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# WITHDRAWAL SHEET

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## The Agenda for Seoul

The early line on the annual meeting of the World Bank and the International Monetary Fund that begins next Sunday in Seoul was that it would be a news bust. Officials had already decided that the time was not right—politically—to boost the bank's capital (although that is needed), and the IMF at the moment has plenty of resources on hand.

Also, despite the annual plea of Third World countries for a new handout of IMF currency—the so-called special drawing rights, or SDRs for short—a negative decision had already been made on this issue by the United States, West Germany and the other major powers. In fact, the sessions will authorize a study re-examining the whole basic rationale for the SDR process.

But as often happens at or around the time of the IMF/World Bank meeting, important international financial issues crystalize. Back in 1979, during the annual meeting in Belgrade, the dollar collapsed in a selling panic; gold soared (eventually hitting \$800 an ounce). Federal Reserve Chairman Paul A. Volcker sped back to Washington for a crisis meeting with the Carter administration to initiate an excruciatingly tight monetary policy that put the economy through a crunch, but stopped the dollar collapse.

And three years ago in Toronto, the full scope of the Mexican economic crash became evident, triggering a reversal of the Reagan administration's casual view of the problem.

Now, holes are beginning to reappear in the carefully patched rescue fabric of loans to Mexico and other Third World countries. Bitter disagreements between the IMF and the borrowing countries have begun to boil over. Peru's President Alan Garcia, in a recent speech to the United Nations, threatened to use the Seoul meetings as a platform for denouncing the IMF, and withdrawing from the agency.

The IMF, led by Managing Director Jacques de Larosiere, will be on the defensive. Officials readily acknowledge that the Mexican economy has worsened with a substantial drop in the price of oil, a major export earner—and of course, the devastating blow from the earthquakes.

But officials insist that overall, the major Third World countries have made exceptional progress over the past couple of years in reducing their international deficits.

"The reduction in their [Third World] current account imbalances is very impressive, even staggering," said one key official, "and one has to continue working on a case-by-case approach on these countries and see that the policies are working, are in place, and eventually lead to a lasting situation where growth can resume on a healthier basis. That is what we are trying to do. Now I don't want to go into individual countries because that's not the purpose of this."

See ROWEN, K6, Col. 1

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## Dollar Is Central Issue

ROWEN, From K1

conversation. But you can have ups and downs as long as the whole thing is moving in the right direction."

The Third World countries will complain bitterly that all their suggestions are ignored. The question of enlarged access to IMF resources will come up again, with the United States and other countries insisting that the more generous borrowing rights established in 1981 be phased down further.

To defuse some of the tension, the United States is trying to launch an initiative that will beef up the role of the World Bank, as shorter-term IMF "stand-by" loans are paid back. African loans by the IMF are sure to be in default, and a gimmick must be found to overlook that

development—and pump more money in. Treasury Secretary James A. Baker III and Deputy Treasury Secretary Richard G. Darman quickly concluded after moving across the street from the White House earlier this year that Third World nations could not be expected to accept the austerity inherent in IMF programs unless there is a real hope of a later payoff in economic growth that promises a better standard of living.

But a hastily devised plan by Baker and Secretary of State George P. Shultz for a new \$6 billion fund—built in part on the IMF trust fund, created when the IMF sold part of its gold—to be jointly administered by the bank and the IMF—is viewed skeptically at the IMF, which has become increasingly disenchanted with the ability of the bank bureaucracy to move with all due speed.

That, of course, brings one to the question of the quality of the bank's leadership. The Reagan administration has never been close to President A. W. (Tom) Clausen, and barely disguises the fact that it would like to replace him when his term expires in 1986. But it is hard to make the case—whatever the earlier disagreements were—that Clausen isn't going along with the new Baker-Darman ideas for the bank.

Nonetheless, "the Clausen question" will help preoccupy the delegates in Seoul, especially when coupled with

rumors that Volcker can have the job for the asking.

Meanwhile, just in time for Seoul, the dollar once again is at center stage. This time it is the subject of a coordinated effort of the five major powers to bring it down against the Japanese yen, the German mark, and other nondollar currencies in order to correct the huge distortions in exchange value that have pushed the United States into an unsustainable international deficit.

In an extraordinary meeting in New York last weekend, the United States for the first time admitted that the dollar is over-valued, and agreed to undertake coordinated intervention in the foreign exchange markets to bring it down. This, as French Finance Minister Pierre Berogovoy noted, is the first time the United States and the other powers have been able to agree on such a public statement. It represents a major change in U.S. policy, the most significant symbol yet of the revolution at Treasury wrought by the Baker team.

The rest of the approximately 145 member nations will be eager to find out more about the intervention plans. Already, concern has been voiced that once the process of pushing the dollar down gets started, it could go too far, leading to a "crash landing" and a world-wide depression.

At Seoul, the IMF's policy board will be asked to consider an earlier report on international monetary reform that was produced not by the exclusive Group of Five, but by the 11-member, so-called Group of Ten industrial nations. The G-10, meeting in Tokyo last June, came down very firmly against intervention, but left open the possibility that the Interim Committee could set the stage for a new international monetary conference.

