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LATIN AMERICA'S EXTERNAL DEBT: PART I

The moral is both simple and old-fashioned: that nations, like individuals cannot spend more than they earn without falling into debt, and a heavy debt burden bars the way to autonomous action. This is particularly true when one's creditors are also one's customers, suppliers, and employers (Payer, p.214)

Introduction

This article is the first of a two part series. The first section of this month's article provides an overview of the debt situation of the underdeveloped countries (UDCs). The second section describes the International Monetary Fund (IMF) and the World Bank and gives a brief explanation of their purposes and policies. The final section provides a brief history of the accumulation of underdeveloped country debt during the period between WWII and the oil price increase of 1973.

The second article of the series will appear in the May newsletter. It will bring the history of underdeveloped country debt accumulation up to the present, focusing on how the current debt crisis differs from previous ones.

Overview of UDC Debt

By 1982, the external debt of the underdeveloped countries had reached extraordinary

heights, and the ability of these countries to repay their debts was doubtful. Total external debt of all UDC's, including the Organization of Petroleum Exporting Countries (OPEC), was \$700 billion. (Johnson, p.26). That amount equals 28% of total UDC Gross Domestic Product, and 127% of total UDC exports. Since the loans were contracted in convertible currencies (currencies which can be exchanged for dollars), they must be repaid out of export earnings. Debt service in 1983 consumed the earnings of 27% of the total UDC exports (Johnson, p.26). These figures understate the gravity of the situation because OPEC debts and exports are included. If the oil-exporting nations were excluded the ratios of debt and debt-service to export earnings and Gross Domestic Product would increase substantially.

The total figure of \$700 billion in UDC debt includes loans from public sources (governments, multi-lateral organizations, and developed country government guaranteed export credits) as well as commercial bank loans. Taxpayers in the developed countries bear the risk on the loans from public sources. Nevertheless, commercial bank risk is substantial. One source estimated that commercial banks had \$265 billion at risk in 1983, an amount equal to well over a third of their total equity of about \$600 billion (Johnson).

Inside: Reports on Bolivia & Nicaragua

"Equity" refers to the capital provided by stockholders in the bank in return for a share of the ownership. This capital forms the buffer from which the bank covers defaulted loans (loans which the borrower will never pay back) so as to protect the money of depositors). For many of the larger banks, international exposure is much higher.

The years from 1982 to 1984 were ones of acute crisis for the international financial system. Mexico's 1982 moratorium on repayments of principal, followed within months by requests for rescheduling of debt repayment over a longer period of time from Argentina, Brazil, Ecuador, Chile, Bolivia and Uruguay, prompted widespread fears of banking failures. By the end of 1982, 40 countries were substantially behind in repayment (Delamaide, p.7). The Wall Street Journal (Nov 10, 1982) ran an article depicting an imaginary 1930's style scenario of financial collapse (cited in Delamaide, p.24). Argentina, under the new, democratically-elected government of Raul Alfonsin, was the most militant in calling for a united front among debtor nations against the harsh conditions demanded by their creditors. This raised another scenario disquieting the established order; that of a debtors' cartel accompanied by the wholesale repudiations of debt repayment.

In 1985, the international financial system remains intact. With help from taxpayers in the developed countries, and at the price of enormous suffering for the populations of debtor nations forced to adopt IMF-policed "austerity programs," (the content of these programs is described in the next section) the debts of the major borrowers have been, or are being, re-scheduled without repudiations. Incredibly, the commercial banks, by and large, have posted increased profits from the penalties imposed on borrowing nations in exchange for rescheduling. There is good reason to believe, however, that the current "tranquility" (the populations of UDC nations are not, of course, "tranquil" under the onslaught on their standards of living) is not permanent. Rescheduling has bought time by extending yet more

credit to the UDC's. The UDC debtor nations have not, in general, been restored to long-term solvency.

Latin American Debt

Latin America was, and continues to be, the focus of concerns about the stability of the international financial system. Of the total UDC external debt (debt owed to foreign lenders), over \$300 billion is owed by Latin America. The three largest UDC debtors are Brazil, which owes \$92 billion, Mexico, which owes \$87 billion, and Argentina, which owes \$44 billion. Outside Latin America, only South Korea, with debts of \$40 billion, owes a comparable amount (Bevan, p. 32). More shocking than the absolute amounts owed are the ratios of debt service to export earnings. An InterAmerican Development Bank report estimated that debt service for a group of 20 Latin American countries amounted to 53% of export revenues in 1982 (Delamaide, p. 100). For the largest debtors, the ratios are much higher. Argentina's debt service in 1983 equalled 154% of export earnings, Brazil's 117%, and Mexico's 126%. The situation of many of the smaller debtors is also dire (see Table 1). The Latin American exposure of many of the largest banks, especially United States banks, is very high, amounting in the case of Chase Manhattan for example, to 222% of total equity (see Table 2). Not surprisingly, the desperate scramble to negotiate a way around default has centered in Latin America. In 1983, \$100 billion, or 15% of total UDC debt, was rescheduled. About 80% of that total was in Latin America (Bevan, p. 34).

Understanding Latin America's external debt requires that UDC debt be recognized as playing a role in integrating UDC's into the international market economy dominated by the developed countries, and in preventing UDC's from pursuing socialist or nationalist alternative patterns of development. The two salient features of the Latin American economies, from colonial times to the present, are external dependence and internal inequality (Mac Ewan). The debt burden has aided those who benefit from this dependence and

Table 1

DEBT FIGURES, 1982/3

	Total Debt (US\$ billion) 1982 (1)	Short- term Debt (US\$ billion) 1982 (2)	Debt Service in 1983 as a % of exports (3)
Argentina	38.5	19.0	154
Brazil	84.0	19.0	117
Mexico	80.0	31.0	126
Total	202.5¹	69.0²	—
Chile	17.0	5.0	104
Costa Rica	3.5	0.8	n.a.
Colombia	10.3	4.0	95
Ecuador	6.5	2.5	102
Peru	11.00	4.8	79
Uruguay	3.5	n.a.	n.a.
Venezuela	28.5	15.0	101
Total (10 countries)	282.8	101.1	—

+ still being processed.

