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Debt payments savage Ibero-America

Peter Rush describes how the failure to form a debtors cartel doomed Ibero-America to another year of worsening social and economic crisis.

The year 1988 saw the peoples of Ibero-America condemned to deepening misery, due to the cowardice of their leaders, most importantly, the leaders of the continent's "Big 3," Presidents Miguel de la Madrid of Mexico, José Sarney of Brazil, and Raul Alfonsín of Argentina. They continued to refuse to stop paying tens of billions in debt service during 1988, at a terrific social and economic cost to their peoples.

The year saw millions of Argentines suffering malnutrition, a large chunk of Brazil's working and middle classes sinking into absolute poverty, and the majority of Mexicans earning 75% less than six years ago. Yet, the governments of their respective countries paid almost $30 billion in debt service and ran a huge aggregate trade surplus, while barely denting their debt burden. Moreover, their refusal to join together in a debtors' cartel against international bank usury condemned Peru to defeat by speculators and bankers, causing a hideous financial/economic crisis, while also dooming the prospects of any other country of the region improving its economic situation.

In Brazil and Mexico, the people responded by "voting the bums out" who brought on this misery. In municipal elections throughout Brazil, the voters deserted the once-majority PMDB, associated with President Sarney's failed policies, voting in mayors from two far left parties in dozens of cities, including the two largest. In Mexico, the discredited ruling PRI party lost its first presidential election in its history, requiring it to execute monumental vote fraud to retain the presidency. And in Argentina, all polls heavily favor the Peronists to win a presidential election this coming May against the unpopular Radical party of President Alfonsín.

Nonetheless, during the year all three countries negotiated "deals" with the international banks and the IMF on their foreign debts, at the price of cutting wages even further, reducing government budgets for health, education, and other social expenditures, hiking interest rates, and reducing productive investment once again. As a result, Brazilian inflation is at an all-time high, Mexico is poised for an inflationary blowout, and Argentine inflation is fast approaching previous highs after yet another failed "plan" to rein inflation in. We will examine these three case studies in some detail, as the economies of these countries dominate Ibero-America, and their debts account for 70% of the region's total.

Brazil

Brazil is a financial cataclysm waiting to happen. Inflation rose in October to an all-time monthly high of 27.5%, a 1,745% annual rate, and most analysts think classic Weimar-style hyperinflation could break out any day. January-November inflation is also a record 645%, three times last year's 232%. The only thing preventing an estimated $75-100 billion from trying to flee the monetary system, and probably the country, tomorrow, is a combination of indexation of financial instruments, and high-interest, extremely short-term government paper, typified by the "overnight" (one-day "bonds"), plus constant devaluation of the cruzado, which in 1988 lost 90% of its value against the U.S. dollar. Total internal debt soared in 1988, increasing 45% from $55 billion to $80 billion. The slightest shock is enough to send tremors through the system, as in October when the central bank offered, and then retracted, a 50% monthly interest rate, sending holders of cruzados scurrying for cover.

The government claims it has its foreign debt crisis under control, based on the renegotiation with the banks, finally sealed in September, that officially ended Brazil's 19-month debt moratorium. However, only extraordinary levels of "self-looting," in the form of a record $17 billion trade surplus, made this possible. In 1988, Brazil increased exports, primarily manufactures, by $6 billion without increasing imports. It ended the moratorium by savaging the domestic economy to the tune of $17 billion worth of goods sent abroad as tribute, a level double that of two years ago.

What this means can be seen in the manufacturing sector. Brazil exported fully 23.5% of its total manufacturing output in 1988, $20 billion, up $4.5 billion from last year. But total manufacturing output was down, as of October, by 2.9%, and October's decline was 7%. The result is that consumption of manufactured products by the domestic economy fell from $72.3 billion in 1987 to $65.3 billion in 1988, a 10% decline, or more than 12% per capita. As of July, production of key consumer goods fell sharply, with textile production off 7.2%

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from 1987, and clothing off 13.5%, even as textile exports rose.

The country also exported food desperately needed by its people: 530,000 tons of beef, equivalent to an annual consumption of 40 million people, 220,000 tons of chicken, equal to the consumption of 20 million, and 500,000 tons of rice, enough for 7 million for a year, were exported, in a year in which wheat and corn, which account for 50% of Brazil's grain production, fell 19.3% and 7.3%, respectively. Worse, as of September, when inflation for the year was at 397%, the price of beef had risen 750%, chicken 772%, milk 568%, wheat flour 869%. In September, when inflation was 24%, beans rose 53.2% in price, beef 42.3%, and chicken 40.8%.

