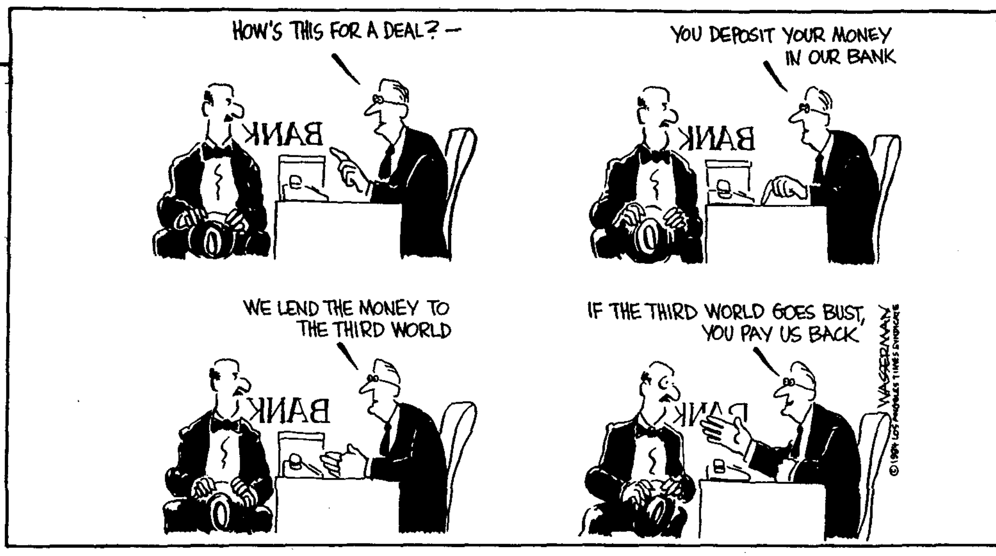

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Brady's debt plan is short on principle

By Merrill Collett

"What is robbing a bank compared to owning a bank!"
–Bertolt Brecht, *The Threepenny Opera*

It was with that quote that author Penny Lernoux launched her 1984 exposé of avarice and criminality by the world's biggest banks. Lernoux's *In Banks We Trust* documented dozens of seemy deals, but some of the most flagrant abuses were perfectly legal and even were couched in high-sounding language. In 1982, for example, Ronald Reagan flew to Brazil and handed the government $1.2 billion for debt relief. In fact, the U.S. taxpayers' money made only a brief stop in Brasilia. Its final destination was the coffers of Citibank, Chase Manhattan and Brazil's other foreign creditors. Brazil stayed broke, and the big banks stayed rich.

As the Bush administration pushes forward with a plan proposed by Treasury Secretary Nicholas Brady to write off part of Latin America's debt, this might be a good time to review Lernoux's startling guide to the netherworld of crooks dressed up as pinstriped financiers. Although its details remain unclear, the Brady plan is already shaping up as a massive con job on U.S. taxpayers and Latin American countries alike.

Dubbed a "radical new Third-World debt plan" in one Reuters dispatch, the administration's proposal is actually a conservative attempt to protect the profits of private banks with public tax dollars while doing nothing to further Latin America's economic development. This much-heralded debt initiative is a far bigger break for the New York banks than the debtor nations. U.S. taxpayers stand to foot a good part of the bill.

Forgive and forget: The Brady plan, which was actually authored by Assistant Treasury Secretary David Mulford in consultation with the Japanese government, sets as its goal a 20-percent reduction in the foreign debt of 39 Third-World nations within three years. Interest rates are also to be cut by 20 percent. In a March 10 speech Brady asked the banks to "forgive" this portion of the debt in return for a guarantee that if the debtor nations default on their remaining obligations, the World Bank, the International Monetary Fund (IMF) and the Japanese government will step in to bail out the banks. The salient fact here is that the World Bank and the IMF get their money from governments, especially the U.S. Treasury.

