International Monetary Fund squeeze play in Ibero-America

by Nancy Spannaus

Deadlines are coming up fast in the Ibero-American debt negotiations, and chances are that the deadlock which has obtained between the International Monetary Fund (IMF) and major debtor governments will soon be broken, one way or another.

From the IMF's standpoint, the pressure is on to obtain political agreement once again from the debtor countries to stick within their austerity conditionalities—and continue to bail out the bankrupt U.S. and international banks with their economic lifeblood. Reportedly such agreements have already been reached with Mexico and Brazil, the two largest debtors. But looming on the horizon is still the seemingly eternal "pending" agreement between the IMF and Argentina—with the deadline for $750 million of a $1.1 billion short-term-interest loan falling due on Sept. 15.

Operating on the governments from the other side, however, are equally pressing constraints generated within their countries, in particular the demands of the labor unions and other nationalistic institutions that their economies not be dismantled. Major strikes against the IMF were held in both Argentina and Colombia the second week in September, and the political limits to the IMF looting process have begun to call into question other IMF suicide pacts such as that in Peru and Brazil.

Together these pressures are creating unbearable situations for Ibero-American governments, which must choose between putting their lives on the line by confronting their political bases and taking on the wrath of the IMF.

The most critical situation is that of the Alfonsín government in Argentina, which has sat on the fence between the IMF and politically powerful labor movement in that country for six months. How Alfonsín responds to the respective IMF and labor pressures will also have a major impact on the rest of the debtor countries on the continent. Argentina is the host country for the followup meeting of the Cartagena group, which convenes at Mar del Plata on Sept. 13 to discuss unified action by the bloc of Ibero-American debtors.

It is the potential of this meeting for further consolidating an Ibero-American common market, and imposing its own conditions on the bankrupt IMF and international financial system, that gives the IMF, the Swiss gnomes, and Henry Kissinger nightmares. It is therefore to be expected that they will stop at virtually nothing to crush the effective political institutions of Ibero-America before that date.

Will Alfonsín's government survive?

The uneasy truce which the Alfonsín government has had with the Peronist-dominated labor movement was broken when the trade unionists carried out a 24-hour general strike demanding higher wages on Sept. 3. According to knowledgeable Argentine sources, the Alfonsín government cannot last in its current form. Either the Radical Party leader decides to form a national unity government in combination with the nationalists who dominate the Peronist movement, or he will be forced to resign, throwing the country into chaos.

Despite his refusal to sign with the IMF during his term in office, President Alfonsín has in fact done nothing to change the disastrous economic policy of the previous administration. Interest rates in Argentina are now at a 700% annual rate; capital flight is out of control; frontier national industries such as the nuclear industry are being destroyed; even without the massive wage cuts that the IMF has unsuccessfully demanded of Alfonsín, the standard of living is being slashed.

The general strike, led by the CGT labor federation, demanded that the President implement "a cleansing of the brain which will lead us to think of Argentina, not from the standpoint of the monetary regulators from the IMF, who have damaged the lives of our populations for more than three decades, [but from the standpoint] of economic reactivation."

Disregarding the message delivered by the strike, Finance Minister Bernardo Grinspun told the press that the CGT's mention of the IMF was "just an excuse," and that a future agreement with the IMF was "absolutely desirable." An IMF technical delegation was in Buenos Aires to get the message personally; they left for Washington on Sept. 4 in what the press called a "cautiously optimistic mood." The Argentines are scheduled to make another pilgrimage to Washington for negotiations during the second week in September.

A *Washington Post* editorial of Sept. 7 indicated the kind of inflexible "crush labor" mood which the Argentines are going to meet in Washington. After "the government itself acts to restore some degree of internal stability to the country," the *Post* writes, perhaps then the United States can help it out.

If President Alfonsín continues along the line represented by Grinspun, he will soon have no recourse but to resign. Then presidential power will be transferred to his vice-president, an individual distinguished by his role as head of the British-Argentine friendship society. There is little question that such a succession will prime the situation for the outbreak of total civil war.

Alfonsín does have available to him the option of allying with the Peronists, however. It is this option that we can expect Henry Kissinger to be doing his best to eliminate when he arrives in Argentina on Sept. 12.

IMF deals collapsing

The IMF is also running into brick walls in other countries of Ibero-America, where the governments are finding it impossible to push through the full austerity program.

Indicative of the shift in mood was the vote of the Brazilian Senate on Aug. 30 to revoke wage-gouging law D.L 2065, and once again give all workers indexed cost of living adjustments equal to 100% of past inflation. The IMF had insisted on law D.L 2065 last September as a condition for reaching agreement with the Brazilian government. As *EIR* readers will recall, the law was only passed because the government quashed the opposition with the imposition of martial law in Brasilia.

This overturning of a key IMF condition is expected to be ratified in the Chamber of Deputies during the second week in September. If allowed to go into effect, despite the opposition of Finance Minister Delfim Netto and the IMF, it will halt a situation in which real wages of minimum-wage workers have been cut 12%, white-collar employees by 27%, and managerial level personnel by 34%.

It is not yet clear what effect, if any, this defiant act by the Brazilian Senate will have on the new accord reached between Brazil and the IMF on Aug. 28—a deal that was intended to cool off the situation between the bankers and Brazil while the IMF concentrated its fire on breaking the resistance in Argentina.

The IMF agreement with Peru is also in trouble, according Peruvian Finance Minister Benavides, who said recently that Peru cannot meet the IMF guidelines on public deficit, inflation rate, and so forth, and will miss some interest payments on the foreign debt for the third consecutive month. The finance minister asked for renegotiation of the five-month old agreement beginning on Sept. 23.