Official employment and wage figures are not available for the country, but in São Paulo, manufacturing employment fell 2.55%, and average real wages by 1.3%. However, official wage figures are highly misleading. For the portion of the workforce whose wages are indexed, inflation has not hit as hard, but for the majority of the population that lacks such employment, including the entire so-called informal economy, the inflation has been brutal. More than half of all Brazilians earn less than $90 a month, and live in abject poverty.

The result is a building social and political storm. Nonetheless, President Sarney's plan is to slash the government budget, hitting especially hard at money for the states for social services, and to open "free trade zones" to export yet more manufacturing tribute, while continuing to pay the debt on time. It will not be long before the nation's gerry-built financial structure must come apart, with awesome social, political, and economic consequences.

Mexico

Mexico is also close to an explosion. Facing monetary blowout in late 1987, the government convinced the major industrial and peasant unions to sign an "Economic Solidarity Pact," whereby they would suffer another large downward ratcheting in real incomes, in return for halting inflation. While inflation is now officially under 1% a year, the wage-earning population has not been compensated for more than a fraction of the nearly 50% inflation since last winter, which decline in real income comes on top of a more than 50% reduction since 1983. According to the National Confederation of Chambers of Industry, real wages in Mexico have now fallen an astounding 76.5% under the December 1982-December 1988 term of De la Madrid.

Indeed, it is no exaggeration to say that under De la Madrid, the Mexican government has been turned into little more than a tax-farming operation for the country's creditor banks and domestic financial sharks. Since 1983, Mexico paid $57.7 billion in interest payments on the foreign debt, and $30 billion in amortization, while the total debt grew from $82 billion to $105 billion. The government paid even more than that, in recent years, as blackmail money to the "300 families" that run Mexico, the top financiers who have demanded extraordinary rates of interest on the internal debt, held almost exclusively by them, on pain of turning their billions into flight capital. Some 56% of the federal budget in 1988 went for debt service, the majority of it internal.

And De la Madrid's successor, Carlos Salinas de Gortari, is pledged to continue the pillaging. In his first budget, submitted Dec. 15, Salinas committed himself to paying 59.3% of the total federal budget for debt service ($9.9 billion of it for interest on the foreign debt), relegating social services and infrastructure investment to last priority, with very tiny budgets. Granted, he announced that Mexico was demanding $7 billion in new money from the banks to defray most of that $9.9 billion, but that would be at the cost of increasing Mexico's total debt another 6%, and securing it at all is very far from certain.

Meanwhile, 6 million Mexicans, 21% of the workforce, are officially unemployed, average wages are $3.50 a day, 60% of the productive plant of the country is not operating, productive investment has fallen 40% from its previous low, and the majority of the population is barely surviving. Meat and milk are disappearing from the average diet. Gasoline is now being imported for lack of investment in oil refineries, and so is milk, the domestic producers having been driven out of business. With support prices for most agricultural products set below costs, farmers are threatening not to plant this winter's crop.

Moreover, the trade deficit which in recent years provided the margin of $8-12 billion with which to pay interest, has fallen to nearly zero, and 1988's balance of payments threatens to be sharply negative. Should Salinas sharply devalue, to try to expand exports, he will unleash unstoppable domestic inflation again; but if he doesn't, he will have to stop paying. Reserves of over $16 billion last spring are now half that and falling fast. For all the tricks that have been played, neither the monetary system, nor the Mexican people can long continue playing this game.

Argentina

Argentina's story mimics Brazil's and Mexico's. Only a 41% growth in manufacturing exports—at the expense of the domestic economy—has permitted Argentina to come close to servicing its $56 billion foreign debt, and even so, it is $1 billion in arrears. Faced with high and rising inflation, the Alfonsín government instituted its so-called "Spring Plan" with much fanfare last July 31. It raised public utility rates 30%, cut the state budget, and rigged the exchange rate to steal 20% of the revenue due the country's agricultural exporters. On Sept. 21, it cut 2,600 protective tariffs. And it jacked interest rates up so high that hot money began pouring into the country, causing a rise in internal government indebtedness of 60% in two months, to a level of $11 billion.