1 represents 68% of total for whole of Latin America.

2 represents 66% of total for whole of Latin America.

Table 2

OUTSTANDING BANK LOANS TO LATIN AMERICA

US BANKS (US\$ billion)

	Brazil	Mexico	Venezuela	Others ⁺	Total	Total as % of Banks' Equity
Citicorp	4.4	3.3	1.1	1.1	9.8	203
Bank America	2.3	2.5	2.0	0	6.8	148
Chase Manhattan	2.4	1.7	1.0	1.0	6.1	222
Man. Hanover	2.0	1.7	1.1	2.0	6.8	245
Morgan Guaranty	1.7	1.1	0.5	0.8	4.1	150

+ Includes disclosed exposure of more than 1% to Argentina, Yugoslavia and Chile.

source: Honeywell, pp. 11 and 25

inequality. The most obvious beneficiaries are developed country corporate interests. However, the roles of Latin American exporters, large landowners, and upper classes generally should not be overlooked. Sometimes these interests benefit directly from the international financial order. Corruption in the use of loaned funds, for example, should not be seen as an occasional aberration of the system (it is too widespread for that in any case) but as an integral part of enlisting domestic elite cooperation. Similarly, interests associated with export products actually profit from the devaluation imposed by the IMF which undermines the standard of living of their fellow citizens. On the other hand, other interests, domestic capitalists in particular, are injured by the pressures of international lenders to open their economies to the competitive products and investments of well-heeled developed country corporations. Whether or not there is a direct linkage of the interests of domestic upper class groups to the international financial system, however, the position of the "haves" in Latin America depends on external military, political, and economic support. It is not in general to be expected that they should seek fundamental changes which might jeopardize their relations with the governments, corporations, and multilateral institutions on which their own fortunate positions depend.

In addition, however, the current international financial system is very unstable. Next month's article therefore focuses on describing not only the system, but also the crisis of the system. As this month's article attempts to explain, the "debt peonage" which has resulted in the organization of the economies of the poor nations to provide export markets and hospitable climates for investment for the rich nations, is not new. What is new with this most recent round of underdeveloped country debt rescheduling is that the magnitudes involved represent a threat to the continued functioning of the system.



The International Monetary Fund and the World Bank

The current international financial and monetary system has its roots in the system established at the end of WWII at the Bretton Woods conference of 1944. This system was designed with the mistakes of the inter-war period, believed to be partly responsible for the Great Depression, in mind. The inter-war period was characterized by trade wars among the European nations, Japan, and the United States in which the colonial powers created trading spheres with their colonies. These trade wars involved competitive devaluations^[1], bilateral barter agreements, import restrictions, and tariffs, and were a significant factor in the tensions leading to WWII. The reduction in the volume of total trade may have been a factor in precipitating the Depression (it is difficult to differentiate between cause and effect). In any case, at the end of the War, American leaders in particular identified the national interest with maintaining a world economy open to international trade and investment. This implied opposing attempts by UDC's to favor the development of their own industry over foreign competition by erecting tariff and other trade barriers.

Two financial institutions were established at Bretton Woods. The explicit purpose of the first, the International Monetary Fund, was to prevent trade restrictions from reoccurring by providing short-term loans of foreign exchange to nations whose supplies of foreign exchange were dangerously close to being insufficient to pay for essential imports. These loans were to be used as an alternative to the adoption of currency or import restrictions. The theory was that the Fund's resources could provide a country with "...a longer breathing space in which to wait out seasonal or cyclic fluctuations or to take corrective measures which might not have immediate effect." (Payer, p. 13). The second institution, the World Bank, was designed to make funds available for longer-term productive investments. These were to be for the reconstruction of the war-damaged economies, and for the development of third world nations, many of them only recently independent or still in the process of acquiring political independence (the formal name of the World Bank is "Bank for International Reconstruction and Development"). The two institutions work closely together, have interlocking directorships, hold their annual meetings together, and jointly publish a magazine. Membership in the World Bank, and therefore eligibility for World Bank loans, is conditional on membership in the IMF. The decisions of both institutions are made by representatives of their member nations, with votes proportional to the share of funding each member provides. This guarantees U.S. predominance, and absolute control by the developed nations on all issues about which they are in agreement.

The World Bank, in cooperation with developed country governments, banks, and multinational corporations, fosters a pattern of development in the UDC's which plays an important role in integrating those nations into the world market economy. In general, the Bank's lending focuses on promotion of traditional raw materials exports and on infrastructure investments. The Bank uses its leverage quite self-consciously to keep the economies of recipient nations open to the participation of

international corporations, often to the detriment of local suppliers.

Unlike the World Bank, the IMF is called upon to provide funds only when a nation is in foreign exchange trouble. The member countries provide the resources which the Fund lends out. Each member has a quota which it pays 25% in gold and 75% in its own currency. The Fund imposes progressively more stringent conditions as a member borrows more deeply from its quota. "Conditionality" for drawings under the amount of the gold fraction (the "gold tranche") is virtually absent. Drawings in the next 25% (the "first tranche") entail light conditionality. Further drawings entail heavy conditionality, including usually a Letter of Intent from the borrower laying out quantitative economic targets which it is to meet as condition for payment of successive installments of the IMF loan. The power of the IMF to impose conditionality on a borrower lies in the fact that "...all of the major sources of credit in the developed capitalist world, whether private lenders, governments, or multilateral institutions such as the World Bank group, will refuse to lend to a country which persists in defying IMF 'advice.'" (Payer) In effect, the IMF provides the mechanism for creating a "creditors' cartel" that maintains a united front in dealings with individual debtor nations.

