Banks demand 'big stick' against debtor countries

by Valerie Rush

On Oct. 29 and 30, the United States government ordered a cutoff of financing to two key debtor nations, Peru and the Philippines—both of which have been fiercely resisting demands by the international creditor institutions to dismantle their economies, and their governments along with it.

The orders were issued just one day after the creditors' cartel known as the Institute for International Finance (IIF) met in Washington, D.C. to hear a plea from the Reagan administration for more bank loans to the Third World to keep the debt bomb from exploding. The IIF responded bluntly: Washington will have to be the enforcer for the international bankers! The U.S. Treasury promptly declared Peru's debt "value-impaired," in retaliation for President Alan García's "breaking the conventional rules of the game," according to the *Wall Street Journal*. The action cuts off Peru from access to any further U.S.—and probably international—lending.

Simultaneously, the United States "gave its full backing" to a cutoff of funding to the Philippines by the International Monetary Fund, retaliation for the Marcos government's refusal to roll over and play dead.

The message is clear: The banks talk and the Reagan administration jumps.

The Reagan government had sent Assistant Treasury Secretary for International Affairs David Mulford to ask the 60 top international banks to back the so-called Baker Plan, the proposal issued at Seoul last month by Treasury Secretary James Baker III, for $20 billion in new bank lending to the Third World debtors. In return for such aid, the recipient countries would be forced to implement "structural changes" in their economies, as demanded by the International Monetary Fund. An official statement released by the IIF after the meeting endorsed Baker's proposal, which, as we reported last week, has generated little enthusiasm among either the debtors or the banks (*EIR*, Nov. 1, 1985, "Why debtor nations can't buy Baker's monetary reform.").

Asked if the statement constituted a public commitment from the banks to Baker's request for new money, IIF managing director André de Lattre responded, "Certainly not! The banks will give their answer through their governments." De Lattre did not specify which governments belonged to which banks.

Getting the U.S. government to jump through the hoop on command of the international financial oligarchy was an important victory for the banks, especially since it is the U.S. economy itself which is next in line for being dismantled under their stewardship. But, as this week's London *Economist* stated, another important concern of the banks—after the debt is papered over—is to make certain that "debtors' overreliance on banks" for their financing is curtailed. "One neglected source is international investment in equities," writes the *Economist*, pressing the "debt-for-equity" scheme that Henry Kissinger came up with three years ago. However, national barriers to such a scheme must be overcome, the magazine of British finance insisted.

García's counterattack

Peruvian President García struck back with a renewed effort to forge unity of the debtor nations. In an interview with the German magazine *Stern*, he stated, "The creditors have been organizing a club for some time already, which manages very well to divide the debtors." Individual negotiations with the creditors are therefore "sheer suicide." García went on to note that for the first time in 170 years, "our people are starting to understand that our weakness lies in lack of unity." He warned that "a *Dis*united States of South America cannot continue to coexist with the United States of North America," and concluded, "As long as we are unsuccessful in defending our interests jointly, each country will have to do something on its own."

The Treasury-ordered cutoff of credit to Peru was anticipated by García as far back as his inaugural address on July 28, when he warned the Peruvian people to expect retaliation for his decision to limit debt-service payments to 10% of export revenues. Then, in a speech to the United Nations on Sept. 23, García reported that the creditors had threatened to declare Peru's debt "value-impaired," and replied, "As President of Peru, I come to say that it is not necessary to wait until October for this. The Peruvian debt is already value-impaired. We declare it to be so. What we should ask ourselves, is how and by whom was our economy impaired, and what historical answer must we give to this situation."

García's response to the Treasury cutoff was spelled out on Oct. 28. Urging the country to unite against "the enemies of justice, liberty, and well-being," García told cheering workers at a newly reopened fish-processing plant that "in truth, the only thing that is impaired is the international capitalist system. . . . In the face of threats, reprisals, and the cut in credit and foreign assistance, I say, very well. This is your decision. But we Peruvians have a decision: to be free, to be independent. . . . Peru cannot continue to be a satellite of the international economy. I don't want to leave my children a country with violence, with misery, in which one cannot live, but rather a nation with full freedom, without hunger, and where there is no freedom to exploit."

