As Latin American crisis spreads, US offers loan to Uruguay

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In a stopgap measure aimed at preventing another Latin American government from defaulting on its foreign debts, the Bush administration provided a $1.5 billion bridge loan to Uruguay August 4.

The loan came after the nation of 3.4 million people seemed to replay the tumultuous scenes that shook Argentina, its much larger neighbor across the Rio de la Plata, last December.

Rioting broke out in the Uruguayan capital of Montevideo after President Jorge Batlle ordered a closure of the banks July 30, which continued until Monday. The country was faced with the collapse of its banking system after losing more than 40 percent of deposits. Capital flight had reduced the international reserves of the Uruguayan Central Bank from $3 billion last December to just $622 million.

The run on the banks was widely seen as resulting from concerns that Uruguay was sinking under the impact of the Argentine economy's meltdown. Much of Uruguay's economy is dependent on income from Argentina derived from agricultural exports, tourism, and financial services. Many of the larger withdrawals were believed to have come from wealthy Argentines who had previously moved their cash into Uruguayan accounts as a safe haven.

The unscheduled "bank holiday" hit particularly hard in Montevideo's shantytowns, where unemployed workers who eke out a living in the informal economy faced a sudden drying up of all spending. Crowds took to the streets, looting a score of food markets and other businesses and clashing with heavily armed police. Order was restored only after more than 5,000 riot-equipped police backed by helicopters occupied the main streets of the capital.

The government charged that the looting had been politically organized, echoing similar accusations made in Argentina when rioting toppled the government of President Fernando de la Rua after he ordered the banks closed there.

"It's too much of a coincidence that all the people arrived at the same time," said Uruguay's interior minister, Guillermo Stirling. "We are facing a very well planned organization that wants to break with the traditional tolerance and respect with which the Uruguayan people has lived." The statement had the tone of a warning, given the country's decade-and-a-half of military dictatorship beginning in the early 1970s.

No one has been able, however, to identify the alleged masterminds of the social upheaval by Montevideo's poor. The Frente Amplio, the main left-wing electoral front, is favored in the polls to win the next election. Its leader, Tabaré Vásquez, was among the officials meeting late into the night after the riots began to discuss a government solution to the crisis.

Separately from the looting, more than 10,000 Uruguayan workers marched on the presidential palace to protest against the "structural adjustment" program that the Batlle government has announced as part of its efforts to win fresh credits from the International Monetary Fund.

While the government is moving to cut the budget and sell off state-owned industries, the union-organized demonstration demanded new policies aimed at stimulating production. According to official figures, more than 15 percent of the work force is presently unemployed, while many more are subsisting through part-time and marginal jobs. Uruguay's economy has been mired in recession for the past four years. Poverty has reached levels previously unknown in a country that was dubbed the "Switzerland of Latin America" for its stability and extensive social benefits.

Bush administration officials hastened to clarify that the loan to Uruguay in no way represented a break from its hard-line policy of opposing economic bailouts of failing Latin American economies. "The very particular circumstances of Uruguay are not relevant for other countries," said the US Treasury Department's number-two man, John Taylor.

Some sources in the Treasury Department have indicated that the relatively small amount extended to Uruguay—all of which is to be repaid within days out of new credits coming from the IMF—was aimed at staving off another default, amidst concerns that the "contagion" from Argentina could increase the pressure for far greater financial intervention.

US Treasury Secretary Paul O'Neill, who was conducting a tour of Latin America as the Uruguayan loan was announced, was one of the chief proponents of cutting off all aid to Argentina following its December default. Since then, Washington and the IMF have been content to watch the Argentine economy disintegrate over the course of nearly eight months.

O'Neill's visit to Brazil brought demonstrators onto the streets of Rio de Janeiro. Late last month he provoked the ire of the Brazilian government and helped trigger another run on the national currency, the real, as well as a sharp drop in the country's financial markets by suggesting in a public statement that any new financial aid to Brazil, Uruguay and Argentina could end up in Swiss bank accounts. The statement came as allegations regarding Swiss accounts held by Argentina's former president Carlos Menem and his family were rocking Argentina.

The Brazilian real has lost more than a third of its value against the dollar since the beginning of the year, while Brazilian government bonds have fallen to half of their face value in a matter of weeks. The devaluation of the country's currency makes meeting payments on its largely dollar-denominated $250 billion foreign debt all the more difficult.

The US embassies in Latin America have limited O'Neill's press contacts, fearing further provocative remarks by the treasury secretary. Washington, meanwhile, made it clear that he was not coming with any offers of new credits or any proposed solutions to the economic crisis that is gripping virtually all of the region's Southern Cone. Argentine officials have likened the tour to the one O'Neill made recently with Irish rock star Bono in Africa, where he preached the virtues of the free market and feigned concern for the continent's devastating social problems, while offering little or no assistance in solving them.

A former top World Bank executive, meanwhile, said the official policy toward Argentina was one of "exemplary punishment" aimed at showing other heavily indebted countries in Latin America and elsewhere the price to be paid for suspending debt repayment to the international banks.

Joseph Stiglitz, who was the World Bank's chief economist and chairman of the US Council of Economic Advisers under the Clinton administration, told the Buenos Aires daily *Página 12* that the aim was also to conceal the role played by IMF and US policies in triggering the crisis.

The ongoing negotiations between the Argentine government of President Ernesto Duhalde and the IMF for a resumption of international credit did not necessarily offer a way out of the current crisis, Stiglitz warned. "If Argentina must pay a price in terms of more budget adjustments and more deflation, the agreement with the IMF is not worth this price," he said.

Any fresh credits from the IMF would only go to pay back the fund itself, as well as other official creditors such as the World Bank. It would provide nothing to alleviate the suffering of the half of the population of 36 million that is now living below the poverty line. On the contrary, the conditions demanded by the IMF will undoubtedly deepen the country's depression, resulting in hundreds of thousands more workers losing their jobs and a further slashing of what little remains of essential social services.