IMF conditionality combines two elements. First, the Fund requires borrowing governments to adopt policies of economic austerity. Austerity entails both devaluation of the exchange rate and domestic anti-inflationary programs. Devaluation makes imports more expensive, while anti-inflationary programs require cuts in government social services and employment. The quite predictable result is a decrease in the standard of living of the population of the borrowing nation, accompanied by recession and unemployment. The major impact is on the urban poor, working, and middle classes who depend most on imported food and government services and employment. Criticisms of the IMF usually focus on the austerity element of conditionality agreements because it is austere-

ity which imposes direct hardships on a borrowing nation's population. However, austerity is the necessary corollary of the trade policies which the IMF imposes on borrowers as the second element of conditionality. The Fund requires borrowing nations to make their economies more open to both foreign trade and foreign investment. Governments are required to abolish or liberalize foreign exchange and import controls, and to display greater hospitality to foreign investment.

Abolition of controls designed to reduce imports and conserve foreign exchange may seem a strange condition to impose on a nation in a foreign exchange crisis. However, as described above, it is the explicit purpose of the IMF to preserve international trade from the threat of protectionism. IMF-imposed trade policies *do* worsen the borrowing nation's foreign exchange situation. The IMF is therefore led to impose "austerity" as the alternative route to essential import reduction and export expansion. Devaluation will raise the domestic prices of imports and lower the prices of exports, thus theoretically achieving the goal. Anti-inflationary programs, in turn, are necessary to avoid the need for continual devaluations, since any increase in the domestic

price level negates the effects of the devaluation. Say, for example that Brazil devalues the cruzeiro by 100%. Brazilian sugar now costs the U.S. consumer half as many dollars as previously. And U.S. cars now cost the Brazilian consumer twice as many cruzeiros as previously. If, however, the Brazilian rate of inflation is 100%, within a year the Brazilian sugar costs as many dollars as it did before the devaluation. And within a year, the competitive price advantage the devaluation created for Brazilian cars is offset by the doubling of the number of cruzeiros necessary to buy a Brazilian car. In other words, devaluation makes exports cheap and imports expensive, while inflation makes exports expensive and imports relatively cheap.

Unfortunately, problems exist with devaluation as a tool for solving foreign exchange difficulties. Devaluation cannot discriminate, as import restrictions or multi-level exchange rates can, between luxuries and necessities.[2] The prices of imported food staples or spare parts essential to industry will rise along with the prices of champagne and Cadillacs—and some foreign exchange will continue to be wasted on the luxury consumption of the rich. Furthermore, the effects of

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devaluation on export earnings are often not substantial. If a country is already exporting as much of a product as buyers can use (demand is "inelastic" in economics jargon) quantities consumed may not expand in proportion to the drop in price, and export earnings may actually fall. Or exporters may simply pocket a larger profit at the new exchange rate, rather than dropping their prices[3].

IMF championing of increased direct foreign investment as a solution to foreign exchange crises is also rather surprisingly short-sighted for an institution which claims to impose prudence, self-discipline, and current sacrifice for the sake of long-term benefits. Foreign corporations only invest money in order to make money, and they take the money they make out of the country. Today's direct investment is tomorrow's profit repatriation. As is the case with external borrowing, the immediate relief necessarily implies increased balance-of-payments burdens in the future. Indeed, IMF rules help to guarantee this result. The IMF Articles of Agreement prohibit member nations from placing restrictions on payments for "current accounts" transactions. The IMF has defined the provision of capital as a service, and so prohibits nations from requiring that all or part of the profits generated by foreign capital (and domestic labor and natural resources) be reinvested in the country.

IMF provisions about payments for the "services" of capital also apply to interest payments on external debt. And yet, in all of the successive rounds of debt rescheduling, up to and including the current one, the real crux of the IMF "solution" to the problem of LDC debt has been to extend more credit. A staff member, writing in *Finance and Development*, the magazine jointly published by the IMF and World Bank, stated the rationale explicitly:

...aid to developing countries constitutes a continuous source of financing. In general, therefore, the recipient countries are not expected to adjust their balance of payments to

do without the aid as were the European countries during the immediate post-war period." (*F&D*, vol.3, no.3, p.174 Paul Host-Madsen, "What does it mean: A Deficit in the Balance of Payments?", cited in Payer, p. 39)

The IMF, quite simply, does not envision a time when the UDC nations will be free of indebtedness.

UDC Debt Accumulation

Before the Oil Price Shock

UDC debt is such a fixture of the current international financial order that one is apt to regard it as inevitable. And yet, 40 years ago, there was no UDC debt burden. The period of autarchy during the Great Depression was in some respects beneficial for many UDC's. For a number of Latin American nations (e.g. Brazil, Uruguay, and Mexico) the period witnessed the growth of import-substitution industries. World War II was also emphatically an economic boom to the poor nations. The war brought high prices for the primary commodities they exported. At the same time, the war demanded the full output of the developed nations' productive capacities. There was little left over to export to the UDC's. UDC import substitution industries continued to grow, as third world nations amassed large foreign currency reserves. These reserves were so substantial that Britain, fearing to be drained of resources needed for reconstruction after the War, made restrictions on spending sterling reserves a condition of granting political independence to her colonies.

By the late 1950's, the situation had reversed. Not only had the foreign exchange reserves been spent, in many cases UDC's were deeply in debt to external creditors. In some nations, like the Philippines or Brazil, accumulated reserves were quickly dissipated on uncontrolled consumption spending. In other countries, the preeminent example being India, external deficits were incurred as a matter of

policy in order to import capital goods and foreign expertise believed essential for rapid development. In the latter case, the theory was that development would generate the resources needed to repay the debts when they came due. The projections on which such expectations were based proved overly optimistic.

