gravity and great importance. . .

It is especially important that the treatment here of the debt problem—which is far from a mere technical-financial question as has been presumed—be transferred to the eminently political domain appropriate to it. . . . And it is here where the necessity arises for a complete reconsideration of the system by which the debt is currently managed, a system based upon the incapacity of the individual debtor nations to resist the conditions jointly imposed by the creditors and which has led to a situation which all Latin American organizations, now including the OAS, have termed untenable. The factors which have made this situation untenable have overflowed the international chambers and entered into the public domain, generating a powerful stirring of public opinion throughout Latin America, a growing certainty that the debt is being paid under excessive, discriminatory and unjust terms and conditions, and that the tremendous sacrifices which they exact, and the growing percentage of our resources consumed by debt payments are going to pay questionable profits and benefits. . . .

SELA has never acknowledged, and it is worth repeating it here, the self-serving argument that a creditors' organization is honorable while a debtors' organization is contemptible and reprehensible. Further, the equally manipulated argument that the diversity of the debts makes coordination among Latin American debtors impossible is invalidated by the fact that this same diversity has not prevented the creditors from organizing and coordinating themselves in every way and at all levels. Latin America is fully aware that of the $114 billion we paid in interest between 1979 and 1982, $49 billion correspond to increases in interest rates determined by the creditor countries without our participation, responsibility or consent, and which in the best of cases was the result of a crisis provoked by the economic policies of the creditor countries and not the debtors. Latin American opinion is likewise informed that in the renegotiations or restructuring, an additional 2.5 percent over LIBOR has been demanded of us, which, with commissions and expenses, reaches 3 percent and which, when the 2 percent which interest rates have risen in the last few months is also added, becomes 5 percent above the going interest rates.

If we consider that according to the study by ECLA (U.N. Economic Commission on Latin America), each percentage point is equivalent to $3 billion, Latin American opinion is forced to conclude that we are paying an excess of $15 billion annually. . . . And this reality becomes even more outrageous if one considers that we're dealing in higher risk rates paid by Latin American countries who are considered to be in this category, but which are not paid by businesses in financial trouble in the creditor countries, which are allowed interest rates below LIBOR, even though they are authentic high-risk debtors, susceptible to bankruptcy, which does not happen to countries.

But while it is true that countries don't go bankrupt as do businesses, countries do explode under the pressure of excessive conditions such as those imposed on Latin America. For this reason, the high-risk surcharges are even more unacceptable to countries like ours which, far from weakening the wallets of the creditors, have fortified them by providing two additional securities—state guarantees for private debts and the control and surveillance function assumed by the IMF—neither of which had been stipulated under the original conditions. . .

Perhaps from a national perspective it is still possible to reconcile the current terms and conditions of the debt service with the necessities of economic development, political stability and a just social peace. From a regional perspective, which is the purview of economic organizations like ours, it is not possible. . . . We do not see in what way such a situation could benefit the creditor nations. It would be a grave mistake to repeat with the Latin American nations the war reparations conditions imposed on Germany after the First World War—to then sow the same results.

Recognition on the part of the United States, our principal creditor, of the gravity of the debt crisis for the region, its global character, and the necessity of introducing structural changes in our relations, would constitute an advance in this process which should assure equality in the distribution of the costs of the adjustments and the reduction of this cost to legitimate levels.

SELA commits its constant and firm efforts to the process of organizing and consolidating Latin America's negotiating potential, to the stubborn defense of its interests, to the promotion of authentic international understanding, and to the building of a new continental and world order which guarantees security, prosperity and justice for all.

Statements from the meeting of the OAS in Caracas

Conference chairman Diogo de Figueiredo, secretary of the Inter-American Economic and Social Council (CIES) of the OAS, Sept 5:

It is unacceptable to make financial adjustments in countries in crisis at the expense of their installed productive capacity, social peace, and political stability.

Fernando Hernández, of Venezuela's Planning Ministry, Sept. 6:

The current problem of the foreign debt of the countries of Latin America and the Caribbean is revealed in the high cost, the excessive cost of interest inherent in servicing the debt and in a profile of overdue deadlines which is incompatible with the payment capacity of the debtor nations. This situation has led to a crisis manifested by the growing difficulties in keeping up interest payments and in the interruption or limitation by the creditors of the usual short-term loan renewals and granting of new credits.

The IMF has played a double role in this area as both provider of funds and also as designer of policies of adjustment intended to reduce the use of foreign exchange by these countries. This double function of the IMF is now facing serious challenge. On the one hand its capacity as a source of international liquidity is practically saturated by the demands of the different actors in the financial market and on the other side, the feasibility and realism of its recommendations of economic policy do not seem to have passed the test of fact, given that the social and economic destabilization observed during its application has not improved the real payment capacity of the nations and in fact has tended to aggravate internal social tensions in the region.

In the search for a global solution. . . it would be convenient to observe the following principles:

1) A long-term solution to the problem of the developing world's foreign debt can only come in the context of growth of the world economy. . . which improves the terms of trade of the underdeveloped regions;

2) Efforts of the debtor nations to meet their financial commitments cannot be carried out in detriment to their own processes of development and world economic growth. . . . In particular, it would be highly convenient if the proposed policies of the IMF within refinancing agreements gave due recognition to the structural characteristics of the countries of the region. . . .