In essence, the Brady plan puts up tax dollars as collateral against private bank loans. Bankers, who have been begging for government support throughout the seven years of the world financial crisis, will finally get what they want—a fail-safe way to protect their profit margins by putting public funds at risk. As for the debtor nations, Brady's proposal is being received with cautious optimism by hard-pressed Latin American leaders, who see it as a welcome departure from the Baker plan. While he was Treasury secretary during the Reagan Administration, James Baker piously asked the banks to provide $20 billion in new loans to Latin America, which has a total debt burden of $415 billion. The Baker plan money was intended to help governments make their debt payments.

But Baker's moral appeal for voluntary cooperation fell on deaf ears in the boardrooms of the big banks. No new loans were forthcoming. Like the Baker proposal, Brady's plan is also voluntary, but the Latins see it as a step forward because it would reduce the total amount of regional debt rather than keeping Latin America on the endless treadmill of new loans to pay for old ones.

Yet the Brady plan will reduce Latin America's already slim chances of getting any new loans at all. A few days after Brady offered government guarantees if banks would write off part of the debt, Martin Feldstein, former chairman of the President's Council of Economic Advisers, predicted that from now on the banks will refuse to lend Latin America any money at all unless they get explicit U.S. government guarantees. And without new loans, Latin America has no hope of buying the machinery and farm equipment it needs to grow and develop.

Feldstein's prediction about the banks seemed to have come true very quickly when the bankers' lobby, the 180-member Institute of International Finance, sent a letter to the IMF on March 23 pointedly warning that "banks need a new rationale to stay in the process" of foreign lending. But the bankers' threat is deceptive. They stopped lending to the Third World long ago. While talking incessantly about the "new money" set to spring forth at any moment, the banks turned off the flow of funds and reduced their overseas obligations.

The great sell-off: The retreat of the banks began years ago, but in the second quarter of 1988 it turned into stampede. The banks shed their Third-World loans like a snake drops its skin. By the end of the year Citicorp, Latin America's largest creditor, had sold off $1.2 billion in loans to indebted nations; Chase Manhattan had gotten rid of $1 billion worth; and Manufacturers Hanover had dropped $656 million. The debt is no longer a crisis for the big banks. Referring to the great sell-off of 1988, Robert C. Corteway, vice chairman of the Security Pacific Corporation, said, "This unquestionably is going to strengthen the banking system in this country."

Needless to say, the debt crisis continues in Latin America. The loss of new loans has made the region a net exporter of capital every year for the last seven. Latin America's debt service payments during this time totaled $180 billion, an amount equal to 45 percent of the total debt.

The tight-fistedness of the big banks has been particularly galling to Venezuela, which has faithfully made payments on its $35-billion foreign debt in the expectation of getting new loans. Over the last five years Venezuela has shipped some $28 billion in interest and principal to foreign creditors. But while Venezuela made good on its obligations, foreign commercial banks rejected the government's repeated requests for more money.

Venezuela was pushed into a severe liquidity crisis. One result was the anti-austerity riots at the end of February that took 300 lives and caused $150 million in property damage. The notion that Venezuela must now ask Brady plan debt "forgiveness" does not sit well with the government. Interviewed by a U.S. TV network, presidential chief of staff Reinaldo Figueredo said that for Venezuela "it's not a problem of forgiving" old loans, but of getting new ones.

Let's make a deal: Venezuela is bargaining hard for new money. Its president, Carlos Andres Perez, was in the U.S. early this month for a round of debt talks with George Bush, U.N. Secretary-General Javier Perez de Cuellar, Jimmy Carter and Gerald Ford. But while Venezuela was trying to find its own way out of the debt trap, an organization of Latin American and Caribbean countries based in Caracas was announcing a plan to unite and bargain for a better deal for the region as a whole.

The Latin American Economic System (SELA) will convene a meeting later this year of its 26 member nations to approve a common program for bargaining with commercial banks like Citicorp and Chase, multilateral lending agencies such as the World Bank and the governments of the industrialized countries. A working paper now circulating among SELA member nations calls for the creation of an international organization to buy back loans from secondary markets, where Latin American debts have fallen to an average of less than half their face value.