But despite the export boom, manufacturing output dropped 4% in the third quarter, and investment in plant and equipment was expected to fall 25% in the second half, after

a 30% fall in the first half. In a confidential memo prepared by members of the Argentine Industrial Union in early September, it was predicted that there would be a 40% drop in industrial output, causing mass plant closings and layoffs. And for all of this, inflation, which reached a "low" of 5% in November, was expected to hit 10% in December, on the way back up again.

The result: Wages in July were 22% below the 1987 average, and more than 40% below their January 1987 level, and they are lower today. According to a shocking in-depth report in a Buenos Aires newspaper Oct. 13, an estimated 10 million Argentines—one-third of the total population—suffer nutritional deficiencies, one-third of these being at a critical subsistence level.

Venezuela and Peru

Venezuela faces a crisis of debt payment only slightly lesse severe than the three cases above, and anticipates the highest inflation of its history next year. Colombia's export economy has been savaged by terrorist attacks on its oil pipelines, cutting oil exports, and the collapse of its agriculture because of guerrilla activities. Chile can anticipate financial destabilization as flight capital begins to flee the prospect of political chaos and communist gains next year, while Bolivia continues to depend on coca exports, the rest of the economy having been destroyed by "reforms" in 1985. Ecuador declared a debt moratorium, and bad weather ravaged the Caribbean.

The collapse of the Peruvian economy in 1988 has been the most abrupt of any country's. Unlike the rest of the continent, Peru had experienced real growth from late 1985 through the summer of 1987, based on a partial debt moratorium, in defiance of the IMF and the banks. But when support from the major debtors was not forthcoming, the allies of the IMF lowered the boom in 1988. Beginning in the summer of 1987, pressure was exerted in the black market against the value of the inti. President Alan García responded by nationalizing the banking system, but internal sabotage by the IMF lobby in Peru's oligarchy ensured the failure of this measure. An orchestrated run on the inti on May 4, 1988 forced García to overhaul his cabinet four days later. On June 29, the government legalized drug money deposits in the banking system, and on July 11, it decreed the first austerity "shock" program, jacking food and other prices 50-110%. Continued monetary warfare led to another shock program decreed Sept. 6, again raising prices and devaluing sharply. The result: 1,300% inflation in 1988, food shortages and no money for imports, and no reserves in the central bank. García himself continued to oppose signing a deal with the IMF, despite intense pressures within the country, but most of his programs for economic progress have been either cancelled by budget cutbacks, or smashed by the out-of-control Shining Path terrorist movement, leaving the economy in a shambles.

Back to the Stone Age

The Soviets' ecology enters a new phase

by Carol White

Mikhail Gorbachov's Dec. 7 speech before the United Nations was most prominently covered with regard to his unilateral disarmament offer. Yet a good three-quarters of the speech was devoted to his proposals to reorganize the world economy. He urged the restructuring of industry according to directives to be set by ecologists. These would then be enforced through the supranational authority of a global police force, under the authority of the United Nations.

Gorbachov has now publicly surfaced what we have known and reported to be the case: The ecologist movement, from the Green Party in Germany, to Prince Philip of Britain's World Wildlife Fund, to U.S. anti-nuke protesters, are a joint East-West Trust deployment, with heavy KGB involvement. With this speech, the Soviet President has put forward a program which would force the West to disarm its industrial base, as a prelude to a Russian drive for world hegemony.

The reality of instituting the kind of restrictions on industry proposed by the ecologists, on the basis of spurious, pseudo-scientific argument, would, if successful, be of dubious value to the "environment," but would in fact condemn possibly as many as half of the existing world population to premature death. Such a return to Stone Age technologies is attractive to that section of the Western oligarchy which would prefer to risk Soviet domination in their gamble to reinstitute a new feudalism.

Their hope is to arrange a joint *trusteeship* over the globe, with the Soviets—creating two feudal empires, one Eastern and one Western. One of the Western architects of this East-West Trust arrangement was the evil Bertrand Russell, who kicked off the "Ban the Bomb" movement in the late 1950s, but who had been decrying industrial society and polemicizing for a return to the Stone Age, since before World War II. In 1968, the Club of Rome was formed with explicit malthusian goals.

East-West coordination

EIR has published documentation of KGB and East German links to the West German Green Party, and the role of the Greens as a cover for professional Soviet sabotage activ-