

## Brady Plan already dead, as the debt bomb ticks

by Peter Rush

One would have to thoroughly comb the history of the 20th century to find any parallel to the policy miasma now surrounding the issue of the foreign debt of Ibero-America. Quite possibly, there is none.

Rarely, if ever, has a crisis-in-the-making been so clearly foreseen, yet so miserably responded to. With Mexico, Venezuela, Brazil, and Argentina threatening or already in default, solutions would seem to be needed immediately, and on a large scale. Yet, U.S. Treasury Secretary Nicholas Brady offers crumbs, and these only months or years from now. Political leaders in all four countries, under extreme pressure at home not to impose the further austerity that the International Monetary Fund (IMF) and the World Bank are still demanding, are seeking evidence to show their people that things will now get better. But Mr. Brady offers nothing but more IMF castor oil.

Events, in short, have so outrun the ability of the U.S. Treasury to respond effectively, that every effort now made or likely to be made to deal with them merely exposes the Treasury and the U.S. government to increasing scorn and ridicule. Barred by ideology, class affiliation, and a myriad other bonds that knit the Anglo-American financial elite together, from adopting the only solution capable of genuinely resolving the debt crisis to everyone's benefit (including the banks'), namely, that proposed by Lyndon LaRouche since 1982, Secretary Brady and his cohorts are doomed to ever more laughable and inappropriate "ideas and suggestions" that won't work.

Ironically, Brady would have bought slightly more time by stalling, proposing nothing, than by putting himself on the line with his present scheme. He has exposed himself to attacks from all sides.

While few have outrightly rejected Brady's debt reduc-

tion proposals, they have been met with "suggestions" from all quarters, alternatively proposing either that they be expanded and speeded up to have any effect, or limited to contain the "damage" they represent.

Leading the band of those, mainly bankers, who are damning the plan with faint praise, is IMF Managing Director Michel Camdessus. Speaking to the meeting of the Inter-American Development Bank in Amsterdam March 19, Camdessus delivered himself of an evasive, vague "commitment" that could hardly have comforted anyone: "The Fund must remain prudent. . . . It [must also] be able to react quickly to support good programs. . . . This leads me to believe that depending on the quality of the program and the country's previous track record, there may be cases when it would be appropriate for the Fund to begin disbursing credit . . . without having at that time full financing assurances from other creditors."

He added that the Fund "might" provide resources to allow cash buybacks to purchase collateral for an asset exchange or to secure interest payments.

But, he stressed, the Fund could not, under any conditions, relax the stringent conditionalities on any loan the Fund makes. Moreover, blackmailing Brady, he stressed that in exchange for the above pitiful commitment to Brady's plan, the Fund must get the hefty increase in its quota that the United States has been resisting.

Blunter was the chairman of the IMF Interim Committee, Onno Ruding, finance minister of the Netherlands, speaking at another meeting in Amsterdam that week. He said he wanted "to put a special question mark at the provision of guarantees by the IMF and World Bank," saying such guarantees would hamper progress in reestablishing creditworthiness of debtor countries. "If greater involvement of the

IMF or World Bank would lead to an indirect bailing-out of commercial banks, we would enter dangerous ground." British banking and government circles are also known to oppose IMF involvement. Without the IMF, the Brady Plan is a dead letter.

But, no one has commented on that curious feature of Brady's proposals that would seem to give the commercial banks no interest in them either. According to one mechanism proposed, IMF and World Bank monies will, via zero-coupon bonds, guarantee the principal, *but not the interest payments*, of country bonds exchanged at a discount for old loans. A separate mechanism is IMF and World Bank funds to guarantee interest payments on debtor-country bonds, but *without any collateral or guarantees on eventual payment of principal*. Why any bank should be interested in taking a bath on its loans in exchange for anything less than rock-hard guarantees of both interest *and* principal is not explained.

Outside the circled wagons of the bankers, some commentators have better perceived political and economic reality. Harvard "shock treatment" economist Jeffrey Sachs wrote in a *New York Times* commentary March 21 that only if the Brady Plan were to reduce debts by more than 50% could it be effective. "Thus, it is worrisome that the Treasury has spoken of a reduction of only 20%."