Given new concerns about Third World debt, trade deficits and the huge imbalances in current accounts among the United States, Japan, West Germany and others, the call for a new "Bretton Woods" could gain attention in Seoul. But insiders say that specific action is highly unlikely.



# Dollars Are Fleeing Latin America

DEBT, From K1

products merely to earn the same amount of dollars.

The fresh loans and investments have been far smaller than anticipated and probably will be even smaller in the future.

And the citizens of the debtor countries, who were supposed to regain their faith in the homeland, remain skeptical. As a result, dollars that are desperately needed at home continue to "flee" Latin America for havens such as the United States, although in smaller quantities than before.

"I've got some money in Washington," a top Argentine economic official said. He said he believes that a tough program inaugurated last June by President Raul Alfonsín will turn Argentina's economy around, but he conceded that he is not sure enough to bring back his deposits.

Not all of the blame can be laid on the international economy, however. For the most part, Latin American countries have not made a serious effort to change their own internal policies that hinder economic development—such as dismantling huge state enterprise systems that drain vitally needed government resources, changing restrictive rules that hamper foreign investment or convincingly attacking the high inflation rates that discourage domestic investment.

But many countries have made painful short-run efforts to enable them to pay their debts, including sizable currency devaluations to encourage exports and discourage imports. Those policies in many cases have encouraged farmers to produce crops they can sell abroad rather than crops that will be sold at home. Mexican farmers are producing sorghum and neglecting corn. Brazilian farmers can earn more selling soybeans than they can raising rice or beans.

## Feeling of Betrayal Grows

Leaders of these countries, many of whom have put their economies through grinders, feel betrayed by industrialized countries—especially Europe and Japan. The debtors have been told they must export more—not only to earn dollars to pay their debts but to come up with a little more to buy the imported items such as components and spare parts that are vital to many of their domestic industries.

But they are finding increasing resistance to their exports by those same developing countries. The European subsidy to its cattle raisers exceeds the cost of production in Argentina. The world price for sugar is 3½ cents a pound, but Europe pays its farmers 21 cents a pound to produce it.



Worker at the Villares steel mill near Sao Paulo, Brazil, grinds imperfections.

The United States has been more open. Its imports from the area have risen 32 percent in the same period. But products such as shoes, steel and copper have become the subject of protectionist complaints in this country.

"If we are going to pay our debts, we must export," said Ulysses Gamarais, the speaker of the Brazilian House of Representatives. "Dead men don't pay."

As incensed as they are at protectionism, Latin American leaders are weary of what they see as a lack of fresh ideas at the International Monetary Fund, which has lent small amounts of money in return for changes in economic policies and, more important, has provided the imprimatur that commercial banks required before they reached new loan agreements with the debtors.

Even some officials of multinational banks are becoming uncomfortable with the IMF's insistence on continued austerity.

"I think the IMF has only got one book on the shelf," said a top executive of a major U.S. bank.

Major Latin American leaders are not in revolt yet. But they are becoming increasingly critical of what they consider to be the continued IMF reliance on austere policies that do not appear to be working. Yet the IMF, as recently as last week, reaffirmed its belief that nations must take harsh anti-inflation measures, cut out government budget deficits and run bigger trade surpluses as a precondition to a return to health.

It has suspended lending to Mexico, which not too long ago was considered the model debtor, and Brazil, which has managed to ring up stunning trade surpluses, because the countries have fallen out of com-

pliance with the economic programs they promised to follow.

## Rethinking the IMF's Role

Mexican President Miguel de la Madrid, the champion of the types of austerity advocated by the IMF, began to rethink austerity even before the IMF's action. The Sept. 19 earthquake that shattered Mexico City is sure to cause Mexican officials to reconsider the tight budget they have been following in recent months. But it also may trigger emergency loans from the United States, other governments and multinational institutions such as the IMF that will put the country in a better cash position than it was before the tragedy.

New Brazilian President Jose Sarney has publicly pledged that he will not sign an agreement with the IMF that would throw the Brazilian economy into another recession. Brazil's central bank president, Fernando Bracher, has argued that his nation's domestic policies should be of no concern to the IMF so long as they do not threaten Brazil's ability to pay its debts. Unlike most of its neighbors, Brazil has increased its exports mightily and earns more than enough dollars to pay its debts and buy a sizable portion of the imports it wants.

Alan Garcia, the new president of Peru, has threatened to pull out of the IMF and has said he will negotiate with Peru's commercial bank lenders but will not sign a pact with the IMF as a precondition. He also has said that Peru cannot afford to pay more than 10 percent of its export earnings to pay its debts.

In the last two years, three Latin American nations—Argentina, Brazil and Uruguay—have turned from military dictatorships to democracies. In Peru, a civilian government handed over power to another ci-

vilian government for the first time in decades.

In private and in public, newly elected leaders such as Sarney and Argentina's Alfonsín warn that democracies must demonstrate that they can perform better than the military dictatorships they replaced. Latin American officials complain that, so far, they have received little more than vague promises of support for democracy and none for their economies.

