Council on Hemispheric Affairs

press release

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SELECTIVE DEFAULT: A JUST RESPONSE TO A SOARING AND UNJUSTIFIED LATIN AMERICAN DEBT

---*Prime rate hike adds fuel to Latin debt fire*

---*Trend towards democracy in region threatened by enormous loan burden contracted by corrupt military regimes*

---*Constitutional governments would be justified to repudiate that part of financial burden resulting from western private banks knowingly and aggressively vending loans to illegal military regimes*

---*Cartagena shows bankers' fears of a debtors' cartel unfounded; Latin America expected to bend its knee to international financial community*

---*A lot of talk, little action in west over solutions to emergency*

Monday's half-percentage-point increase in the U.S. prime rate, to 13 percent, has compounded the emergency situation faced by Latin American debtor nations, one highlighted by last weekend's debtors conference at Cartagena, Colombia, where the plea was made for an "immediate and drastic reduction" in current lending rates in the west, to which local interest payments on the region's foreign debt are pegged. Monday's increase automatically tagged approximately $1 billion to Latin America's estimated $350 billion debt.

Although the U.S. private banks may have ensured their second-quarter profit margins, democratic Latin governments are struggling to avert disaster by accommodating domestic social needs as well as having to service hundreds of billions of dollars in unlawful loans contracted by illegitimate military regimes going back to 1964, when the Brazilian military overthrew that country's constitutional government. With no apparent solution, even a short-term one, to the debt crisis in sight, civilian democratic governments that succeeded discredited military regimes would be entirely justified to declare a unilateral moratorium on interest and principal payments on that segment of their debt that was contracted under previous de facto military regimes.

Beginning in 1964, U.S., Canadian, Japanese and West European banks started aggressively pressing loans upon a new generation of military

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In their turn, in the matter of the current Latin American debt crisis, it surely seems reasonable and just for Latin American democracies to say: "You made loans to the military, which was murdering our lawful leaders and suppressing our own rights. But the military -- which was your prime borrower, and could not have survived without the loans -- is now out of office. You knew what the situation was at the time; you took the gamble and you lost at it. At the present time, we will no longer service that part of our debt which was contracted by unlawful regimes." A good example of this situation is the case of Argentina, whose foreign debt, which currently exceeds $43.5 billion, includes a sum that may total anywhere from four to seven billion dollars that is unaccounted for and incapable of being audited. A good portion of that total is thought to have disappeared in various forms of graft and unregistered military spending. Hundreds of millions of additional dollars were wastefully siphoned by that country's ruling generals in their ill-fated 1982 Falklands War fiasco.

What makes the huge Argentine debt pill even more bitter is the fact that many of the country's major creditors -- especially David Rockefeller's Chase Manhattan Bank, Manufacturers Hanover and Citicorp -- incessantly wooed the former military rulers into contracting billions in frequently unnecessary loans.

Many of these loans were contracted by Economic Minister Jose Alfredo Martinez y Hoz, who was the architect of the Argentine military's economic policies. Repeatedly offered banquets hosted by David Rockefeller on trips to New York, Martinez y Hoz continued to borrow hundreds of millions of dollars from New York banks for political rather than economic reasons, in spite of the fact that Argentina had billions of dollars in surplus foreign currency at the time.

In addition, many of these highly-visible transactions were made in an atmosphere of wasteful extravagance, and largely served to undercut the Carter administration's human rights policy of eliminating economic and military assistance to the Argentine military regime as it waged its "Dirty War" against the Argentine populace. In fact, as public funds were being cut off on human rights grounds to Argentina and Chile by the Carter administration, the private banks, led by Rockefeller's Chase Manhattan, filled the breach by adding billions of dollars in loans to their Latin American portfolios. In the late 1970s, Citicorp made a higher volume of loans to Brazil than to individuals in the United States.

