Debtors' cartel launched by Ibero-American presidents

by Robyn Quijano

Four Ibero-American presidents, representing over 70% of the region's population and $231 billion in outstanding debt to Western banks, issued a joint declaration May 19 pledging common action to transform "international trade and financial policy" in order to assure "relief of the debt service burden" and "allow the flow of credit for development." The call was lauded throughout the continent as the first action of the long gestating "debtors' club," the formation of a joint command to assure the economic survival of Ibero-America.

The declaration, released simultaneously in Mexico City, Brasilia, Buenos Aires, and Bogotá, calls for an emergency economic summit of ministers from all of Ibero-America "to define courses of action." The Presidents blasted the interest-rate hikes and the "prospects of new hikes," and expressed their refusal to tolerate being "forcibly thrown into insolvency and economic stagnation. . . . Our countries cannot accept these risks indefinitely," they warned.

New interest-rate hikes in the last two months have cost the continent's debtors nearly $3 billion. In the last two weeks alone, interest rates went up half a point, and word spread that they could reach 19% to 20%. Every 1% rise in interest rates costs Ibero-America over $2 billion.

While the press throughout Ibero-America called the new pact a debtors' club, a debtors' cartel, or a union of debtors, Mexican Finance Minister Jesus Silva Herzog announced that it is a front against high interest rates, not a debtors' cartel. But by whatever name, the bargaining capacity of the continent's three largest debtors, Mexico, Brazil, and Argentina, who represent over one-third of the debt of the entire developing sector, is a power that has long been feared by the institutions of international usury.

This declaration was understood by the world's banking community as the first action of a "debtors' cartel" threatening to foil the achievements of years of manipulation. The cartel of international bankers has kept debtors isolated, each battling to be treated as a "special case" more deserving than the others, as the bankers dangle the carrot of a new "jumbo" loan package before their noses. Such an eleventh-hour operation of blackmail and promises pulled Venezuela, the region's fourth largest debtor, out of the accord.

The joint action was put into place after the tour of Mexican President Miguel de la Madrid to these nations in early April; there followed continuous phone conversations between the presidents. The pact was signed days after de la Madrid returned from Washington, where he presented the continent's crisis to President Reagan, and got only higher interest rates as a going-away present.

The ministerial-level meeting to formulate joint action is now scheduled for Bogotá in the first week of June. On May 23, a Colombian press service (CIEP) revealed what it said was the draft of the agreement to be worked out at that meeting. The draft's main points were:

1) Amortization of debts to foreign private banks should be stretched over 15 years with a moratorium for the first 6 years.

2) "No more than reasonable percentages of export income compatible with preserving adequate levels of internal productive activity should go to debt payments."

3) "A drastic reduction in interest, commissions and other fees."

While all of Ibero-America is more or less in agreement that the interest-rate hikes represent "monetary vampirism of the creditors," as stated by the speaker of the Brazilian Chamber of Deputies, Nelson Marchezan, the level of courage—or treason—behind proposed solutions differs greatly from nation to nation.

The most crucial questions of the accord will be:

1) if the nations will demand lowered interest rates within the context of brutal IMF adjustments, or if the recessive polices of this tool of the international oligarchy will be rejected altogether;

2) if the nations will accept a proposal put out by the World Bank and the creditor banks, as well as Anthony Solomon of the New York Federal Reserve, to "cap" interest rates at an artificially fixed level and add the difference on to the principal, extending the life of the loan—forever.

The feudal approach of indefinite debt-pyramiding, which has been the raison d'être of money merchants and usurers throughout history, is the solution compatible with the Kissinger debt-for-equity plan. First put forward by Henry Kissinger and friends at an August 1983 meeting in Vail, Colorado, the plan focuses on the grab-up of industry and natural resources on the continent in lieu of interest-payments. With an ever-augmented principal, the takeover of anything worth owning in Ibero-America would be just a matter of time.

Sebastian Alegrett, permanant secretary of the Latin American Economic System (SELA), when questioned on the Presidents' call, said: "The countries of the region are being forced to present unilateral responses on how much, when, and how they are prepared to pay their foreign debt." In a sharp attack on the debt-for-equity plan, Alegrett said that high interest rates "are part of a manipulation designed to favor an arbitrary and abusive appropriation of the resources of Latin America."