A detailed review of the debt crises and reschedulings of the late 50's and early 60's is beyond the scope of this article. However, several general points are relevant.

First, the absolute amounts involved were much smaller than is currently the case. In the mid-1960's, total UDC long and medium term foreign debt amounted to \$50 billion. By 1981, that figure had increased tenfold. The quantities involved in rescheduling were correspondingly less. Up to July, 1967, India, the largest borrower, had drawn \$1 billion in foreign exchange from the IMF. Brazil, the next largest borrower, had drawn slightly over \$500 million. The Filipino exchange crisis of 1958 was weathered by loans totalling less than \$75 million ((Payer, p. 166). In contrast, in the most recent round of debt scheduling, Mexico borrowed \$4 billion directly from the IMF, another \$2 billion from government and agency sources, and \$5 billion from commercial banks.

Second, although the amounts involved were smaller, the economic policy changes required in return for rescheduling were just as striking as is the case today. In fact, the need to reassure the IMF and OECD (Organization for Economic Cooperation and Development: the U.S., Japan, and Western Europe) nations that the UDC in question would pursue policies agreeable to its creditors was a factor in a number of coups carried out during the period. Goulart's government in Brazil, which had moved leftward as foreign aid was withdrawn, was overthrown by a military coup on April 1, 1964. The U.S. extended recognition on April 2, and international aid was resumed rapidly. Sukarno's government in Indonesia, which had amassed foreign debts throughout the early 1960's, announced a "go-

it-alone" policy in 1965 and withdrew Indonesia from the IMF. General Suharto took power in 1966, accompanied by a massive bloodbath. The subsequent rescheduling of Indonesia's debt drew attention for the extreme leniency of the terms. The 1960 coup in Turkey, 1966 coup in Argentina, and 1972 coup in the Philippines were also designed partly to demonstrate a capacity for "economic self-discipline" to Western aid-givers. With or without a coup, IMF conditionality as described in the previous section was imposed on debtor nations in return for rescheduling.

Third, then as now, the IMF-supervised "solutions" to the debt crises did not result in a restructuring of the consumption and production patterns of the debtor nations so as to make them independent of reliance on external debt. UDC debtors living by the terms of IMF standby agreements continued to run deficits on current account which were compensated for by increased borrowing. Despite massive "belt-tightening" by the populations of the borrowing nations, the crux of the IMF solution lay in further extension of international credits.

Finally, it is important to note that UDC's began the pattern of financing chronic deficits on current account by borrowing long before the oil price shocks of 1973 and 1979. The role which third world debt plays in allowing the developed nations to impose their economic agenda on the UDC's predates the oil shocks by 20 years.

Next month's article will bring the history of UDC debt accumulation up to the present. The use of debt to impose the economic agenda of the developed countries on the UDC's through IMF conditionality will be described as it was in this month's article. However, with the vast increase in magnitudes loaned accompanying the oil price shock, it becomes impossible to consider UDC debt in isolation from the world financial situation as a whole. Current levels of UDC debt are large enough for repudiation to threaten the wealthy lenders themselves.

Rachel Kreier

FOOTNOTES

1. When a nation devalues its currency, it makes its exports cheaper in terms of other currencies. Say a dollar exchanges for one ruble and a bushel of wheat exported to the Soviet Union costs \$20 or 20 rubles. If the U.S. devalues its currency so that a dollar exchanges for 75 kopeks (100 kopeks=1 ruble) a bushel of wheat will cost only 15 rubles. The Soviets may therefore reduce purchases of Argentinian wheat and increase purchases of U.S. wheat. The Argentinians may attempt to retain their export markets by devaluing the peso in order to lower the ruble price of their wheat also. This example illustrates the pattern of competitive devaluations.

2. IMF advisors "welcomed" Haiti's 1978 decision to remove restrictions on imports of luxury cars (Delamaide, p. 215).

3. For example, the Philippines loosened import and exchange restrictions in 1962 and at the same devalued their currency. Imports increased 68% between 1963 and 1967. Exports increased by only 7% during the same period (Delamaide, p. 215).

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Ithacans marching in Washington, photo from the Guardian (New York)

GUARDIAN PHOTO BY DAVID VITA

Ithacans Join April Actions in DC

On Saturday, April 20, some 75,000 people took part in a massive demonstration in Washington, D.C. The demands of the protest were to stop U.S. intervention in Central America and elsewhere in the world; to build a just society, creating jobs, cutting the military budget, and providing for human needs and challenging racism and discrimination based on sex and sexual orientation; to freeze and reverse the arms race; and to oppose U.S. government and corporate support for South African apartheid. On the following Monday, over 1000 citizens lobbied their Representatives for these demands, while 320 were arrested for non-violent civil disobedience at the White House. 21 Ithacans were among those arrested. It was later learned that several Congresspersons cited the civil disobedience in their statements against Contra funding.

* Elections *

NYT 4/15 & 4/21: Lima, Peru A 35-year-old Social Democrat, Alan Garcia Perez, took first place in April 14 presidential elections. The leader of the American Popular Revolutionary Movement (APRA) received slightly less than 50% of the vote. In second place with about 22% of the vote was the Marxist Mayor of Lima, Alfonso Barrantes Lingan.

NYT 4/22: Brazil President-elect Tancredo Neves died today after undergoing seven operations in four weeks. Neves' running-mate, Jose Sarney, is now President. Until recently, Mr. Sarney led the pro-military Democratic Social Party. He resigned last June and switched to Mr. Neves' opposition camp. As a consequence, he is regarded as a traitor by many supporters of the military and also distrusted by many who opposed military rule.