SELA was founded in 1975 by Mexican President Luis Echeverria and Perez, during his first term as president of Venezuela. For most of its existence SELA served as a think tank for pro-Latin American points of view, but recently it has begun to have wider political influence.

In 1985 SELA delegates voted unanimously to condemn the U.S. economic embargo against Nicaragua. The decision represented one of the few times that Latin America as a whole has gone up against Washington.

SELA has had less success in taking joint action on the debt issue, but Perez del Castillo, secretary general of SELA, said Latin America's economic crisis is pushing countries to unite out of necessity. "The social tensions experienced by every country in the region in the last few years have created a new consciousness. If we [in Latin America] don't reach a unified position on the foreign debt now, we're going to be pushed into much more radical solutions in the future." Latin America's next recourse would be a total debt moratorium, he said.

SELA's efforts to organize debtor nations may already seem too radical for U.S. bankers and government leaders, who have long held to a country-by-country approach. That remains one of the principles of the Brady plan. Bilateral negotiations have allowed the banks to isolate debtor nations and muddle through the years of the world credit crisis, but Perez del Castillo said the Latin Americans have learned "the hard lesson," that isolated agreements between individual debtor countries and their creditors never resolve Latin America's common problem—an "unpayable debt." □

Merrill Collett writes regularly for *In These Times* on Latin America.

INSIDE STORY

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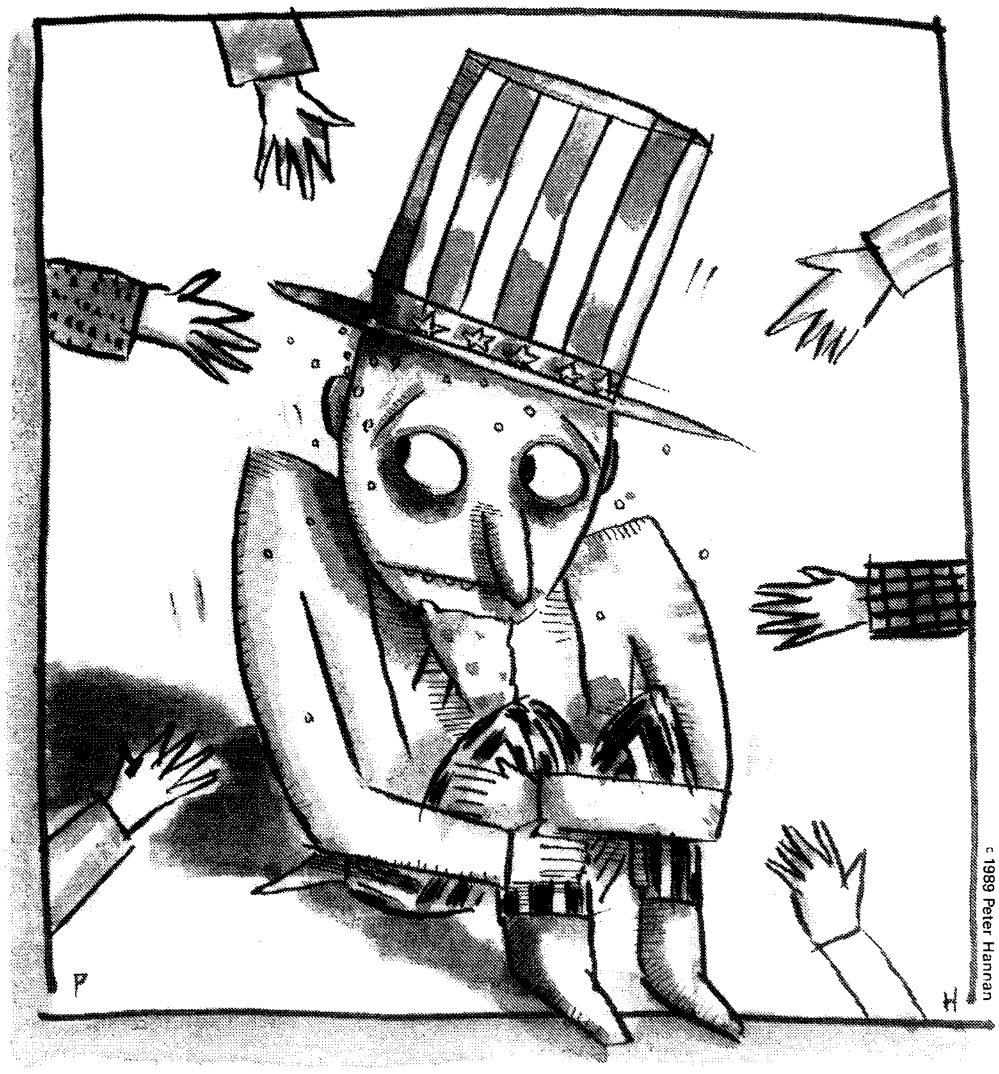