García ordered several concrete measures. First, he extended a freeze on dollar savings accounts in Peru until April. Second, he announced a 24-hour deadline for several foreign oil companies to bring their investments into Peru up to the $600 million mark, as promised to the previous government; otherwise, their substantial tax breaks would cease to exist. The companies offered $400 million, to which García responded: $600 million, or get out! García explained: "Don't forget that Peru has been looted by the oil companies, by the multinationals, and even by Peruvian capitalists who have preferred to take their money abroad and leave the vaults bare."

Debt and drugs

The financial oligarchs of the creditor community have not only targeted the nationalist forces in Ibero-America, Asia, and elsewhere who would resist their prescriptions for genocide in the developing sector. They have also targeted as a potential obstacle to their designs President Reagan himself, whose anti-drug commitment makes him a potential ally of Ibero-American leaders like García.

The *Wall Street Journal* of Oct. 31 carried an editorial commentary by Cato Institute analyst Ted G. Carpenter, which blames President Reagan's "obsession with the drug issue" for everything from the creation of left-wing terrorism in Ibero-America, to U.S. vulnerability to blackmail from cynical Ibero-American nations. The Cato Institute is a "right-wing" think tank based in Washington, which has advocated drug legalization in the past from a Friedmanite "free enterprise" standpoint.

A continent-wide war on drugs is one of the few remaining issues upon which a U.S.-Ibero-American alliance might be constructed. Carpenter, hoping to manipulate Reagan's prejudices on economic matters to break the President from his anti-drug position, writes: "Third World governments are clearly playing diplomatic 'hard ball,' seeing in Washington's obsession with the drug issue a device to secure foreign-aid funds to alleviate pressing internal economic problems. But even if lucrative aid programs are forthcoming, those governments may find it a bad bargain to enlist in Washington's anti-drug crusade. Indeed, some of those regimes might be imperiling their own existence . . . the governments of Colombia, Peru and Bolivia are antagonizing large portions of their own populations. . . . It would be a bitter irony indeed if U.S.-sponsored anti-narcotics programs helped foment radical left-wing revolutions in Latin America, but that danger is quite real."

Carpenter gets to his final point: "The Reagan administration should finally acknowledge that extensive drug use in the U.S. is a domestic problem and, therefore, cannot be solved in the arena of foreign policy. . . . It is high time that Americans face up to their own problem and stop seeking external solutions. Washington's current international crusade against narcotics is an irredeemable failure that threatens to become a diplomatic catastrophe."

Notwithstanding Carpenter's outrageous arguments, the ploy appears to be working. The Washington Post reported on Oct. 31 the open secret that the Reagan administration has been trying to blackmail countries like Peru and Bolivia into bending to the neo-colonialist dictates of the International Monetary Fund if they want to receive anti-drug aid.

Peru, whose leadership in building an anti-IMF, anti-usury consensus on the continent, has made it a prime target for such blackmail, was apparently told in early October during a visit from White House anti-narcotics adviser Carlton Turner, that anti-drug assistance from the United States might be held up indefinitely unless President García showed more "moderation" on his debt payment policies.

Earlier this year, an insulting U.S. offer to Peru of a few million dollars to battle the multi-billion dollar drug industry was indignantly rejected by García. Said the man in charge of Peru's anti-drug war, Vice-Minister of the Interior Agustín Mantilla, "It's a case of mutual responsibility. My President has said it is our moral duty to do what we're doing. But a great part of this drug evil is done to the U.S. . . . If the North Americans don't want to fight alongside us, it's their problem." Mantilla added, in an angry reference to the April 1984 assassination of Colombian Justice Minister Rodrigo Lara Bonilla, "Maybe we'll have to wait for them to kill one of our ministers so that the U.S. bureaucracy becomes convinced."