NYT 4/2 & 4/9: Tegucigalpa, Honduras. The Chief Justice, Ramon Valladares Soto has been caught in the middle of a power struggle between rival factions in the Liberal Party. The dispute is a struggle over who will control the selection of candidates for the presidential election in November. President Roberto Suazo Cordova has named a preferred successor and hopes to impose his choice. But Congress voted to replace five of the nine justices of the Supreme Court, through which the president effectively controls the electoral tribunal. Suazo responded by jailing the new Chief Justice and threatening to imprison every member of Congress who voted to alter the court's composition.

NYT 4/2: San Salvador Confounding analysts and a powerful coalition of conservative opponents, the Christian Democratic Party of President Duarte appears to have taken 54% of the vote across the nation. The total gives the party the majority it has lacked in the National Assembly.

NYT 4/7: El Salvador Pres. Duarte's party won the Salvadoran national elections last week, but the armed forces cast the deciding vote. Defeated rightist leaders demanded a rerun. The military backed Mr. Duarte.

Sanctuary



NYT 4/10: Cambridge, Mass The Cambridge City Council voted 5 to 4 to approve a resolution declaring the city a sanctuary to Latin American refugees.

NYT 3/28: Brownsville, Tex. A Federal district judge sentenced to prison two workers in a movement that provides sanctuary to Salvadoran refugees. Jack Elder, director of Casa Oscar Romero, a shelter for Central Americans, refused two years' probation and was sentenced to six concurrent one year prison terms. Stacey Lynn Merkt, a volunteer at the shelter, was sentenced to 179 days in prison.

Nicaragua...

CONTRAS,

NYT 4/10: Washington Robert C. McFarlane, the President's national security advisor, told reporters that the leaders of Panama, Venezuela, Colombia and Mexico told Pres. Reagan they support his plans for Nicaragua, including the call for renewed aid to the Contra rebels.

NYT 4/15: Bogota, Colombia President Belisario Betancur of Colombia said today that he and other Latin American leaders were opposed to renewed U.S. military aid for rebels fighting the Nicaraguan Government.

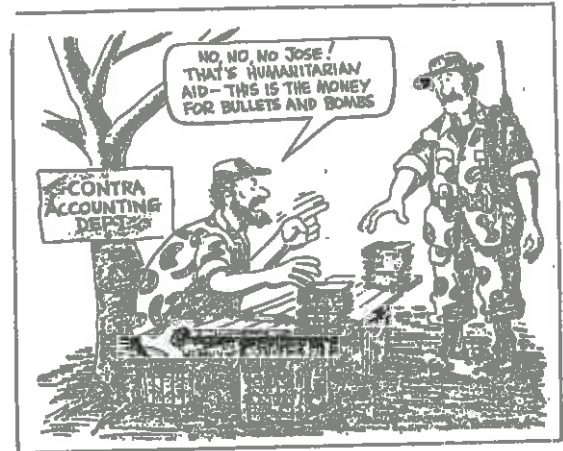
NYT 4/17: Washington The Vatican's embassy here issued a statement declaring that Pope John Paul II had not in any way endorsed Mr. Reagan's call for renewed military aid to Nicaraguan rebels fighting to overthrow the Sandinista Government. Mr. Reagan said he had received a verbal message from the Pope "urging us to continue our efforts in Central America."

NYT 4/21: Washington President Reagan said today that the Soviet Union had "military personnel" in the battle zones of northern Nicaragua near the Honduran border.

NYT 4/23: Washington The Senate voted tonight to approve the release of \$14 million in aid to the Nicaraguan rebels after President Reagan pledged to use the money only for non-military purposes. The vote was 53 to 46.

NYT 4/24: Washington The House of Representatives voted 303 to 123 to block renewed aid to rebels battling the Nicaraguan Government.

Dan Wasserman
Los Angeles Times Syndicate



and the POPE,

NYT 4/25: Nicaragua Pope John Paul II has named Archbishop Miguel Obando y Brava as Nicaragua's first Cardinal. The Archbishop of Managua has been one of the most influential critics of the Sandinista government.

EMBARGO,

NYT 5/1: Bonn President Reagan ordered an embargo on trade with Nicaragua today, telling Congress that the policies and actions of the Sandinistas constituted a threat to U.S. security. Mr. Reagan also ordered Nicaraguan aircraft and ships banned from the U.S.

NYT 5/1: Nicaragua's neighbors in Central America reacted slowly and cautiously today to the Reagan Administration's decision to cut off all trade. They did not express opposition to the measure, but they also did not indicate an intention to join the embargo.

MISKITOS,



NYT 4/22: Mexico City Leaders of the Nicaraguan Government and a rebel faction of its Miskito Indian population agreed today to "avoid offensive armed action" against each other. The agreement culminated a weekend session here between Brooklyn Rivera, the leader of the Misurasata group, and Luis Carrion, a member of the Sandinista military directorate. Negotiations between the Sandinistas and the Misurasata are to resume in Bogota, Colombia at the end of next month.

NYT 4/9: Rus Rus, Honduras Two former rebel commanders, who say they have been in close contact with the guerrillas in Honduras, said deep discontent with one guerrilla leader, Steadman Fagoth, had caused hundreds of Indians to quit fighting. They accused Mr. Fagoth of mistreating his men, of ordering the killing of prisoners and Miskitos who opposed his rule and of kidnapping other Indians who were considering voluntarily returning to Nicaragua. But the former rebel commanders said most Miskito exiles there supported the war and would be willing to fight again if they found capable commanders.

RUSSIANS,

NYT 4/30 & 5/1: Moscow President Ortega of Nicaragua met with Mikhail S. Gorbachev, the Soviet leader, who promised continued economic aid. Ortega is believed to have requested \$200 million.

the DRAFT

NYT 4/11: Jacaleapa, Honduras Relief workers and human rights activists estimate that more than 50,000 draft age youths have left Nicaragua since conscription began 15 months ago.

etc.