"When we ask Europeans what we should do, all they tell us is 'pay your debts,'" said Adolfo Gass, chairman of the foreign relations committee of the Argentine Senate.

There is some evidence that the United States, at least, is beginning to worry about the implications of the lack of economic progress in Latin America. Secretary of State George P. Shultz and Treasury Secretary James A. Baker III apparently are in agreement that the short-term austerity measures advocated by the IMF are outliving their usefulness, and they are working on a plan that would pump more long-term funds into the region.

Not only might left- or right-wing nationalistic explosions pose severe threats to U.S. security interests in the hemisphere, the continuing economic problems in the region are a major burden to the U.S. economy. The United States is the biggest export market for Latin America, and Latin America is a major buyer of U.S. products, as well.

Chemical Bank economists estimate that as many as 800,000 U.S. workers are unemployed because of Latin America's inability to buy U.S. products.

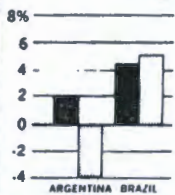
Nevertheless, the Reagan administration is wary of any plan that would require big U.S. expenditures and that might be seen as a bailout of multinational banks—which hold about \$220 billion of the region's \$360 billion in debt.

Furthermore, there seems to be little anyone or any country can do to reverse the fundamental plight facing Latin America: The world no longer wants or needs—at least in the same quantity and at the same prices—many of the raw materials the region long has relied on to earn foreign income.

"There are important structural changes in the world economy," said Cesar Atala, Peru's minister of industry. "New technologies and changes in industrial economies have changed the world's demand for materials that we traditionally export."

Except for oil-exporting countries, Latin American debtors have seen the buying power of their exports deteriorate steadily in the last 15 years, punctuated by a brief surge during the world inflation of the late 1970s.

## GROSS DOMESTIC PRODUCT



"It is not only a technical change in supply and demand according to Uruguayan Foreign Minister Iglesias. In many cases, copper, it is absolute, and cases, Latin America is facing a petition from the north. It is a revolution in trade."

Iglesias said Latin American nations must adjust their economies and build new industries to enable them to find new exports to replace those that are declining.

## Needed: Time and Money

"We cannot adjust with the world and capital," he said. Both of those are in short supply in Latin America. Augusto Ramirez Ocampo, the minister of Colombia, said the level of social unrest from country to country, and the level of social unrest, is doubtful that most governments will be able to contain them for much more than two years. The flow of outside funds into Latin America is declining. Domestic savings have been severely reduced and confidence in the future of the countries are



# Debt Noose Tightens Around Latin America

*Unemployment Mounts, Poverty Increases*

By James L. Rowe Jr.  
Washington Post Staff Writer

SAO PAULO, Brazil—A noose is tightening around Latin America.

The \$360 billion in debt the countries have taken on—most of it in the halcyon days of the 1970s—poses not only a severe constraint on their current growth but an even more imposing obstacle to future development.

Three years after the onset of the debt crisis, the economic and social future of the region looks little better than it did in August 1982.

With varying degrees of commitment, the countries have put the clamps on their economies while they try to earn the dollars needed to pay their foreign debts.

Unemployment has mounted. Poverty has increased. In many cases, the countries have taken food from the mouths of their citizens in order to sell it abroad.

But the promise that things would get better if only they went through a few years of pain now appears to be a hollow one.

The bigger debtors such as Mexico and Brazil have managed to pay their international bills on time—lessening the threat that the Latin American debt burden would destroy the international financial system. And economic conditions in

most countries have improved a little since 1983, when most experienced wrenching recessions.

But whether measured in the bloodless statistics cited by economists or the flesh-and-blood tableau, economic and social conditions in Latin America are no better than they were a decade ago and desperately worse than they were in 1980.

More frequently and more forcefully, leader after leader is beginning to question the tactics advocated by the International Monetary Fund, the multinational financial rescue agency that spearheaded the efforts to manage the Latin American debt crisis.

When banks stretched out debt repayments and added a little fresh money, and when the IMF and the countries agreed to stiff economic programs, the hope was an eventual return to at least a semblance of normal economic growth.

"It is clear that what we all expected hasn't happened," said Enrique Iglesias, foreign minister of Uruguay and one of Latin America's leading economists.

The prices of the raw materials—mainly minerals and foodstuffs—that the countries must export to earn dollars have declined steadily. That means the countries must export increasing amounts of

See DEBT, K3, Col. 1

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# Fleeing Latin America



BY DUDLEY M. BROOKS—THE WASHINGTON POST

Worker at the Villares steel mill near Sao Paulo, Brazil, grinds imperfections.