While the IMF has been lauded among official circles as an institution essential to the developing sector, the trade union, industrialist, and most political circles of the continent have increasingly fixed their hatred on that institution over the last few months. The deaths of more than 60 people in three days of food riots in the Dominican Republic in late April, thanks to IMF-imposed increases in food and medicine prices, brought home to Ibero-America as a whole the true implications of capitulation to the IMF.

On May 25, the day after issuing a statement backing the four presidents' accord, Dominican President Jorge Blanco was forced to suspend the second phase of negotiations with the Fund; he refused to accept further austerity measures, including the IMF's demand that the government pay for imported oil at the "free market" exchange rate instead of a preferential one.

Massive internal political pressures led to Blanco's last-minute decision. The Dominican Chamber of Deputies approved a resolution May 23 asking the President not to sign with the IMF, while the Catholic Church hierarchy of the island called on him to join Mexico, Argentina, Brazil, and Colombia as the best way to "fight the IMF."

Bankers respond

The International Monetary Fund, too, answered the presidents' call. According to Jacques de Larosière, managing director of the Fund, there is little hope of fresh initiatives to ease the debt burden in the developing world. He suggested the nations under IMF domination continue the burden of "adjustments," since "access to new commercial loans will depend more than ever before on the quality of policies that borrowing countries have in place and are implementing."

While the international creditors' cartel, the Ditchley Group of bankers, has dictated a shut-off of credits to most of Latin America, de Larosière promised rescheduling with a long-term perspective for nations which have made progress in implementing the IMF's depression policies. "Such an approach, which should be applied case by case, would help the countries in question regain access to spontaneous financing in international markets," he said. The international markets have done nothing that even remotely resembles spontaneity since they created the Ditchley creditors' cartel in 1982.

The International Monetary Fund and the international bankers also have agents in place to turn the debtors' club into a debaters club; they are proposing that the debtors seek small concessions in exchange for submitting the continent to feudal policies. But the momentum and the necessity to ensure the sovereignty of the region's nations and the survival of its populations, is beginning to short-circuit enemy operations.

Raul Prebisch, special debt negotiator for the Argentine government of Raul Alfonsín, is one of those agents that could be in trouble. He has been negotiating a letter-of-intent with the IMF which the government has thus far refused to sign. While demanding lower interest rates, Prebisch owes his career and allegiance to the British banks, and suggests trading off sovereignty for a stretch out in debt payments. He holds up Lazard Frères' Felix Rohatyn and his reorganization of New York City as a model for Ibero-America.

But the Alfonsín government would not survive the IMF plan which would crush living standards in a nation with a militant Peronist trade-union movement. This week the President held special talks with ex-President Isabel Peron, the head of the Peronist movement, seeking the backing of her party for the government's economic program. But the Peronists violently oppose any encroachments on the nation's sovereignty, and Mr. Prebisch and the IMF are not well liked.

When Finance Minister Bernardo Grinspun praised Prebisch, his mentor, in the Senate last week, Peronist Sen. Vicente Leonides Saadi said that "the prestige of Prebisch has not served except to foment the colonization and exploitation of the country."

Should Prebisch come to dominate the debtors' club, the bankers' plan to take equity in lieu of interest payments would become a reality. But bankers' fears that he will not be able to control Argentina's role within the new debtors' group stem not only from the important role the Peronists are sure to play in any future agreements, but from the fact that Prebisch already lost one round when he couldn't keep Argentina from signing the original communiqué.

Prebisch has been championing the "understanding" nature of the IMF and de Larosière's desire to accommodate on the interest-rate question. He has also stated repeatedly that increases in interest rates are due to "the huge deficit in the U.S. budget." But this nonsense, an attack on the U.S. defense budget and precisely the cover-argument of the creditors, did not make its way into the first declaration of the four Presidents. The *Journal of Commerce* expressed its dismay at Prebisch's apparent impotence in a May 22 article which stated: "Well-known economic analysts were disappointed that the Presidents' statement made no reference to United States fiscal policy, which bankers argue is the biggest factor pushing up interest rates at present."