NYT 4/7: El Salvador The army announced today that it believed Joaquin Villalobos, the leading rebel commander, had been killed or wounded. A rebel spokesman in Costa Rica denied the claim.

* * *

NYT 4/19: Guatemala Ten months ago, six people founded a human rights organization called the Mutual Support Group for the Appearance Alive of Our Relatives. Today, only two of the six remain. Two have been killed, one is in exile and another has quit the group out of fear.

* * *

NYT 3/24: Argentina The economy has failed to meet inflation targets agreed to with the IMF in September in return for \$1.7 billion in loans. After disbursing \$500 million, the IMF has withheld further payments until new terms are negotiated. Argentina is reportedly seeking \$500 million from the United States as a "bridging" loan.

NYT 4/23: Buenos Aires The public trial of nine of Argentina's former military rulers opened amid controversy as Pres. Raul Alfonsin accused civilian groups who oppose the hearing of trying to undermine his 16 month old government.

* * *

NYT 4/3: Santiago, Chile The police seized at least 81 people, including dozens of Chile's leading actors and actresses, as they marched today to protest the murder of a leftist son of one of their colleagues, the actors' union said. A lawyer for the union said all but three of those detained were freed after being issued "summons for traffic violations."

NYT 3/29: San Juan P.R. A jury today convicted 10 police officers of perjury before a Federal grand jury investigating the 1978 deaths of two radical advocates of independence, Carlos Soto Arrivi, 18 years old, and Arnaldo Dario Rosado, 24. According to the police, the two were terrorists who had gone to a mountain top location, Cerro Maravilla, to sabotage a commercial television station's relay tower. The police said Mr. Soto and Mr. Rosado were killed after they ignored an order to surrender and fired on the police. Three police officers testified in 1983, after receiving immunity from prosecution, that the two young men had surrendered and were killed by a police firing squad.

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NYT 4/15: Dominican Republic Two groups have presented a report to the U.N. Human Rights Committee criticizing the human rights record of the country. The report says Government officials have been implicated in the disappearances of 57 people since 1978. The report is especially critical of the Government's reaction to widespread rioting last April, during which, it asserts, 100 people were killed. "Since then," the report says, "house searches and beatings have been the norm."

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NYT 4/11: Mexico City The Mexican authorities arrested two of the top figures in the Mexican drug trade this week; Ernesto Fonseca Carillo, and Rafael Caro Quintero. United States officials have called Mr. Caro Quintero and Mr. Fonseca the intellectual authors of the killing of an agent of the U.S. Drug Enforcement Agency last month, and have been placing strong pressure on Mexican officials to arrest them.



A Report on the Contra War from Esteli, Northern Nicaragua

Esteli, the main city in the coffee and cattle country of northern Nicaragua, lies in a high river valley surrounded by rugged hills. At Christmas time the slopes still are bright green from the rainy season and the dusty tile and tin roofs of houses and the slender baroque towers of the Cathedral stand out sharply against them. The Pan American Highway runs along the outskirts of the city, busy with the commercial traffic that provides the economic basis for the lives of many of the thirty thousand or so people who live here. Along with the pickups, vans, and eighteen-wheelers, there are convoys of military-green jeeps, supply trucks, and troop carriers, as well as scores of young men and women in uniform hitching rides. The northern mountains are the center not only of some of Nicaragua's most productive agriculture, but also of the struggle between the revolutionary Nicaraguan government and the counter-revolutionary army (the "contras"), which is sponsored by the government of the United States.

I came to Esteli just before Christmas, staying for two weeks, to see the impact of the Reagan Administration's "secret" war close up. I wanted to find out what it means in the daily lives of ordinary people. In the U.S. we've heard a great deal about Reagan's desire to "put pressure" on Nicaragua, to "turn the screws" on the Sandinistas, but not much about what the actions behind those metaphors really are, what they mean for the people here, or even who these people are. We know the amount of the proposed appropriations for the contras, but we don't know the human cost of the war.

To try to learn this, I interviewed as many people as I could, people from a variety of backgrounds and political orientations: housewives, lay church workers and priests, soldiers, members of rural agricultural co-ops,

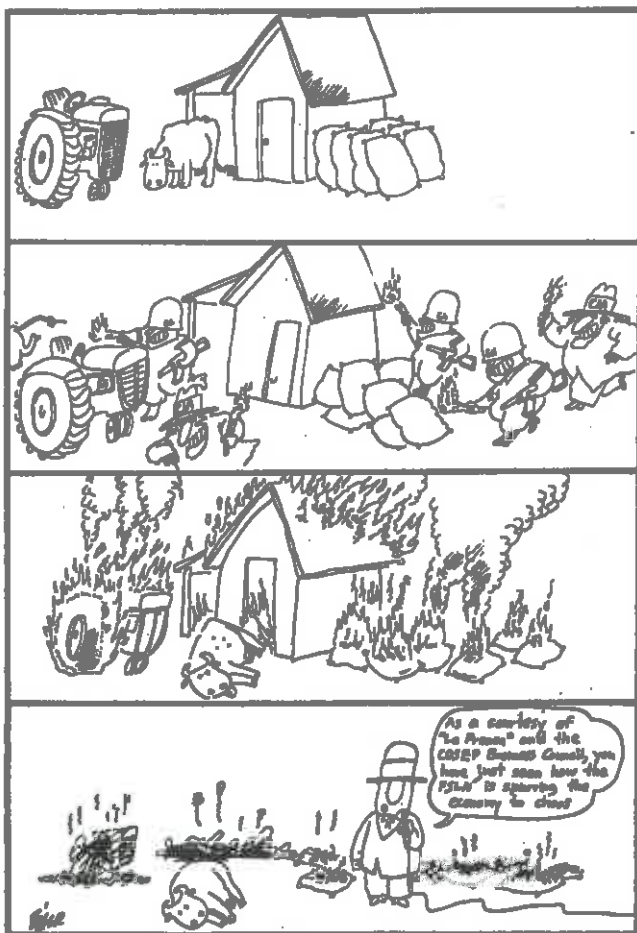
nurses, members of the FSLN, owners of small businesses, and international volunteers. Again and again I was struck by the friendliness of the Nicaraguans I met and by their willingness to express their views freely. None of them seemed to feel constrained in any way when we talked, and I encountered no government interference with my work. I can't pretend that my "sample" is exhaustive, but I believe my talks have brought me closer to understanding the struggles going on now in Nicaragua. Particular events and issues came up over and over, and I'm convinced that what I've learned is what anyone would hear who spent the two weeks of Christmas and New Year's in Esteli.