United States has been more its imports from the area risen 32 percent in the same. But products such as shoes, and copper have become the of protectionist complaints country. "We are going to pay our debts, not export," said Ulysses Ge, the speaker of the Brazilian House of Representatives. "Dead end" pay." "Encouraged as they are at optimism, Latin American leaders are wary of what they see as a lack of ideas at the International Monetary Fund, which has lent amounts of money in return changes in economic policies more important, has provided imprimatur that commercial agreements required before they reached an agreement with the debt-

Some officials of multibanks are becoming uncomfortable with the IMF's insistence on continued austerity. "The IMF has only got one trick on the shelf," said a top executive of a major U.S. bank. "Latin American leaders are in revolt yet. But they are becoming increasingly critical of the IMF's reliance on austere policies that do not appear to be working. The IMF, as recently as last year, reaffirmed its belief that nations must take harsh anti-inflationary measures, cut out government budget deficits and run bigger trade surpluses as a precondition to a recovery." "Suspended lending to Mexico not too long ago was considered the model debtor, and Brazil has managed to ring up large trade surpluses, because other countries have fallen out of com-

pliance with the economic programs they promised to follow.

## Rethinking the IMF's Role

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"When we ask Europeans what we should do, all they tell us is 'pay your debts,'" said Adolfo Gass, chairman of the foreign relations committee of the Argentine Senate.

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Not only might left- or right-wing nationalistic explosions pose severe threats to U.S. security interests in the hemisphere, the continuing economic problems in the region are a major burden to the U.S. economy. The United States is the biggest export market for Latin America, and Latin America is a major buyer of U.S. products, as well.

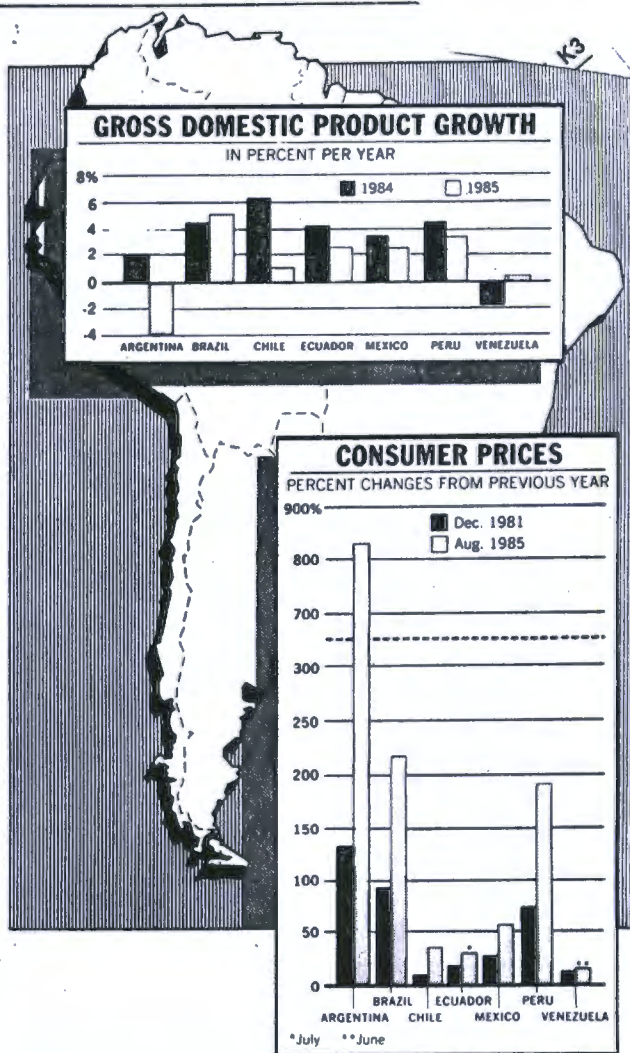
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Nevertheless, the Reagan administration is wary of any plan that would require big U.S. expenditures and that might be seen as a bailout of multinational banks—which hold about \$220 billion of the region's \$360 billion in debt.

Furthermore, there seems to be little anyone or any country can do to reverse the fundamental plight facing Latin America: The world no longer wants or needs—at least in the same quantity and at the same prices—many of the raw materials the region long has relied on to earn foreign income.

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"It is not only a temporary change in supply and demand," according to Uruguayan Foreign Minister Iglesias. "In many cases like copper, it is absolute, and in other cases, Latin America is facing competition from the north. It is a real revolution in trade." Iglesias said Latin American nations must adjust their economies and build new industries that will enable them to find new export markets to replace those that are declining.

## Needed: Time and Money

"We cannot adjust without time and capital," he said.

Both of those are in short supply in Latin America.

Augusto Ramirez Ocampo, foreign minister of Colombia, said that the level of social unrest varies from country to country, but it is doubtful that most governments will be able to contain that unrest for much more than two years.

The flow of outside funds into Latin America is declining and domestic savings have been cut by severe recessions and continued lack of confidence in the future. Already the countries are paying

more to the outside world than they are receiving and in the next few years face the prospect of having to repay the IMF for the loans they received in 1983 and 1984.

Except for Brazil and Colombia, most countries misused the funds. Far too often they used their borrowing power to finance deficits in burgeoning federal budgets, to subsidize consumption, to build unrealistic or inefficient projects, or to satisfy the demands of their own citizens for foreign exchange.

Argentine economist Jorge Dominguez estimated that Argentine citizens have nearly \$35 billion on deposit abroad. The country's foreign debt is \$48 billion.