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Xenophobia is latest item in the trade in enemies

No political issue currently produces as much fear and loathing as foreign investment. The *Washingtonian*, for example, recently ran a cover story on Japanese investment in the U.S. entitled "Pearl Harbor II." In its annual survey, *Foreign Affairs* featured an article by financier Felix Rohatyn on "America's Economic Dependency." And books like Martin and Susan Tolchin's *Buying into America: How Foreign Money is Changing the Face of Our Nation* are beginning to appear in bookstores.

In the 1988 presidential campaign, several Democratic candidates tried to run on a platform of "economic nationalism." In the last weeks of his fading campaign, even Massachusetts Gov. Michael Dukakis got into the act. Appearing at the Moog Automotive plant in Wellston, Mo., Dukakis charged that "the Republican ticket wants our children to work for foreign owners and owe their future to foreign owners." Unfortunately for Dukakis, Moog turned out to be owned by a multinational corporation headquartered in Luxembourg.

How much basis is there for these fears of foreign control? Have we laid aside our fear of Soviet communist domination only to conjure up an equally irrational fear of Japanese control? Or does foreign penetration of American manufacturing and banking pose a real threat to American freedom and prosperity?

Q-Tips and bank shares: There is no disputing the fact of increased foreign economic penetration. As Norman Glickman and Douglas Woodward show in *The New Competitors*, their impressive new book about foreign investment, foreign ownership of industry, finance and real estate increased 845 percent from 1975 to 1987. In 1970 foreign holdings in the U.S. totaled $3 billion; by 1987, they were $262 billion. In addition, foreign governments, banks and individuals now own $1.3 trillion in American stock and bond portfolios.

Foreign direct investment has been concentrated in manufacturing. Foreign firms dominate the domestic cement and consumer electronics industries and control a major share of the machine tool, chemical, auto parts and tire industries. Familiar products like Vaseline, Q-Tips, Almaden wine, Bantam books, Columbia records, Firestone tires and Kool cigarettes are now produced in the U.S. by foreign multinationals. Much of book and magazine publishing is foreign-owned, from Doubleday and Harper & Row to *Ms.* and *TV Guide*.

Today Japanese banks own five of the 10 largest banks in California, and Japanese firms have bought significant shares in key American securities firms, from Shearson Lehman Bros. to Paine Webber. Zurich's Credit Suisse owns 44.5 percent of First Boston. A Toronto firm, Olympia & York, is the largest owner of commercial real estate in Manhattan.

During the last eight years foreign purchases of U.S. Treasury bonds made it possible for the U.S. to run huge deficits without incurring recession-causing double-digit interest rates. According to Washington economist Steven Marris, interest rates would have risen 3.5 to 5.5 percent higher without the foreign portfolio investment that began in 1983.

But what do these undisputed facts mean? Some critics of foreign investment have strayed into a kind of anti-Japanese xenophobia, focusing entirely on Japanese investment, even though the Japanese trail the United Kingdom, Canada and continental Europe in ownership of American assets. In contrast to the British and Canadians, the Japanese have also concentrated on building new plants in the U.S. rather than on buying and selling existing businesses.

Fewer jobs: But the defenders of foreign investment wildly overstate their own case, claiming that foreign investment provides jobs and reduces the American trade deficit. Glickman and Woodward show that, on the contrary, foreign investment has resulted in fewer manufacturing jobs and a greater trade deficit.