Traveling in northern Nicaragua, it becomes clear that the war here isn't a civil war. While the contras have massive support from the U.S. and well-equipped bases in Honduras and the mountains along the Nicaraguan side of the border, they haven't been able to control any populated areas — no region or town is defined as "contra territory". This isn't surprising, given that support for the Revolution continues to be strong (as the internationally observed election in November showed), particularly among the poor campesinos who are the chief beneficiaries of the extensive land reform and other social programs. Although the people I met hold a wide range of political views, some being quite critical of various Sandinista economic policies, none of them expressed any desire for a contra victory. Political slogans of the seven parties which participated in the election cover the walls in Esteli and the surrounding towns and villages, but none advocate any of the contra organizations or leaders.

While the leadership of the contra army in the north is largely drawn from that of Somoza's National Guard, the contra troops

aren't only ex-Guardia and mercenaries — everyone I spoke to said that the contras also recruit young Nicaraguans. But it was hard to get a satisfactory explanation of which social groups provide these recruits and why. There is real discontent with the Revolution, particularly among members of the middle class in Managua and the two old colonial cities, Leon and Granada, who resent the government's adamant protection of the interests of urban and rural workers and the difficulty of obtaining consumer goods due to the unofficial U.S. trade embargo, and I wondered if this might be where they came from.

Toward the end of my stay I had a long talk with a young housing development officer from Esteli, Ronaldo, who gave me the most convincing explanations I heard from anyone I



met. While some members of the middle class clearly would prefer an economic and political order serving their needs alone, and some strongly sympathize with the main contra group, the FDN, he said he felt very few of them would be willing to make the personal Ronaldo's work brings him directly into the conflict — when I spoke with him his right arm was bandaged from a bullet wound he had received in a contra ambush two days before — and he told me that many of the captured contras he sees are young campesinos. This surprised me, given the apparently strong support rural workers have shown for the FSLN. He explained that most of the campesinos are devout Catholics, and that a minority of them dislike the government since they see it as a threat to their faith. He dismissed this fear, and everything I've learned about Nicaragua tends to support him. Although some of the Nicaraguan leaders are Marxists and reject the Church, many others are Catholics — in fact, four are priests. And while the government has had clashes with the Church hierarchy, it continues to have strong support among local priests and nuns, the Christian base communities, and much of the laity. The young soldiers and labor volunteers I met all described themselves as Catholics, and the priests and lay church workers all expressed approval of the Revolution. Two of the slogans I saw most frequently painted on walls were "*Cristianismo y Revolucion son iguales*" — Christianity and Revolution are the same — and "*Entre Cristianismo y Revolucion no hay contradiccion*" — Between Christianity and Revolution there is no contradiction. Ronaldo explained that despite this alliance, the FDN, much of the Church hierarchy, and the right-wing newspaper, *La Prensa*, have sought to persuade people that the socialist policies of the government do contradict religion, and their campesino recruits indicate that they've had some success.

Participants in the Witness for Peace organization, which brings North American clergy to the areas of worst contra violence as a means of deterring further attacks, provided an additional answer to my question. They pointed out that the progress of major social

General Strike in Bolivia

Last March 24th thousands of Bolivian workers ended a general strike that had paralyzed the country for 16 days. The end of the strike came three days after the Hernan Siles Suazo government called out several thousand members of the army and police to repress it.

The workers, led by the powerful Bolivian trade union federation— Central Obrera Boliviana (COB)— were demanding a 500 percent wage increase. The yearly rate of inflation in Bolivia stands above 4,000 percent. Last February 9, the Siles Suazo government announced an economic plan intended to readjust "official" prices and exchange rates to the rates actually prevailing on the market. The disparity between the "official" government-set exchange rates and prices and real prices on the market had widened as a result of Bolivia's galloping inflation. The eleven point program of the Siles Suazo government included :

- (1) A devaluation of the Bolivian peso from the rate fixed last November of 9,000 pesos to the US dollar to a new rate of 50,000 pesos to the dollar. (In the parallel or black market the actual rate is around 120,000 Bolivian pesos to the dollar). In November, 1982 the Bolivian peso was exchanging at the rate of 44 to the dollar!
- (2) Basic products, whose prices are fixed by the government— sugar, oil, milk, rice, coffee, meat, eggs, bread, etc.— suffered price increases averaging 500%.
- (3) Electricity rates were increased by 250 percent.
- (4) The official price of gasoline was increased by 475%.
- (5) Railroad rates were increased 500% and bus fares 435%.
- (6) Wages were increased , beginning February 1, by 331%.

The net effect of the economic measures of the Siles Suazo government was to ratify the actual decrease of the standard of living of

the Bolivian population brought about by the galloping inflation, and to decrease it a bit further.