Nevertheless, economists and Latin American officials say the picture is not entirely bleak:

■ Many countries have managed a return to modest economic growth in the last 18 months. But the pace of that growth is constrained by the need to pay interest on debt.

Not too long from now, the idle industrial capacity in Latin America will be used up and the shortage of dollars will hinder the countries' ability to expand their industries.



# Serious Reform Is a Long-Term Proposition

DEBT, From K3

"When an economy is growing, the population sees some hope," said Luis Paulo Rosenberg, chief economic adviser to Brazilian President Sarney. Unless that hope is totally extinguished, the countries may be able to keep a lid on social problems while seeking more permanent solutions.

■ The announcement by the United States and four other top industrial countries that they will take concerted efforts to reduce the value of the dollar and the \$150 billion U.S. trade deficit should make Latin American exports more competitive pricewise. Latin American countries have keyed their exchange

rates to the dollar. If Europe and Japan stimulate their economies as promised, there should be an increase in demand for some Latin American products.

■ Countries such as Argentina, Brazil and Mexico are talking about taking steps to reduce their bloated state sectors and slowly open their economies to the types of international competition that will make domestic industries more efficient and better able to export.

Serious structural reforms in Latin American economies, as in any economy, are a long-term proposition. For economies that have been struggling for three years, short-term progress is needed, too. Presidents flail the debt in public

utterance after public utterance. Polls across the region show that citizens think foreign debt is the most pressing issue of the day.

If the debt issue blows up, the biggest loser could be the United States—whose security and economic stake in the region is large.

It doesn't matter what the facts are, whether the United States is fighting to keep open markets and buying large quantities of Latin American exports while Europe and Japan are doing little more than paying lip service to the region, cautioned Dante Caputo, foreign minister of Argentina. "Right or wrong, the debt equals the United States in the eyes of the layman," he said.



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ON OCTOBER 8 AND THEN TO MAKE A FORMAL SPEECH THE SAME DAY IN A PLENARY SESSION OPEN TO THE MEDIA. VOA AND THE WIRELESS FILE WILL PROVIDE ON THE SPOT COVERAGE OF THE SEOUL MEETING. TV COVERAGE, PARTICULARLY FOR AR POSTS, IS UNDER CONSIDERATION.

THE ISSUES OF WORLD DEBT AND THE EXCHANGE VALUE OF THE DOLLAR WILL BE AMONG A NUMBER OF ISSUES DISCUSSED AT THE SEOUL MEETING. ON DEBT, THE U.S. REMAINS CONVINCED THAT ITS CASE-BY-CASE STRATEGY FOR DEALING WITH WORLD DEBT HAS WORKED WELL THOUGH CERTAIN PROBLEMS SUCH AS THE NEED FOR NEW NET FINANCING BY COMMERCIAL BANKS AND OF LAYING A FIRMER BASIS FOR SUSTAINED ECONOMIC GROWTH BY DEBTOR COUNTRIES NEED TO BE ADDRESSED. ACCORDINGLY, THE ADMINISTRATION HAS BEEN EXPLORING WAYS TO STRENGTHEN THE CASE-BY-CASE STRATEGY, IN PART THROUGH AN ENHANCED ROLE BY THE WORLD BANK IN SUPPORTING LONG TERM STRUCTURAL ADJUSTMENT. SUPPORT FOR AN ENHANCED WORLD BANK ROLE DOES NOT, HOWEVER, REPRESENT A SHIFT IN U.S. POLICY TOWARD THE IMF, BUT RATHER ADDING THE WORLD BANK'S EFFORTS TO ADDRESSING THE DEBT PROBLEM. SECRETARY BAKER'S OCTOBER 8 SPEECH WILL BE A SIGNIFICANT EXPRESSION OF CURRENT U.S. THINKING ON THIS MATTER.

THE MEETING WILL ALSO DISCUSS A USG INITIATIVE RECENTLY TABLED AT THE IMF. THIS PROPOSAL CALLS FOR IMF TRUST FUND REFLOWS TOTALLING 2.7 BILLION DOLLARS OVER THE NEXT FEW YEARS TO BE CHANNELLED TO THOSE COUNTRIES -- MOSTLY IN SUB-SAHARAN AFRICA -- WHICH HAVE RELATIVELY LOW PER CAPITA INCOMES AND ARE FACING PROTRACTED BALANCE OF PAYMENTS PROBLEMS. THE U.S. BELIEVES THESE FUNDS SHOULD BE MADE AVAILABLE TO THOSE COUNTRIES WHICH ARE PREPARED TO IMPLEMENT SOUND ECONOMIC PROGRAMS FOR GROWTH AND DEVELOPMENT. TRUST FUND RESOURCES COULD POSSIBLY BE SUPPLEMENTED BY CONTRIBUTIONS FROM THE WORLD BANK AND BILATERAL DONORS SO THAT TOTAL AVAILABLE RESOURCES WOULD BE SUBSTANTIALLY LARGER THAN THE 2.7 BILLION DOLLARS.