In Colombia and the Dominican Republic, the IMF is also becoming the leading political issue. On Aug. 30, more than 20,000 people joined in an anti-IMF rally in Bogotá, sponsored by the four trade-union federations.

A program for the Cartagena group?

Will this sentiment against the IMF be taken up and answered with programmatic alternatives at the upcoming meeting of the debtor nations, the so-called Cartagena group? At the July meeting, the group strongly attacked the contradictions between certain usurious and destructive IMF policies and the development needs of the developing nations—but maintained their "request" for greater IMF aid. The current explosive political and economic situation allows for no such compromise.

The mood at the Group of 77 meeting held this week in Cartagena indicates a willingness to consider new institutions which might handle the crisis. A new "Bank of the South," jointly proposed by the G-77 and the Latin American Economic System (SELA), established and will begin functioning shortly with an initial capital of $500 million. As explained by Colombian President Belisario Betancur, the bank will finance the "priority projects of the developing countries, especially those which, like regional and inter-regional trade, or multinational development projects, are a true means of unity and cooperation" among nations of the South.

Betancur took the occasion of this conference to lash into the looting policy of the "North," and to argue that through the creation of new institutions for regional cooperation, trade, and development, the "misnamed Third World could become the first political and economic power internationally . . . the most dynamic force in the world economy over the next 20 years."

"In the face of illiquidity and fiscal and financial deficits, the IMF prescribes its well-known readjustment and stabilization measures," Betancur said. But "when these formulas are applied with great discipline, and our countries make the effort to contract production, income, demand, and employment, greatly degrading already precarious living standards, we find that a myopic and egotistical one-point increase in the interest rates on the debt erases the effects of such a sacrifice in a single blow. . . ." Betancur also elaborated once again the scandal in which Ibero-American countries have become "net-exporters of capital," he said, transferring more than 2% of their GNP to the industrialized nations.

Betancur is correct in stating that this situation is neither necessary, nor stable. Whether he and his fellow Ibero-American Presidents are ready to establish the kind of debtors' cartel and common market that will stop it, however, is not yet clear.

Documentation

What Ibero-America is saying on the debt

Excerpts from a declaration of the Argentine CGT labor federation on the eve of its first declared general strike against the Alfonsín government Sept. 3, 1984:

[We propose] the formulation of a great appeal in the style of a national referendum to say no to the country's financial interests and to affirm our readiness to reconstruct the productive nation of which we are all a part. . . . [We ask the government why] it assumes all the risks without attempting a drastic change in the philosophy that has led us into these straits, pressured by the demands of the world financial groups and economically abandoned by those governments which pretend friendship but which demonstrate their true and affectionate friendship with the International Monetary Fund. . . .

[The CGT urges] 1) defeat of the financial interests, putting an end to monetary speculation; 2) recognizing that wage is the personal property of the worker . . . and the role of the State is solely to act as arbiter to assure justice and equality; 3) returning bank credit to its original role as a public service and promoter of production. . . . 6) subordinate all financial urgency or commitment to fulfilling the reactivation of the nation's productive apparatus. . . .

Excerpts from a speech by Colombian President Belisario Betancur before a seminar on "Development Alternatives for Latin America," given in Cali, Colombia on Aug. 30, 1984:

The explosion of the foreign debt bomb could put an end to the economic and political stability of numerous countries while endangering the solvency of some of the largest private banks in the world. . . .

Given the limited resources of the region, I think that well-chosen foreign capital (that which brings technology and leaves it, which allies with domestic capital and complements it, and which creates new jobs) can be a positive force, generating foreign exchange and the already mentioned transfer of new technologies. Under present circumstances, these kinds of projects can contribute more to the economy than foreign credit. . . .

If the region had obtained adequate terms of trade, normal interest rates, and free access to the markets of the industrialized nations, the debt problem would be entirely different, and we would not glitter today as net exporters of capital, a situation which is clearly unsustainable, however much of an honor it would be for us to continue helping the U.S. meet its fiscal deficit.

Excerpts from document submitted by the Colombian UTC labor federation to the meeting of the International Regional Organization of Labor (ORIT) in Mexico City during the week of Aug. 19:

We are convinced that the unity of the Latin American labor movement is the cornerstone for changing the current direction of the crisis. The governments of our republics have taken very important steps toward the formation of a debtors cartel, which would bring about the collective renegotiation of the foreign debt. . . . All of these courageous efforts toward the process of continental integration have not, however, been enough. On the contrary, what has occurred are the threats made against our leaders, a multitude of divide-and-conquer tactics that the international bankers have attempted to carry out. . . .

It is worthwhile at this time to refute the fallacious arguments that the bankers have presented to throw upon our shoulders the blame for the debt crisis. They say that we were irresponsible, that the debt grew through the simple corruption of our leaders, that we were too ambitious in our programs and that there was supposedly too much industrialization of our countries. The reality is that . . . the debt crisis is the result of a deliberate policy of speculation on the part of the international banks. . . . The increases in interest rates since 1979. . . . The campaign of press and financial manipulation that provoked capital flight. . . . The campaign of forced devaluations by the International Monetary Fund. . . .

There is still time to save our nations. Despite the looting, despite the usury, the continent has a basic wealth which has not been destroyed, and that is its working class. The only real option to solve the debt problem is to suspend payments on the debt, at least until our economies become truly productive again and recuperate from the incredible speculative looting to which they have been subjected. . . .

This time, action must be taken continentally, so that the power of our republics will be felt. The millions of workers, many of them unemployed, are the basic wealth that will enable our nations to recover. We must simply put them to work producing wealth through great joint industrial projects, with technology to produce more and cheaper food in the countrysides, using the resources of the region for industrialization and developing science and capital goods.