Perhaps the one thing that has the bankers most nervous is that Ibero-America's largest nation and largest debtor, Brazil, is throwing in its lot with the rest of the continent. Keeping Brazil's "special case" status, and using Brazil against the rest of the continent, has long been the policy of the international oligarchy, and the specific assignment of Henry A. Kissinger for more than a decade.

Brazil's size and mineral and industrial wealth make it the most important country for the success of an Ibero-American common market. President Figueiredo's signing of the debtors' club accord could give the continent the clout they need in negotiations.

While Brazilian economic officials have protested that the declaration is not the first act of a debtors' club, that Brazil plans to pay every cent it owes, the reality is that the nation will not survive further austerity. In 1983, over 2½ million people died in the drought-stricken northeast, mostly children below the age of 5. Since then, outbreakes of malaria, meningitis, and epidemic gastroenteritis have created genocidal conditions in other areas, too. Brazil has paid its debt with the lives of its people.

Through drastic cuts in internal consumption, and slashing of imports, Brazil has hit record trade surpluses which have boosted its cash reserves to $2.5 billion. But Brazil already lost over $1.1 billion added to its interest payments this year through the 1½ point increase in interest rates in the last two months.

While Brazil's economic team, Finance Minister Ernane Galveas, Planning Minister Delfim Neto, and central bank president Celso Affonso Pastore insist that nothing has changed or will change in Brazilian economic policy, Pastore nonetheless warned that "capping interest rates is not a final solution for anything. It merely postpones paying the foreign debt, and I am not very enthusiastic about that as a solution."

Operation Juárez

The fact that the nations of Ibero-America are more solvent than their collapsing creditors is beginning to shape a new perspective for the debtor nations. Reality is on the side of the debtors. They cannot pay. And they still have enough power, enough fighting spirit among their trade unions and industrialists, that no plan for a new colonialization will be easily imposed.

It remains for the patriots of the continent to take control of the debtors' club, and use it to create a new world monetary system. Lyndon LaRouche, candidate for the U.S. Democratic Party's presidential nomination, put forward such a plan for reorganizing the Ibero-American debt in his now-famous 1982 document, *Operation Juárez*; the document is now circulating in its fifth edition throughout the region.

The communiqué

'We cannot accept continued stagnation'

The following joint communiqué was issued May 19 by the Presidents of Mexico, Colombia, Argentina and Brazil:

We, Presidents Raul Alfonsín of Argentina, Joaô Figueiredo of Brazil, Belisario Betancur of Colombia, and Miguel de la Madrid of Mexico, manifest our concern that the aspirations of our peoples to development, the progress of democratic tendencies in our region, and the economic security of our continent are seriously affected by foreign acts out of the control of our governments.

We have confirmed that successive interest-rate increases, the prospect of new hikes, and the proliferation and intensity of protectionist measures have created a somber outlook for our countries and for the region as a whole.

Our countries cannot accept these risks indefinitely.

We have consolidated our firm resolve to overcome the imbalances and restore the conditions for renewing and strengthening economic growth and the process of improvement of our peoples' standard of living.

We have been the first to demonstrate our commitment to meet financial obligations, on terms compatible with the interests of the international community. We will not accept seeing ourselves thrust into a situation of forced insolvency and continued economic stagnation.

We consider it indispensable to begin, without further delay, a concerted effort of the international community, to the purpose of agreeing on actions and measures of cooperation which shall allow these problems to be solved, especially in the interrelated sectors of international trade and finance.

Therefore, we Presidents propose the adoption of concrete measures to attain substantive transformations in international trade and financial policy which shall broaden the possibilities of access of our products to the markets of developed countries, shall mean substantial and effective relief of the debt-service burden, and shall allow the flow of credit for development.

In particular, appropriate repayment schedules and grace periods are required, along with reductions in interest rates, margins, commissions and other financial charges.

For all the above reasons we call for a meeting, at the earliest possible date, of our countries' Foreign Ministers and Finance Ministers, to which meeting we shall invite the Ministers of other Latin American governments, to the end of defining the most adequate initiatives and courses of action, with a view to reach solutions satisfactory to all the nations involved.