WHILE WORKING TO ASSIST THE DEBTOR COUNTRIES, THE U.S. BELIEVES THAT THE DEBTOR COUNTRIES THEMSELVES HAVE A MAJOR RESPONSIBILITY IN SOLVING THE DEBT PROBLEM. THE USG BELIEVES THAT THE DEBTOR COUNTRIES COULD MOVE TOWARD ADJUSTMENT THROUGH ECONOMIC GROWTH RATHER THAN THROUGH AUSTERITY BY SUCH MEASURES AS MORE AGGRESSIVE OPEN INVESTMENT POLICIES TO ATTRACT DIRECT FOREIGN INVESTMENT FROM ABROAD, AND BY POLICIES TO ENCOURAGE A RETURN OF CAPITAL WHICH HAS LEFT THEIR COUNTRIES.

ON THE QUESTION OF THE DOLLAR, THE USG BELIEVES THAT THE PAST YEAR'S PROGRESS BY THE MAJOR INDUSTRIALIZED COUNTRIES TOWARD A GREATER CONVERGENCE OF ECONOMIC POLICIES AND BETTER BALANCED ECONOMIC GROWTH RATES (E.G. SLOWER GROWTH RATE IN THE U.S. AND FASTER GROWTH RATES IN OTHER MAJOR COUNTRIES) HAVE NOT YET BEEN FULLY REFLECTED IN THE RELATIVE STRENGTH OF THEIR CURRENCIES. AT A SEPTEMBER 22 MEETING OF FIVE MAJOR INDUSTRIALIZED COUNTRIES (THE U.S., JAPAN, BRITAIN, FRANCE AND GERMANY), FINANCE MINISTERS AND CENTRAL BANK CHIEFS  
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ALSO PASS USUNESCO TONINI; OECD

MACDILL FOR USIA ADVISER BELL

EO 12356 N/A

SUBJECT: PUBLIC AFFAIRS GUIDANCE NO. 85-53: ANNUAL MEETING OF THE INTERNATIONAL MONETARY FUND (IMF) AND THE WORLD BANK

THE ANNUAL JOINT MEETING OF THE IMF AND THE WORLD BANK WILL BE HELD IN SEOUL, OCTOBER 8-11. IT WILL BE PRECEDED BY MEETINGS OF THE INTERIM COMMITTEE OF THE IMF (THE ORGANIZATION'S POLICY MAKING BODY) AND OF THE JOINT IMF/WORLD BANK DEVELOPMENT COMMITTEE ON OCTOBER 6 AND 7. TREASURY SECRETARY BAKER WILL HEAD THE U.S. DELEGATION. FEDERAL RESERVE BOARD CHAIRMAN PAUL VOLCKER WILL ALSO PARTICIPATE. SECRETARY BAKER IS SCHEDULED TO HOLD A PRESS CONFERENCE

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NATIONAL SECURITY COUNCIL  
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MACDILL FOR USIA ADVISER BELL

EO 12356 M/A

EXPRESSED THE VIEW THAT "SOME FURTHER ORDERLY APPRECIATION OF THE MAIN NON-DOLLAR CURRENCIES AGAINST THE DOLLAR IS DESIRABLE" AND THAT "THEY STAND READY TO COOPERATE MORE CLOSELY TO ENCOURAGE THIS WHEN TO DO SO WOULD BE HELPFUL." A STRENGTHENING OF THE EXCHANGE VALUE OF OTHER MAJOR CURRENCIES VIS-A-VIS THE DOLLAR WILL OVER TIME GO FAR TO REDUCE THE RECORD U.S. TRADE DEFICITS OF THE PAST TWO YEARS AND TO EASE PROTECTIONIST PRESSURES IN THE U.S.

ON OTHER ISSUES WHICH MAY BE DISCUSSED AT THE SEOUL MEETING, THE USG:

-- STRONGLY SUPPORTS ESTABLISHMENT OF THE PROPOSED MULTILATERAL INVESTMENT GUARANTEE AGENCY, A NEW INTERNATIONAL DEVELOPMENT INSTITUTION FOR ENCOURAGING FOREIGN INVESTMENT IN DEVELOPING COUNTRIES;

-- HAS NOT YET MADE A DECISION ON SUPPORT FOR AN EIGHTH REPLENISHMENT OF THE INTERNATIONAL DEVELOPMENT AGENCY -- THE WORLD BANK AFFILIATE THAT PROVIDES LOW INTEREST LOANS TO DEVELOPING COUNTRIES;

-- FAVORS A FURTHER "MODEST" REDUCTION THIS YEAR ON ENLARGED ACCESS TO IMF RESOURCES. THE POLICY OF ENLARGED ACCESS WAS ADOPTED IN 1981 ON A TEMPORARY BASIS, PERMITTING THE FUND TO MAKE BALANCE-OF-PAYMENTS LOANS BEYOND ITS NORMAL LIMITS FOR COUNTRIES WITH PARTICULARLY LARGE IMBALANCES IN THEIR INTERNATIONAL PAYMENTS;

-- DOES NOT BELIEVE THAT THE CRITERIA THAT WOULD JUSTIFY ANOTHER ALLOCATION OF THE IMF'S SPECIAL DRAWING RIGHTS HAVE BEEN MET AT THIS TIME.