Bolivia's Gross National Product fell by 30% in 1984. That year the total value of Bolivia's legal exports was not sufficient to

service its foreign debt. The Siles Suazo government had to default payments on Bolivia's foreign debt in 1984 and establish the principle that no more than 25% of the value of exports be spent servicing the debt. The accounts of the Bolivian embassy in Washington have been frozen by the US government. Meanwhile, US ambassador to Bolivia Edwin Corr presented a donation of 3 million dollars to the armed forces of Bolivia.

During the general strike, 10,000 miners— the backbone of Bolivia's labor movement— came to La Paz to lead the demonstrations against the government's austerity programs and occupied the streets. The March strike is the fifth general strike in Bolivia in the last 15 months. It is an expression, in the poorest country of Latin America after Haiti, of the acute problems currently facing the entire continent: an overwhelming foreign debt, unemployment, inflation, dependence on the US.

The international recession hit Bolivia particularly hard since 1983. The prices of its main exports —tin, oil, natural gas— have dropped in the world market. The so called "recovery" in the international economy in 1985 has not ameliorated economic conditions in Bolivia. By 1982, tin production had fallen to its 1962 level, and it has fallen further since. The production of oil, natural gas and minerals in Bolivia has decreased every year since 1982.

In the middle of desperate poverty, the only sector of Bolivia that is actually thriving is the drug trade. In 1982 coca production brought in an annual income of over one bil-

lion US dollars, more than twice the dollars brought in by legitimate export earnings.

At present congress is proposing legislation to cut off all aid to Bolivia, knowing full well that this cut will not affect the illegal and uncontrolled drug movement. The US

policy targets poor Bolivian peasants who grow the coca leaf, rather than the affluent North Americans who use its chemical derivative, cocaine, or international mafia elements who traffic in cocaine.

C. J. Ayala and M. J. Dudley

Bolivia: Basic Economic Facts

Production of	1982	1983	1984
Natural Gas (Millions of Cubic Feet)	188,197	178,058	173,210
Tin (Tons)	24,658	23,762	17,875
Zinc (Tons)	45,684	47,132	38,280
Silver (Tons)	172.9	191.2	142.26
Lead (Tons)	12,508	12,105	8,023
Oil (Barrels)	8,918,296	8,099,798	7,621,289

Source: Informe "R". (Centro de Documentacion e Informacion de Bolivia) February, 1985.

COCA CONFERENCE HELD AT CORNELL UNIVERSITY

A conference entitled "The Coca Leaf and Its Derivatives: Biology, Society, and Policy", was held at Cornell University on April 25 and 26. Among the topics discussed by the ten lecturers at the conference were the traditional uses of the coca leaf, the position of the U.S. government concerning the eradication of the coca and cocaine traffics, the political and economic implications of coca in Colombia, Bolivia and Peru, and finally, the potential effects of its eradication on the indigenous people of the Andes. There are video-tapes of the conference available. Contact CUSLAR at 256-7293.

CUSLAR has available a cassette of Ted Macdonald's talk on the current negotiations between the Misquito Indian leaders and the government of Nicaragua.

Protest the Trade Embargo

* Buy Nicaraguan Coffee

Available at CUSLAR, McBooks, Borealis Bookstore, Somadhara Bakery (Dewitt Mall), and Rio De Lana (Center Ithaca)

* Donate School Supplies for Nicaragua

Bring pens, pencils, paper, notebooks, and blank cassettes to the CUSLAR office to be sent to schools in Nicaragua.

* Contribute to Agricultural Aid for Nicaragua

In Nicaragua, since the revolution, more than 1.6 million acres of land have been redistributed to over 30,000 families, and over 20,000 more families have received secure titles to their land. As a result of agrarian reform policies favoring small farmers organized into cooperatives, Nicaragua is the only country in Central America where the production of basic foods has increased and the basic nutritional needs of the people are being met.

WHY DO NICARAGUANS NEED OUR HELP?

In 1984 alone, 55 cooperatives were destroyed, and more than 500 farmers and agricultural workers were killed. Damages from U.S.-sponsored contra attacks totaled \$200 million, one half of total earnings from export crops - themselves a primary target of these attacks. Nicaragua does not have the foreign exchange to import basic supplies and spare parts needed to maintain its agricultural production.

People-to-people aid can help keep daily production going, and open lines of communication and understanding between nations, even when our government fails to make a sincere commitment to peace and development. In such a situation, our help can and does make a difference.

HOW CAN WE HELP?

The Humanitarian Assistance Project for Independent Agricultural Development in Nicaragua (HAP-NICA) is coordinating a national campaign of material aid and technical assistance for Nicaraguan agriculture. Tax-deductible contributions are used to purchase and ship aid materials such as farm machinery parts and basic agricultural supplies. HAP-NICA also provides information, educational materials, lists of specific needs, and fund-raising suggestions. contact CUSLAR.

Calendar

- May 12
4pm Welcoming Service for a Salvadoran Refugee
First Baptist Church, Dewitt Park
- May 20
9pm PBS showing of El Norte, a film about the journey
of 2 Guatemalan refugees to Los Angeles
- May 19-25 Chile Basta Week
- May 22
noon Gathering at Dewitt Park in protest of human
rights violations by the Pinochet government
in Chile
- May 25
noon Rally on the Commons, with a speaker on the situation
in Chile and Andean music
- June 7, 8, 9 Support CUSLAR by buying pizza at our stand at the
Ithaca Festival!
- Watch for an upcoming benefit concert for CUSLAR

CUSLAR

The Committee on U.S./Latin American Relations (CUSLAR) is a Cornell University-based group which works in Ithaca and the surrounding area to promote a greater understanding of Latin America and the Caribbean. We are particularly concerned with the role of the United States in influencing the social, political, and economic conditions of the region.

The CUSLAR office is in G-29 Anabel Taylor Hall at Cornell. (phone 256-7293) The office is open to the community on weekdays. Weekly meetings are held on Mondays at 5pm in Anabel Taylor.