Coming out swinging against the IMF and the Brady Plan's use of it, in a featured commentary in the *Wall Street Journal* March 21, "supply-side" guru Jude Wanniski blamed the IMF for creating poverty and fomenting subversion and insurrection by its disastrous policies. (See *Business Briefs*.)

Most interesting was a *Los Angeles Times* March 19 commentary by historian Walter Russell Mead. He pointed out that the Brady Plan is much less generous than even the 1924 Dawes Plan for Germany, the harshest of three plans for dealing with Germany's postwar reparations and debt payments. It was amended first in 1929, as the Young Plan, and again in 1933 at Lausanne, Switzerland, when the new German Chancellor, Adolf Hitler, was offered "debt relief" of 95% of his payments (which he scornfully rejected). The lesson of the 1920s, Mead says, is that harsh debt terms created the conditions that brought Hitler to power, and that eventually, much softer terms had to be offered anyway—when they were too late to stave off political catastrophe. "Too little, too late has so far been the theme of Washington's approach to the debt problem. Progress is measured in inches, the journey in miles."

### **Panic over Mexico**

From the beginning, Mexico has been identified as the prime target for Brady's new program. Speaking to Congress March 15, Assistant Treasury Secretary David Mulford said, "Mexico is the debtor nation the administration is most anxious to help," mainly because "it has made tough economic reforms." *Washington Post* resident economic columnist Robert J. Samuelson was blunter: "Mexico is the test case,"

he wrote March 22. "Time is short. Foreign exchange reserves to make debt payments and buy imports are dwindling." He said that President Carlos Salinas de Gortari desperately needs a favorable deal on Mexico's foreign debt before July, in order to campaign on it in upcoming state elections.

After noting deficiencies in the Brady Plan, Samuelson presented the stakes for all of Ibero-America: "Failure with Mexico could cause the process to break down. There could be a bandwagon effect. If Mexico suspends its payments, other debtors could follow. Brazil, Argentina, and Venezuela are in desperate shape. It's hard to know what would happen then."

In reality, Mexico is in far worse shape even than Samuelson reveals. Its trade surplus now gone, Mexico has been paying interest out of reserves for more than six months. Coupled with an undetermined quantity of flight capital, the combined drain of reserves is believed to be \$10-13 billion since early last year. One classified IMF estimate is that only \$3 billion remain in reserves (the exact amount of Mexico's reserves is a state secret). If so, Mexico is a near neighbor to financial holocaust.

Moreover, both the IMF and World Bank are negotiating multibillion-dollar loan packages totaling perhaps \$6 billion, but with a catch. They are demanding a 20% peso devaluation as a condition for the loan. Mexico's political leadership knows that if they devalue, all hell will break loose domestically, the "pact" made with labor and peasants will be off, inflation will shoot up, and the specter of last month's events in Caracas, Venezuela, will haunt the country. But if the reported devaluation fever, which is creating tremendous pressure against the peso as people try to buy dollars in expectation of a devaluation, continues much longer, the reserves will be drained dry and the peso will devalue willy-nilly.

And Mexico may not be the worst case. Venezuela is already out of reserves, and hasn't paid at least \$200 million in interest due since December. In the wake of the Brady Plan, Venezuela has suddenly angered its bank creditors by proposing that they will deal with each—450 of them—individually, rather than through the bank committee. For their part, the banks, who had last month promised to lend Venezuela a \$600 million "bridge loan," are now welshing, saying Venezuela must pledge oil sales as collateral—which Venezuela refuses to do—without which the loan will be a "bridge to nowhere." The banks also said they will not look favorably on providing trade credits Venezuela will soon need.

Brazil, which faces a likely inflationary explosion in April when it relaxes price controls, is now in arrears on interest due March 15, saying it won't pay until banks lend it new money. And Argentina, a full year in arrears, owes \$2.5 billion in interest, and has been totally cut off by the banks, the IMF, and World Bank from any more loans.