(P/G)

WICK

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File: VIII (C)

LAURENCE W. LEVINE  
40 East 38th Street  
New York, New York 10016

October 2, 1985

Mr. Don Gregg  
National Security Advisor  
to Vice President Bush  
Old Executive Office Building  
Second Floor  
Washington, D. C. 20501

"Mother Jones" is not one of my favorite magazines nor do I subscribe to it, but this article merits reading, as does this newsletter from Bank of Boston. I also enclose my letter to Fortune which was published and received wide coverage, though causing in part Citibank to be very angry with me.

I wanted to thank you for taking the time out to speak with me and if I can ever be of assistance to you, please let me know. I mean that and it is not an idle remark.

I have a very specific idea on how this debt thing can be arranged -- without the major New York banks getting away with it -- and assuring that the Third World nations repay.

I agree with the Vice President that if a Texas bank had to take a loss because of oil losses, there is no reason to let these other banks get away with it.

The idea is that there must be a recognition that the debt be paid, because if you even give a scintilla that it will be forgiven these countries will not pay.

The basic rule is to remember in Latin America is that they have little or no infrastructure; very little of what I call "western ethics" on debts and they look at us here with a certain jealousy and scorn. In addition, they are used to following the



leader's orders whether it be a democracy [their type] or other government. The one thing they respect is power and the U.S. has that.

I would appoint a committee to study the debt situation, like the old Hoover Committee in the Defense Establishment or the Committee on Social Security. That bipartisan committee would recommend to the World Banks that the debt be "segregated" and extended to a 30-50 year pay out combining interest and principal. I would do two other things based on that agreement:

(a) **For the banks:** I would have the FDIC and the other supervisory authority (the State if it's a state bank, the Comptroller if it's a national bank) agree that the banks in question be allowed to carry those debts in the first category -- that is "performing" so nothing has to be written off and no reserve has to be set up. If the banks ever get to the point that all these debts are considered "performing" or good debts, the reserve for bad losses go down and earnings go up and the stock of the banks go up. The banks can be pushed on that. If they don't agree, then the agencies can be "pushed" to force higher reserves. My experience with the large New York banks is that they are very, very poor politicians and they need some strong guidance.

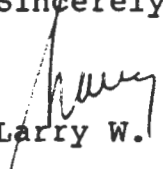
b) **For the countries:** They, of course, will be delighted with (a) but I don't trust them to continue paying. There must be a mechanism built in that rewards them if they pay and punishes them if they don't. The way to do that would be to establish a new series of development bonds at the World Bank for Third World debtor nations. They would be entitled to new loans on a long term basis from the proceeds of these bonds, dependent upon their repayment of their debt. Thus, if on June 1 and December 1, let us say, Argentina had X dollars due on the repayment of the old debt -- once paid they would be entitled to Y dollars in new loans. The new money from the World Bank must be contingent on paying the old. The only way, in my opinion, to insure these



three countries continued repayment is to use this approach, otherwise some wise guy will find a way not to repay. This kind of approach politically, in my opinion, is good for the U.S. and these countries. And we should take the initiative to do this.

My best.

Sincerely,

  
Larry W. Levine

Encls.  
LWL:mns

*I enclose a  
copy of a letter I  
wrote to The Washington  
Times.*





# BANCO DE BOSTON

2004



BUENOS AIRES  
September 9, 1985  
N° 3/85

## Ninety days after

Almost three months have passed since President Alfonsín launched the Administration's all-out effort to terminate Argentina's dangerous flirtation with hyperinflation.

In this Newsletter we review the major areas of the economy, singling out both bright and cloudy spots. Our conclusions to date are that: (1) the economy is and will still be in bad shape for a long time to come and (2) both the government and society face big challenges ahead (see below) but (3) the valiant decision and drastic action taken to balance the budget constitute a long overdue and indispensable step in the right direction. No matter how crudely executed, this decision is symptomatic of a major change in the Administration's views and, as such, a ray of hope for further action.

## Fiscal deficit

The government's fiscal "blitz" yielded immediate results. In July, Federal tax collections doubled June figures. Export and import duties led the increase, but the authorities managed to double V.A.T. collections by simply moving up the due date.

Drastic hikes in utilities and fuel prices, coupled with the price and wage freeze, sharply cut down the consolidated operating deficit of government corporations, and some of them could even allocate funds to meet part of the interest payments on their foreign debt obligations.

Both factors allowed the Administration to honor its promise not to borrow from the Central Bank. Rumors had it that some state corporations had obtained some australs from official banks, which in turn had been granted equivalent rediscount facilities by the Central Bank. Others wondered if official Federal or provincial banks might not be financing local government operations and thus failing to meet their legal reserve requirements.

P. 11



Both manoeuvres would represent disguised violations of the President's formal pledge. There was, however, no definite evidence in either case, and, even if some "deviations" occurred, they could only amount to a fraction of the 200 to 300 million australs that the Central Bank had been supplying the Treasury monthly up until June 14th.

More worrisome than minor or occasional deviations from the rule are some issues with long-term implications for public sector accounts and for the economy as a whole. To make ends meet, the Administration had to hack drastically away at the revenue and the expenditure sides of its accounts. On both sides the surgery was crude.