Glickman and Woodward estimate that from 1982 through 1986 foreign affiliates eliminated 56,000 jobs. This happened because 96 percent of foreign investment has been directed at buying existing firms rather than creating new ones. Like their American counterparts, foreign owners have liquidated firms to pursue short-term gains or have even moved firms back overseas to seek lower production costs.

A good example is French Canadian financier Robert Campeau. In 1986 Campeau bought Allied Stores, which includes Brooks Brothers and Bonwit Teller. Within a year Campeau sold off 16 of the giant retail firm's 24 divisions, leaving 4,000 workers on the streets. In 1988 the rapacious Campeau performed a similar operation on Federated Department Stores.

Foreign firms also have imported components like auto parts or computer chips rather than relying on domestic suppliers. This has meant fewer jobs in the U.S. and a higher trade deficit. In 1986 foreign affiliates imported $124 billion and exported $51 billion, adding $73 billion to the nation's trade deficit.

Foreign firms have also created other problems. Some have built plants in white, non-union areas. When Honda located its new factory in Marysville, Ohio, auto workers successfully brought suit before the Equal Employment Opportunity Commission. Other firms, like the German chemical giant BASF, have had long, bitter battles with labor unions.

But while these problems undercut the case for foreign investment, they don't justify attempts to block it, because none of these problems are unique to foreign multinationals. American firms have also engaged in buyouts and takeovers that have reduced employment. American firms have also sought out white, non-union areas in the South and Southwest. In short, domestic multinationals have created the same problems as foreign ones. If there is a solution to these problems, it would seem to lie in more government supervision of *both* domestic and foreign firms.

The real problem with foreign investment in the U.S. is that it acts just like homegrown big business—buying up politicians as well as factories and real estate.

Foreign firms do tend to repatriate their profits, rather than reinvesting them in the U.S. But according to a recent *New York Times* study, American firms are increasingly spending their profits overseas. For instance, in 1988 Goodyear channeled $207 million, or about 28 percent of its capital spending, into upgrading factories abroad. It would seem more important for government to direct American firms toward productive investment at home than to block foreign firms from investing here.

Critics of foreign investment confuse symptom and cause. For instance, Japanese investment in new auto and steel plants in the U.S. is not a cause, but a symptom, of American industrial decline. As American firms have abdicated, searching out quick short-term profits and moving their operations overseas, foreign firms have rushed in to fill the vacuum.

Glickman and Woodward write, "In the final analysis, 'buying of America' is really not an external problem. Rather, America has serious internal problems—owing to short-term business planning, the lack of long-run investment commitments, slow economic and productivity growth, and mismanagement of economic policy."

Screening multinationals: Nevertheless, foreign multinationals pose special problems—problems that every other advanced capitalist nation addresses but that the U.S. ignores. Other nations block foreign purchases when there is a viable domestic option. This is appropriate, because under domestic ownership profits are more likely to remain at home and production is more likely to be tied to domestic research.

Other nations also prevent foreign investors from buying up certain kinds of firms. These include not only firms that produce goods critical for national security, but also firms in publishing and communications that are responsible for advancing national culture and the national political debate.

The U.S. government currently screens some foreign purchases, but arbitrarily. In 1987, for instance, the U.S. blocked the sale of Fairchild Semiconductor to the Fujitsu Corporation on the grounds that an important Pentagon supplier should not fall into foreign hands. But Fairchild was already owned by a French multinational, Schlumberger. The real issue, it turned out, was the Japanese trade surplus, and the Fairchild case was merely being used as part of trade negotiations.

Other nations also drastically limit political activity by foreign firms, but the U.S. has a completely lax attitude. Under the Federal Election Commission's current interpretation, foreign subsidiaries can organize political action committees (PACs) and fund candidates without identifying themselves as foreign lobbies.

In 1982 Nissan's PAC tried to prevent the re-election of Sen. Jim Sasser (D-TN) because of Sasser's support for domestic content legislation. Sony lobbied hard and used

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