O’Neill's Latin tour sparks protests as IMF grants record loan

By Bill Vann
10 August 2002

A tour by US Treasury Secretary Paul O’Neill of three of Latin America’s most crisis-ridden countries was overshadowed August 7 by the International Monetary Fund’s announcement of a record $30 billion rescue package for the Brazilian economy.

O’Neill’s visit was initially planned as a kind of South American version of the African tour he conducted with Irish rock star Bono—demonstrating the Bush administration’s “compassionate conservatism” without offering any substantive aid. The prospect of default by Brazil on $250 billion in debt triggering a worldwide financial meltdown, however, forced the administration to reverse itself on its frequently stated opposition to bailouts of foreign economies.

Just a week earlier, O’Neill, the former CEO of Alcoa aluminum, provoked outrage throughout Latin America’s southern cone and a formal diplomatic protest from Brasilia with a statement warning that any assistance granted Argentina, Uruguay or Brazil could end up in “Swiss bank accounts.”

The announcement of the IMF loan, which was far larger than had been predicted, caused a sharp rise on the Brazilian stock markets and sent the Wall Street share prices up as well. The real, Brazil’s currency, increased its value against the dollar by more than 5 percent. Since the beginning of the year, the real had lost nearly half its value, while the stock market is nearly 24 percent lower than in January.

But the euphoria could prove short-lived. The IMF deal compels Brazil to maintain a policy of high interest rates and severe budget restraints that ensure a continued contraction of the economy and a steady increase in the country’s indebtedness.

The $30 billion loan essentially represents a major gamble by the IMF and Washington that they will be able to contain the crisis that has spread throughout Latin America in the wake of Argentina’s economic collapse late last year, plunging most of the continent into the worst crisis since the “lost decade” that began with the debt crisis of the 1980s.

The current crisis in Brazil was triggered in part by foreign investors’ concerns that October elections will put a left-wing candidate in power. Major finance houses have factored in a supposed threat that this could signal a reversal of the neoliberal policies pursued by the government of President Fernando Henrique Cardoso.

However, the front-runner in the presidential race, former metal workers union leader Luiz Inacio “Lula” da Silva of the reformist Workers Party, has vowed to respect all financial agreements entered into by the current regime. One of the provisions of the IMF agreement requires the government to maintain a public sector surplus above 3.5 percent of the country’s gross domestic product, a requirement that virtually precludes any increase in social spending.

O’Neill and other Bush administration officials had made it an article of “free market” faith that financial bailouts only encourage the profligacy of foreign governments and do nothing to resolve economic crises. They repeatedly criticized their predecessors in the Clinton administration for orchestrating similar rescue packages for South Korea and Mexico. Little more than a month ago, O’Neill said it would not be “a brilliant idea” to lend Brazil more money because the root of the country’s problems was political rather than economic.

Default by Brazil, however, could wipe out the equivalent of projected annual earnings for many large commercial banks. US corporations account for nearly 30 percent of the more than $130 billion in direct foreign investment in Latin America’s largest nation. The aim of the package is to bail out these investors and lenders.

Despite the loan agreement, relations between Brasilia and Washington remained cool, in large part due to US pressure on Brazil to sign onto a Free Trade Agreement of

© World Socialist Web Site

the Americas. According to the daily *Folho de São Paulo*, Cardoso upbraided O'Neill for growing US protectionism and evident disinterest in the fate of the region.

While preaching "free trade," Washington has imposed tariffs on steel imports and increased agricultural subsidies that the Brazilian government believes would block virtually all of its most competitive exports. Cardoso recently urged other Latin American governments to look toward their own trading bloc, independent of a trade treaty with the US.

The announcement of the Brazilian rescue package followed on the heels of Washington's sudden decision to grant a bridge loan of $1.5 billion to Uruguay, the second stop on O'Neill's tour. The loan, which was to be quickly repaid with IMF funds, followed a massive flight of capital from Uruguay that forced the government of President Jorge Batlle to close down the country's banks last week, provoking a wave of rioting and looting.

The US aid in keeping the Uruguayan banks from collapsing did not win the Batlle government any new measure of popular support. Instead, workers staged a 14-hour nationwide general strike August 7, shutting down banks, schools, hospitals, public services and transport. Thousands of workers rallied outside the government palace, while depositors staged their own protests against a partial freeze on savings accounts.

The unions have demanded Batlle's resignation and early elections. They are calling for a change in economic policies that have left Uruguay in a steadily deepening recession for the past four years. According to recent reports, over 50,000 people emigrated from Uruguay, a country of 3.4 million inhabitants, in the last year alone. Meanwhile, fully 50 percent of children are born into households living below the poverty line.

More than 6,000 bank workers rallied in a general assembly in Montevideo, registering their opposition to the government's new law on the stability of the financial system and calling for the organization of "a great political social movement" against the government's policies. The new law would result in the shutdown of at least three major banks and could throw up to 2,500 workers out of their jobs.

In Argentina, President Eduardo Duhalde and his finance minister, Roberto Lavagna, insisted on the need for immediate aid, similar to the type of loan offered overnight to Uruguay. O'Neill promised nothing, merely restating Washington's support for Buenos Aires reaching a new agreement with the IMF. Argentina's economy has been in free fall since last December when it was compelled to close down its banks and defaulted on foreign debt payments.

While the Argentine government has met the demands of the IMF and Washington—allowing its currency to float against the dollar, repealing a law that could have held foreign bankers criminally responsible for sabotaging the Argentine economy, reaching a new austerity agreement with the provincial governments and scheduling early elections—the international lending agency has continued to impose additional conditions. Critics have charged that its aim is to punish Argentina, making it an example of what will happen to any other indebted country that defaults.

Asked whether the US would consider granting the kind of bridge loan that it offered Uruguay, O'Neill responded that "each nation's facts are different," and that Uruguay was an exception.

The treasury secretary said that he expected the IMF and the Duhalde government to reach an agreement by the end of next week, and that new credits could materialize some six weeks after that.

Heavily guarded by squads of Secret Service agents and Argentine riot police, O'Neill attracted hostility and demonstrators wherever he went. A planned visit to a Ford assembly plant was canceled after it was learned that workers planned to walk out if the US official came to their job site. Upon leaving another plant, demonstrators pelted his motorcade with eggs and banged on the vehicles.

O'Neill also visited a nursery school in a Buenos Aires working class suburb, where he posed for pictures and enthused about the "wonderful children." Official figures indicate that fully 70 percent of those under 18 years old in Argentina are living in poverty.

Outside in the streets, people glared at the passing motorcade, rubbing their fingers together and shouting, "Where's the cash?"

To contact the WSWS and the Socialist Equality Party visit:

http://www.wsws.org