Book Review

Rockefeller's gameplan to collect Ibero-America's illegitimate debt

by Dennis Small

Toward Renewed Economic Growth in Latin America
by Bela Balassa, Gerardo Bueno, Pedro-Pablo Kuczynski and Mario H. Simonsen
Institute for International Economics, Washington, D.C. 1986
205 pages, paperbound.

This bankers' manual for handling the current Ibero American debt crisis were better titled: *Toward Renewed Debt Service Payments from Ibero-America*. Published in late 1986, it is a mean-minded attempt to forestall other countries from adopting President Alan García's solution of limiting Peru's debt service payments to 10% of export earnings, and a rejoinder to the Schiller Institute's August 1986 book in support of Peru, *Ibero-American Integration: 100 Million New Jobs by the Year 2000!*

The study was commissioned by David Rockefeller's Americas Society, and has been actively promoted across Ibero-America in the last few months by a traveling road show of Rockefeller and some of the authors. In content, it is an uninspired rehash of every monetarist policy which the IMF has already forcibly applied across the continent, with the well-known devastating results. Indeed, behind the fancy words and pompous (and always undocumented) assertions, the real policy proposals of this book are best characterized by the current legal plight of one of its authors, Peruvian banker and co-president of First Boston International, Pedro-Pablo Kuczynski. Kuczynski was Peru's Minister of Energy and Mines in the early 1980s, and he was recently indicted in Peru for the following crimes committed while holding that post:

- embezzlement;
- fraud;
- tax evasion; and
- negligence in the defense of state interests.

Kuczynski and cohorts Balassa, Bueno, and Simonsen should all be indicted again for the far worse crimes they promote in their book.

The book's central thesis is that it is possible to have "self-sustaining economic growth in Latin America and simultaneously enable the continent to cope with its external debt problems." By "cope," what the authors really mean is "pay":

> We do not advocate defaults, debt forgiveness, unilateral modification of interest obligations by the debtors (as in Peru at present), or other "radical" approaches—because we believe they would not be in the interest of either debtors in Latin America or creditors elsewhere.

Yet if the last decade of Ibero-American economic history shows anything at all, it is that the unbridled payment of largely illegitimate debt has led to a net capital *outflow* of hundreds of billions of dollars from the continent, which has made economic growth impossible. The authors candidly confess that their "growth" strategy would mean more of the same:

> For some time to come, the inflow of new capital may not fully offset interest payments on the external debt, and therefore *the net outward transfer of resources will continue*.

How do Kuczynski et al. intend to achieve this result? Through a four-part strategy:

1) Export. The book's authors are quite hostile to the sort of protectionist measures used by the young United States—and every subsequent industrializing nation—to create a national market which domestic industry then produces for. They lie that such "inward-oriented policies have retarded economic growth in Latin America," and insist that the nations of Ibero-America should produce for export, reduce their tariffs on foreign imports, and devalue their currencies dramatically to "remain competitive." They are emphatically opposed to the formation of an Ibero-American Common Market, which would create a protected continental internal market, but can adduce no arguments against it other than a vague reference to "differences in the level of industrial development among Latin American countries" and other "conflicting views" among the nations of the region.

2) Cut consumption. Rockefeller's bankers believe that Ibero-Americans consume too much—and thus they propose a series of measures to cut consumption to the bone, and profitably channel the resulting savings in their direction. "Tax policy," they suggest, "can also boost domestic savings by taxing consumption." Also, high interest rates are important: "The proposed approach is to assure that real interest rates remain sufficiently positive to induce a stable and substantial level of domestic savings." As for how to invest the miserly resources left behind in Ibero-America, the authors repeatedly insist that capital-intensive (i.e., highly productive) technologies are to be prohibited at all cost: "Favoritism of capital-intensive activities . . . should be avoided." They also advocate the elimination of minimum wage laws and virtually all protection of workers' living standards. In fact, their logic leads them to argue that wholesale layoffs are conducive to "growth":

> On the whole, labor regulations, especially *limitations on reductions in employment, inhibit job creation and economic growth in general* in Latin America.

Kuczynski et al. also recommend that the nations of Ibero-America open themselves to untrammeled foreign investment, abandoning all pretense of sovereignty in order to attract it:

> The acceptance of international arbitration on contentious issues related to foreign direct investment is a sovereign decision. Refusing arbitration of disputes, however, deflects investments to countries that do accept it.

3) Eliminate the state sector. The authors share the IMF's incompetent analysis that government budget deficits are the root of all economic evil in Ibero-America, and must therefore be slashed at all costs. They therefore propose a drastic policy of privatizing as many state sector companies as possible—including those in strategic areas, such as oil and communications. They bemoan that "there had been a very large expansion of the role of the state in Argentina when Juan Domingo Perón came to power," and urge that such redoubts of nationalism and dirigism be smashed as soon as politically feasible:

> It is obviously impossible to privatize all state enterprises in the competitive sector overnight . . . [but] a clear movement toward privatization should be set in motion.

Like all free-market theorists before them (such as Adam Smith and Milton Friedman), the authors show a preference for what is known as the "informal sector" of the Ibero-American economy—the black economy, which is increasingly dominated by the drug trade. They exude uncontrolled praise for the "business acumen" and "entrepreneurial spirit" that this criminal layer displays. Could this possibly be related to the fact that Kuczynski, in addition to his criminal activity in Peru, found time to be a member of the exclusive Inter-American Dialogue group, which promotes the legalization of the international drug trade?

4) International aid. Rockefeller's authors propose that promises of small doses of international credit be used to induce the Ibero-American nations to adopt the above reforms: any that don't go along, get strangled; for those that do, "new capital inflow can support the adjustment programs." The Baker Plan, which proposes a paltry $29 billion in new money for Ibero-America in each of three years, is endorsed as a step in the right direction. Beyond that, they propose nothing to deal with the debt problem other than the standard measures associated with the likes of Kissinger: capitalize interest payments; convert debt to equity; strengthen the role of the IMF and the World Bank; and establish an "explicit linkage between debt rescheduling, additional financing, and the adoption of a comprehensive reform program."

Bail out the banks

The authors pretty much confess that the whole purpose of their report is to devise a strategy that will shore up the dangerous insolvency of the banks that they speak for: "The extensive exposure of U.S. banks in Latin America represents an ongoing threat to the American financial system." They propose that the current debt crisis be turned to the banks' advantage, by forcing through major structural reforms that will permit the ongoing looting of the Ibero-American economies:

> The previously entrenched forces of resistance to reform [in Ibero-America] seem to be yielding in the face of crisis. . . . [Some] miss the depth and fundamental nature of the crisis of the 1980s. Historic opportunities arise from unprecedented difficulties. Extreme need can overcome deep-seated opposition.

This open appeal to extortion comes naturally to the likes of Kuczynski and Rockefeller. But what they never stopped to contemplate is the possibility that some nations in Ibero-America might revolt against such treatment, and follow the Peruvian example of conditioning debt payments to development needs. In fact, the biggest irony of the whole book is the fact that it repeatedly cites *Brazil* as the example of a "good" country that has purportedly shown that you *can* pay all your debts and still get by: "Brazil appears to have resumed a substantial degree of self-sustaining growth while continuing to service its large external debt."

Brazil's Feb. 20 declaration of a unilateral debt moratorium—on the precise grounds that they could *not* continue to grow if they fully serviced their debt—is perhaps the best refutation, both economically and politically, of the book under review.