WILLING CREDITOR TO CUT-THROAT REGIMES

In 1976, as Washington moved to cut off Argentina from U.S. aid, Chase Manhattan led a consortium of New York-based multinational banks that supplied the Gen. Jorge Videla government with over $500 million in loan assistance. In 1980, shortly after Ronald Reagan's election, Rockefeller -- about to retire as Chase's chairman -- convened a meeting of Chase's board of directors in the remote Argentine town of Puerto Iguazu, courting many top military officials of that country. By that point, U.S. banks had provided Argentina over $3 billion. Throughout his fall 1980 Latin American tour, which included stops in Panama, Chile and Paraguay, Rockefeller carried the message that "Mr. Reagan will base his foreign policy on U.S. national interest," defined with a weakened human rights emphasis.

The extent of the Argentine military's controversial borrowing practices -- as well as the profligacy of its major creditors -- are representative of the legacy left by most of the region's authoritarian regimes to successor civilian governments. At the time of the March 1976 Buenos Aires coup that toppled the constitutional government of Isabel Peron, Argentina's outstanding external public debt totalled just under $3.5 billion. In Brazil, four years before the 1964 military coup in that country, public debt stood at $2.4 billion; ten years later, at $4.7 billion; and by 1981, at $57.4 billion. When Gen. Augusto Pinochet overthrew the elected government of President Salvador Allende in Santiago in 1973, Chile's public foreign debt totalled $3.4 billion; by 1983, total foreign debt had reached $17.26 billion. The Bolivian public foreign debt was $179 million in 1960, four years before the onset of a string of military regimes that ruled nearly without interruption for the next 18 years. When the civilian government of President Hernan Siles Zuazo assumed office in October 1982, it faced a total foreign debt of some $3.5 billion and a national treasury essentially plundered of its foreign reserves by corrupt military officers. For Latin America as a whole, public external debt skyrocketed from $7.2 billion in 1960 to $181.1 billion by 1981. The era of military rule -- touted by Rockefeller and his New York bank colleagues as producing an "economic miracle" in Brazil and bringing stability to the rest of Latin America, created the region's worst financial nightmare since the beginning of independence in the 19th century.

THE PERIL OF SISYPHUS

The half-percentage-point increase in the prime lending rate added approximately $1 billion to the already crushing interest costs of Latin American debtors, since most interest payments are pegged at rates slightly higher than the U.S. prime or the London Interbank Offering Rate. This year alone, the U.S. prime has risen from 11 to 13 percent. Monday's rate hike followed by a mere two days the signing of the Cartagena document, which among other items calls for a reduction in interest rates, preferably to the 11.5 percent rate the U.S. Treasury currently pays. With inevitable further increases predicted throughout the rest of this year, the region's desperate plea for a reduction in rates takes on a greater urgency.

TALK LIKE A LION, ACT LIKE A LAMB

While there was talk among western leaders at the recent summit meeting in London that some formula must be found to insulate borrowing nations from rises in interest rates -- including a possible "cap" on that rate paid by debtor nations -- no specific initiative was forthcoming at that gathering. Rather, private banks, multilateral agencies and the Reagan administration alike have adopted a wait-and-see attitude, apparently anticipating that some miraculous solution to the crisis will present itself.

Rather than insisting that Latin American democracies are not responsible for the borrowings of their unlawful predecessors, at Cartagena, regional dignitaries stressed that no unilateral moratorium on debt payments was being considered, and that the meeting was not of a confrontational nature towards international creditors -- a significant sign of the debtors' willingness not to roil the waters of the international financial system. In the wake of the prime rate hike, a second conference originally slated for September may take place next month, in Buenos Aires.

Latin leaders contend that the austerity programs severely restrict the importation of desperately needed capital, food and raw materials, while draining precious domestic resources from social services towards debt servicing. They also strongly oppose rescheduling interest rates when they climb.

