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ARGENTINE DEBT BURDEN THREATENS FUTURE CHANCES OF CIVILIAN RULE

- Rest of region faces similar danger
- Washington must support Alfonsin's economic efforts with actions as well as words
- White House has equated the interests of U.S. citizens with the fiscal fate of commercial banks in dealing with Latin American debt issues
- Buenos Aires faces bleak economic and political prospects
- Debt crisis must be seen as much as an example of financial mismanagement by private U.S. banks as by Argentina and other hemispheric nations

COHA STATEMENT ON ARGENTINE DEBT

The Reagan administration is seriously underestimating the gravity of the Argentine debt crisis. White House policies do not comprehend the full magnitude of fiscal difficulties facing Argentina and other Latin American debtor nations and have done little to break the vicious cycle of borrowing money from one foreign creditor to service onerous obligations contracted from another. This cycle is already undermining democratic institutions in Latin American countries, and putting at risk fragile structures in others. Argentina is one of the few countries in Latin America that today can boast the existence of an authentic democratic system, but one whose maintenance is seriously threatened by social unrest due in part to deteriorating economic conditions.

To deal effectively with the political implications of the debt crisis, Washington must shift its primary effort away from attempting to alleviate the pressure on private banks with over-exposed portfolios, which largely are the result of their unsound, opportunistic and immoral lending practices to the authoritarian regimes that ruled most of Latin America in the 1970s and early 1980s. During that period, U.S. institutions aggressively offered petro-dollar loans at several points above prime rate to Latin American military regimes, completely ignoring their dismal human rights records, corruption and the absence of elected institutions that could monitor the utility of the proposed bonds. To penalize successor democratic regimes could seriously compromise their standing with their own citizens and risk opening up a number of now-democratic societies to another era of military rule and harsh human rights violations.

COHA ANALYSIS OF ARGENTINE DEBT

In August 1982, when Mexico announced that it was no longer able to service its

external debt, the international banking community reacted with shock and alarm to what became known as the Latin American debt crisis. The administration's response at that point was to take steps to make it possible for a number of hemispheric debtor countries to meet their short-term obligations, which helped save the private banks from sudden massive losses suffered by a default by borrowing nations. This was accomplished through billion dollar International Monetary Fund (IMF) aid packages for Mexico, Brazil, Argentina, Venezuela and a number of smaller countries in the region. But in spite of these efforts, by 1985, many of these countries' debts were growing faster than their ability to service them. It became increasingly clear that the IMF could not, by itself, provide a comprehensive solution.

The administration's next solution was the Baker Plan, and from 1985 to 1987, those Latin American debtor countries that accepted the terms of the plan had new loans made available provided that they undertook structural adjustment measures according to World Bank standards.

PREVIOUS POLICY DESIGNED WITH ONLY BANKS' INTERESTS IN MIND

The principal beneficiaries of these approaches have been the private foreign banks and not the debtor nations. Most economists are now in agreement that the banking system is no longer in danger of being rendered insolvent. Since the initial threat of default surfaced in 1982, most major banks have either written off or discounted bad debts, increased reserves or taken other steps to protect themselves against potential losses. A finding by an independent watchdog coalition, the Debt Crisis Network, indicates that in spite of their vociferous protests, many banks have not only been compensated for their initial investments, but actually have reaped profits from debt service payments.

The Baker Plan, initially faulted by debtor countries, now has ceased to please even the commercial bankers. Many U.S. and West European financial institutions are no longer willing to make new loans to countries they consider uncreditworthy, and rather than the debtor nations, it has been the banks who have been indifferent to Treasury Department initiatives.

In the face of this lack of private-sector enthusiasm, the multilateral institutions have come forward with aid programs for debtor countries. Such assistance from the World Bank and IMF, however, does not come without strings attached. "Structural adjustment" is the usual condition; it entails dramatic reductions of imports, maximization of exports and often wage and price controls and other politically dangerous and deflationary measures. Imposing an export-led development model on these countries has left little room for the reinvestment of their revenues in their weak economies, tending to keep them forever dependent on new flows of foreign capital in order to service the old ones. All too often, the initial round of loans from the multilateral institutions is used to make interest payments, with the end result being that money is being shuttled from the multilateral banks through the debtor nations to the commercial banks.

