

Devaluations, soaring interest rates

Latin America's crisis spells social upheavals

Bill Vann
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The global economic upheavals that began with the meltdown of the Asian 'tigers' and led to the collapse of Russia's economy have spread throughout Latin America, with devastating implications both for the population of the continent and for world capitalism.

The beginning of the week saw a sudden surge on the stock markets of Sao Paulo, Buenos Aires, Mexico City and other Latin American capitals following statements by President Clinton that he would seek a coordinated response by the G-7 governments to halt the slide of the region's economies, and most particularly that of its main growth engine, Brazil.

By Wednesday, however, the Brazilian markets were in decline again, and on Thursday they plunged 10 percent in the first few hours trading, forcing temporary closure of the stock exchange. With each day that the absence of any concrete or credible proposal to stabilize the region becomes clearer, the threat of an even more severe crisis grows.

The Latin American events carry with them the threat of a 'disintegration of the world capitalist system,' the multimillionaire financier George Soros testified before the House Banking Committee in Washington, DC on September 15.

Soros is heavily invested in the region. He is the largest real estate owner in Argentina and has extensive interests in Brazil and elsewhere. He told the committee that financial speculation threatened to bring down the economies of both countries. 'Capital flight has already reached Brazil,' he said, 'and if Brazil falls, Argentina will be in danger.'

Capital flight, triggered by the events first in Asia and then the insolvency of Russia and Malaysia's closing of its financial markets to foreign investors, had provoked a 'general economic panic' that is now ravaging Latin America, Soros said. He warned that this tendency is quickly turning into an 'international credit blockade' against the so-called less-developed countries.

Soros pointed to the rise in interest rates to 50 percent in Brazil and 35 percent in Argentina, declaring that these figures were indicative of a 'calamitous situation' that would, over the long term, end in an economic 'collapse.' He warned that if the economic disease spreading throughout Latin America is not dealt with, it will inevitably spread to the 'center of the system,'

the United States itself, adding, 'I don't think any bailout is possible.'

The Brazilian government of President Fernando Henrique Cardoso hailed Clinton's statements about the necessity for a coordinated international response to the mounting Latin American crisis. The country's finance officials made it sound like a financial rescue package was all but in place.

With barely three weeks to go until the country's presidential elections, the government is desperately trying to buy time, staving off a financial collapse and a social explosion. What none of the officials promoting the prospects of a Clinton rescue package are discussing, of course, is the price that would be exacted from Brazil's workers and poor to pay for fresh credits.

Standard and Poor's, Moody's and the major Wall Street investment firms have all made it clear that world finance capital is demanding a brutal escalation in the attacks on living standards and basic rights as a condition for any financial bailout. What remains of Brazil's social security system and labor laws would have to be scrapped. Whatever deficit-cutting measures are taken, however, will be quickly eaten up by increased debt costs resulting from the country's staggering interest rates.

Brazil has seen a loss of more than \$20 billion in international reserves over the past month and a half, \$6 billion of it during last week alone. Even the brief spate of optimism following Clinton's remarks has only served to slightly slow the hemorrhaging capital flight, down to a level of approximately half a billion dollars a day.

Meanwhile, the Sao Paulo stock market, the financial center of Latin America, has seen its key index drop by 40 percent in barely one month.

The impact of Latin America's crisis on the US economy dwarfs that of Russia. US banks' exposure there totals \$27.2 billion, according to the Federal Reserve. Citicorp accounts for the largest share with \$15.5 billion. Chase Manhattan Corp., which has been the biggest lender in Latin America, announced earlier this year that it had taken \$2.6 billion in Latin American loans off its books, reducing its total exposure on the continent by 15 percent.

Increases in interest rates to 50 percent and a wave of

devaluations will mean a huge reduction in consumer spending and ultimately a continent-wide depression that would wipe out earnings in a region that has been a central focus in US 'emerging markets' investment.

The United Nation's Economic Commission for Latin America and the Caribbean (ECLAC) issued a communiqué Tuesday on the crisis, citing, 'instability in the foreign exchange and capital markets on a scale that is almost unprecedented in world economic history,' and warning of a 'global recession.'

Referring to the new round of economic austerity programs and emergency measures taken to stabilize the region's economies, ECLAC declared, 'the measures that have been adopted are much more stringent than would have been justified by conditions in each economy, as they have been put in place in response to foreign speculation. As a result of the financial contagion, the Latin American countries will have to bear heavy costs, which have no domestic justification and are, thus, economically and socially inefficient.'

In other words, measures imposed over the past two decades in the name of free market reform and economic liberalism have had the sole purpose of assuring foreign financial speculators the ability to realize their profits at the expense of the masses of Latin America's workers, peasants and middle class people. Though none of these structural adjustment programs have served to ward off financial catastrophe, it is now proposed that a new round of these austerity packages be introduced.

In a survey of the region's economies released before the most recent surge in the crisis, ECLAC had already predicted that the Asian crisis would spell a slowdown in Latin American growth and mounting inflation, wiping out the extremely modest gains in jobs and wage levels registered over the course of 1997.

Colombia was forced to devalue its currency earlier this month after failing to halt panic selling on its stock market and the dumping of its currency with the imposition of 30 percent interest rates.

Ecuador followed suit on September 15, imposing a 15 percent devaluation. President Jamil Mahuad, who came to power just a month ago pledging to take no measures that would undermine the living conditions of the country's population, also abolished energy subsidies, resulting in a 500 percent increase in natural gas prices, a tripling of electrical rates and a sharp increase in gasoline prices. He also pledged to lay off large numbers of public employees.

The measures sparked popular protests and the country's largest union federation, the Unitary Workers Front, or FUT, threatened to call a nationwide general strike, warning in a statement that the government is provoking a 'social explosion.'

Venezuela, meanwhile, has seen lending rates rise to 70 percent, reeling under the combined impact of the financial contagion spreading from Asia and Russia and the collapse in the price of oil, which accounts for 80 percent of the country's export earnings.

Capital flight has intensified in the run-up to national elections in which Hugo Chavez, a former army lieutenant colonel who led an unsuccessful coup attempt six years ago, is the frontrunner. Chavez has campaigned on a populist platform pledging to freeze debt payments and slow down the privatization of state-owned enterprises.

In another indication of the social tension that is mounting throughout Latin America, Chilean workers and youth clashed with security forces last Friday, the twenty-fifth anniversary of the 1973 US-backed military coup that ushered in decades of dictatorship and repression.

Two demonstrators, Cristián Varela, a 47-year-old neighborhood leader affiliated with the Communist Party, and Claudia Alejandra L'pez Beraiges, a 25-year-old dance student, were shot to death by the paramilitary carabinero police, while scores were wounded and nearly 200 arrested.

Street confrontations that began in the morning extended well after midnight in the working class districts of south Santiago. In a number of areas street barricades were erected and workers attacked smaller police stations.

A focal point of the demonstrations was the National Stadium, where thousands of workers and students were imprisoned, tortured and executed during the coup.

After years in which Washington has proclaimed a new era of democracy and free market reform in Latin America, the financial upheavals wracking the continent pose the resurgence of the kind of civil war conditions that prevailed a quarter century ago.

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