The next stage of the unfolding Latin debt crisis arrives on Saturday, June 30, when Argentine President Raul Alfonsin -- who has taken the toughest stand to date on the traditional take-it-or-leave-it IMF austerity guidelines -- must pay $350 million in overdue interest to U.S. creditor banks or face a total credit cutoff by the international financial community. U.S. banks then would be compelled to declare their outstanding loans to Argentina "non-performing," with their books reflecting such a loss. Monday's prime rate hike merely exacerbated Alfonsin's burgeoning

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political and social troubles. The president is attempting, against formidable odds, to balance the IMF's demand for draconian austerity measures with the powerful opposition Peronist-dominated labor sector's demands for an immediate wage hike of between six and eight percent.

ALFONSIN SHOULD DECLARE A MORATORIUM ON PAYING MILITARY'S DEBT

With an inflation rate estimated at over 550 percent, Alfonsin must accommodate legitimate demands among the populace for increased assistance to poor-and-middle-income sectors, catalyzed by the Peronists' demands, or risk a crisis that could provoke an end to the country's democratic experiment. Over one-fourth of the country's workers presently are on strike for better wages. Argentine and IMF officials are presently negotiating in Washington over a new economic plan that would spark conclusion of a rescheduling agreement. Divisions between the two sides have been wide and deep, given Alfonsin's unprecedented decision to present a letter-of-intent to the IMF delineating Argentina's own terms for new economic measures. Alfonsin would win the respect and support of many of his Latin American colleagues if he would unilaterally declare a moratorium on servicing debt repayments on loans contracted by the Argentine military from 1976 to 1983.

OUTLINE FOR FUTURE NEGOTIATIONS

Proposed by the presidents of Argentina, Brazil, Colombia and Mexico on May 19, the June 21-22 Cartagena conference signalled a first step of a process that could lead toward Latin American political unity in dealing with the industrialized nations, which have enjoyed a monopoly on international economic decision-making up to now. Representatives from Argentina, Brazil, Bolivia, Chile, Ecuador, the Dominican Republic, Mexico, Colombia, Peru, Venezuela and Uruguay attended the gathering.

Key issues were agreed upon at the meeting, including the resolution that individual, country-by-country negotiations with the IMF are not enough to surmount perpetual dependency and the debt crisis, as well as the proposed creation of a "consultative mechanism" institutionalizing the dialogue among Latin American governments and to expand that dialogue to include international banks, multilateral agencies and western governments.

At the end of the conference, delegates issued a 17-point list of proposals aimed at defusing the crisis, including the elimination of commissions and late-payment penalties in refinancing agreements; stretching out debt payment terms; the creation of a new mechanism to give compensatory financing to debtors when interest rates rise; basing interest charges on banks' "true cost of raising funds," rather than on "administered rates" such as the U.S. prime; linkage of debt payments to a "reasonable" percentage of each country's export earnings (some officials suggested between 20 and 30 percent of earnings); and, in a victory for the Argentine delegation, proposed replacement of the IMF's priority on austerity programs with an emphasis on cutting unemployment and fostering domestic economic expansion.

Despite the consensus behind these fundamental conditions, the conference also brought to the fore the current reluctance among Latin leaders to form a hard-fast regional political front on the debt issue, for fear that such a leadership stand will threaten prospects for future loans. Internal divisions appeared among the Brazilian delegation over the possible creation of a cartel. Ultimately, Foreign Minister Ramiro Saraiva Guerreiro's efforts to accommodate varying points of view on the crisis at the gathering were instrumental in reaching the final, 17-point outline and, in the words of an Argentina delegate, "it is thanks to Ramiro that we even have an agreement." But of course, the current Brazilian military government has been part of the problem, rather than the solution, since it has been the worst borrower to finance often frivolous and uneconomic projects. Latin American democratic political leaders are permitting a prime opportunity to pass that could salvage them from their present economic plight. They should insist on the principle that foreign banks lend money, at their own peril, to unlawful military regimes that often have used these funds to repress the democratic sectors of society. Why should constitutionalists kiss the whip that has savagely flogged them?

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