President Raul Alfonsin, to no one's surprise and to little avail, has repeatedly urged the banks to lower interest rates from nine to four percent as a step toward reducing Argentina's reliance on new infusions of foreign capital to service its \$54 billion foreign debt. As long as the White House and the Treasury Department are ideologically opposed to any form of debt relief, there is little incentive for private banks to take into account the plight of those who have to live under IMF austerity programs. Washington appears to be oblivious to the fact that those who gained the most during the borrowing spree of the 1970s, namely the commercial banks and their main Latin American clients, the military governments that ruled the debtor nations during those years, are not the ones who have suffered a 50 percent decrease in real wages in the last six years. The middle and lower classes are routinely paying for the extravagances of elites and corrupt and repressive military governments to which overseas banks, like David Rockefeller's Chase Manhattan Bank, made unsound as well as unnecessary loans while at the same time being entirely indifferent to the recipients' horrendous human rights records.

REPERCUSSIONS OF PREVIOUS LENDING POLICIES

The dire economic consequences of ignoring the plight of the debtor nations are obvious. Tying them to an export-led development model is often not merely a disservice to the people of those countries; the negative spillover effect makes it a disservice to U.S. citizens as well, in the form of reduced markets for U.S. exports and lowered income for workers and management who are dependent upon such trade. IMF-mandated austerity programs in debtor countries traditionally call for sharp reductions in imports, which means demand for U.S. exports goes down. Indeed, U.S. exports to Argentina fell more than 50 percent, from \$2.6 billion in 1980 to \$717 million in 1985. In only two years, between 1981 and 1983, U.S. exports of steel and motor vehicles to Latin America fell 50 percent, construction equipment dropped 80 percent, and agricultural machinery declined 86 percent.

U.S. exports have picked up since 1985 due to the declining value of the dollar. The devaluation of the austral, however, which on July 20 fell for the eighth time this month, threatens this recovery. Job loss in affected U.S. industries, such as in the agricultural and capital goods sectors which are heavily dependent upon exports, is estimated at 20-25 percent since 1980. Mandated IMF programs also have called for increased exports, primarily in agricultural cash crops, such as corn, rice and soybeans. The increased production of these goods in Latin American countries drives the prices down, which hurts farmers everywhere.

Washington's policies regarding the debt have produced anti-U.S. sentiments in the region. Recipients of IMF standby credits are told that they must take deflationary measures, including the invariable depreciation of their currencies and the removal of government subsidies on staples. In this country, it is these types of subsidies which often allow U.S. farmers to keep the prices of their goods much lower than farmers in countries like Argentina. Pushing Argentina and other debtor countries to produce cash crops for exports not only ultimately works to lower their prices, further aggravating the plight of the U.S. farmers, but also increases the real or perceived need for additional subsidies in both exporting and importing nations. This perpetuates an entirely negative cycle including periods of wildly fluctuating prices.

President Alfonsin and other Argentine government officials have repeatedly implored the United States to approach the debt crisis with the spirit of the Marshall Plan rather than that of Versailles. Whether or not this analogy is completely justified, such statements should not fall on deaf ears. Argentina's current unstable economic environment has, without question, undermined Alfonsin's standing in his country. At the same time, it has improved that of the Argentine military, which previously had been discredited by its humiliating performance in the Falklands/Malvinas war and by its brutal recent period of rule. The Argentine president's strongest challenge comes from the Peronist party, which is calling for a moratorium on debt service payments. Argentine sources believe that if the unrest continues, and if the Peronists unseat the ruling Radical Civic Union (UCR) in next spring's presidential elections, the continuation of six years of democratic rule could be threatened by a military coup. Traditionally, the armed forces have been hostile to Peronism. Lowering interest rates on the principal owed to foreign countries would greatly reduce the pressure on Alfonsin and limit the growing notion in the country that perhaps the problem should be handed to the military. If, in fact, the United States wishes to promote democracy in Latin American countries such as Argentina, it might consider revamping its current thinking on debt management and come up with more innovative programs that could alleviate the heavy burden that much of the hemisphere now bears.