5) Sufficient liquidity must be granted to the official and multilateral credit institutions by the creditor nations and with the intention of providing long-term, low-interest capital to finance development projects in the region. . . .

7) Institutionalized mechanisms for systematic interchange of information on the theme of the foreign debt must be created.

The adequate level of debt for each country should be a function of the country's future capacity to service the debt in the context of solid and sustained growth. Therefore a renegotiated payments plan should contemplate the elimination of overindebtedness, but in no case should it assume that the foreign debt of the countries will be totally retired. Each country should determine the proper level of its debt with a view toward refinancing negotiations.

Excerpts from the address delivered Sept. 8 by Venezuelan President Luis Herrera Campins:

We reject policy schemes directed exclusively toward increasing the capacity to service the debt without considering the social repercussions.

The IMF cannot be the policeman for the international banks. . . .

World history, however, is marked by misunderstandings that have forced those considered weak to adhere to certain sometimes violent forms of combat in order to achieve their objectives and aspirations. I know we are not facing such an eventuality now, because times have changed and with them, positions and procedures. However, certain recollections are necessary.

In times of struggle for national political independence, the metropolises have appeared stronger and more powerful than the colonies. . . . But at the hour of popular decision, those intangible elements brought forward by necessity—conviction, determination, volition, and courage—imposed themselves over the technical, material, and human resources that constituted the basis of domination over the majority of the nations that today are sovereign members of the world community.

Experience teaches us that it is not true that the powerful can do everything, and the weak can do nothing should they decide to confront the former.

There is an old reference in these terms, very well known by all, that I nonetheless evoke: David and Goliath. According to the Bible, Goliath was the ace of Philistine warriors. . . a giant who would put fear in any man with his imposing physical proportions and with his fame as invincible champion in combat. . . .

A modest shepherd, David, who was not even one of the regular professional soldiers, was the one who dared take up the challenge. . . . [President Herrera reads the passage from the Bible describing the encounter.]

The lesson is very simple: when will and courage ally with imagination, there arise means, resources.

The Biblical simile bears no relation to the situation we face, but it does no harm to recall it. Besides, we have not seen the last of slings, stones, nor Davids.

We do not ask anything of the industrialized nations that is beyond the realm of the possible and convenient. At any rate, it is preferable that you [industrialized nations] grant favorable, dramatic surprises, before the developing world unleashes even more dramatic surprises, surprises which the developing world neither wants, seeks, nor desires, but which can have unfortunate consequences for economic and social deterioration, and misunderstanding.

Paul McConagle, the head of the U.S. delegation, issued the following provocative statement in Caracas on Sept. 6:

This is not the occasion for dealing with particular cases of indebtedness, nor do we think that specific proposals or an "action program" should be formulated. Nor would it be appropriate to characterize any one particular nation or the international institutions like the IMF, the IDB [World Bank], the BIS, or the GATT. . . . In the first place—and this is the most important—we have no evidence of a generalized "debt crisis" affecting all countries, nor even all the less developed countries, in an identical way or even similar way with common causes and common solutions. If we stop a moment and take a look at our own continent, and this conference offers us precisely the opportunity to do just that, we will rapidly remind ourselves that perhaps the symptoms—that is, problems of debt payment—are the same, but the pathologies are unique. . . . The countries. . . face problems of servicing their foreign debts but in many cases this is almost all they have in common. Thus, a generalized or, better put, regionalized relief to the debt situation will give rise to a symptomatic relief. Any generalized solution to the problem would only benefit some and would be in the best of cases insignificant for the others. . . .

On the basis of these conclusions the U.S. government has formulated a five-point response to the current payments difficulties, which are:

1) Adjustment on the part of the debtor nations;

2) Aid to the IMF for support of these effective adjustment programs;

3) Emergency aid by the governments and central banks of the creditor nations on a case by case basis;

4) Continued lending by the commercial banks;

5) Sustained growth of the world economic with open markets. . . .

Proposals for alleviating the debt in general or arbitrary changes in loans conditionalities would. . . [result in] each nation taking improper actions that would have an adverse effect on flows of private capital. . . . Among the measures that would threaten the vital financial institutions [IMF, World Bank, etc.] are tendencies to establish additional institutions whose necessity is debatable, or "competitive" institutions whose creation is completely unnecessary. At the same time, the adoption of delaying tactics intended to dilute dependency on the IMF should be avoided.

On Sept. 5, an interview with U.S. Treasury Undersecretary Beryl Sprinkel with the Voice of America was reprinted in the Caracas press.

We do not expect a long list of highly specific conclusions [to result from the meeting].

The IMF is the object of what we could call unjust criticisms; it is accused of forcing recessions, or depression, or unemployment in nations. But of course, things are not like that. The brutal fact is, that given the world situation, all these governments found it necessary to make adjustments, in the same manner that the U.S. has found it necessary to make adjustments. . . . Instead of saying, as some argue, that the IMF forces austerity upon these countries, in reality its cooperative attitude with governments. . . eases the process of adjustment. Difficulties presented themselves in those cases in which adjustments were not taken on their own account, or where, for whatever reason, some were not willing to adopt an IMF program.