On the spending side, instead of concentrating on the elimination of redundant manpower, the authorities chose to freeze wages and pensions to its 2 million civil servants and 3 million retirees at sub-standard levels. It is also curtailing investment across-the-board in most nationalized sectors, without allowing private capital to flow in. Result: low quality public services, emigration of skilled employees, chronic supply shortages in some areas (like telephones) and profitable business opportunities being foregone (as in gas, oil and mining).

On the revenue side, a grab-whatever-you-can approach to taxation is further aggravating the distortions already existent in the tax structure. Due to an endemic inability to collect income, net worth and value-added taxes, public coffers have been increasingly fed through over-taxing foreign trade (both imports and exports), fuels, utilities, salaries (social security contributions) and a handful of items (like cigarettes and vehicles) supplied by few, big, easily monitored corporations. The June 14th "blitz" added more of the same, thus making things tougher for potential investors and exporters.

In summary, it seems that the present fiscal equilibrium is based on taking and spending patterns that constitute serious barriers to growth. Failure to act in both areas will sooner or later result in pressures that may ultimately lead to renewed deficits, deficit monetization and, finally, to inflation again.

The country is thus anxiously awaiting a deep, selective reform in the public sector of the economy. Some agencies will have to be closed, screws should be tightened elsewhere and huge areas await deregulation and liberalization. In addition to these needed expenditure-saving measures, a thorough reform of the tax system is also required to reduce the anti-investment and anti-export biases of the present structure.

Income, capital and value-added taxes must be simplified, rates and loopholes reduced and above all, penalties for evaders substantially increased. Last, but not least, V.A.T. exemptions for regional industrial relocation purposes should be eliminated.

These are the only alternatives for consolidating the present budget balancing act, if officialdom wants simultaneously to attract investments to currently-starved, capital-hungry sectors, and free tax revenues to pay better judges, policemen, teachers, doctors and fund anti-poverty programs.

### Inflation, price controls, money and credit

Increases in the consumer and wholesale price indices in July were 6.2 and 0.9 percent, respectively, down from 30.5 and 42.4 percent in June.

Most of the C.P.I. rise was attributable not to price increases during July, but to the effect on the July averages of June's big hikes. The W.P.I., which is measured from mid-month to mid-month, reflected better the true evolution of prices in this period.

Such spectacular stabilization is, of course, mostly an effect of the generalized freeze imposed by the government. But the authorities' ultra-tough credit policy and resulting high interest rates helped significantly by sharply reducing desired inventories.

The rate of growth of total credit outstandings in australs fell from 37.3% in June, to 9.7% in July and 5% in August. Of course this would have been impossible were it not for the drastic cut in the fiscal deficit mentioned above. Money supply (M2) growth was greater than credit expansion mostly because of a persistent net FX inflow. The rise of FX reserves was due to seasonal trade patterns as well as capital inflows motivated by high local interest rates.

Rigid monetary and credit controls are essential for keeping prices in line, avoiding excess demand in markets that could lead to shortages and black market situations under the present freeze. At the moment of this writing, a shortage situation has developed in the beef market, due to the cyclical low in the cattle supply every spring. Since the country does not have a seasonally adjusted C.P.I., the authorities are taking pains to explain that a likely spurt in this index should not be interpreted as a permanent inflationary trend nor exacerbate expectations.

It is a well known fact that, for seasonal or other reasons, prices must oscillate permanently. Thus, a wage-price freeze lasting too much beyond 90 days will necessarily become a source of messy situations, no matter how tightly credit and money are managed. The lack of definite plans to end the freeze is one of the cloudiest spots in the economic horizon at the moment.

### Output: fall and recovery

Another visible effect of the June 14th Austral Plan was a sharp decline in manufacturing output. Bank of Boston's industrial production index showed an 8% drop in June vs. May. This fall came on top of a recessive wave which began late in 1984 which had pushed industrial output in the first five months 6.6% below last year's level.

Part of the June and early July production slump resulted from the conflict and confusion surrounding the price freeze after savage hikes in utilities, fuels and a 14% currency devaluation.



But most of the decline appears to be the consequence of a massive inventory adjustment process at all levels (including households) triggered by the sudden change in price expectations and by the astonishing cost of credit in australs.

By the end of July, demand had returned to pre-June 14th levels in most industries. Of course, these levels are far from satisfactory and the outlook for growth is still bleak. Only a sequence of events like the one described as follows could spark lasting growth: rapid elimination of price controls, trade liberalization, deregulation and further, deeper fiscal reforms, an export boom, a confidence build-up, capital inflows, lower interest rates and finally, renewed investments.

SALES IN SELECTED SECTORS (MAY 85=100)		
	June 1985	July 1985
Food products	86.0	87.9
Cigarettes	85.5	99.5
Textiles	99.9	94.5
Paper products	112.6	99.0
Chemicals	93.5	92.0
Cement	78.6	95.3
Steel products	87.7	101.8
Cars	77.3	107.4
Trucks	34.5	121.7

As is being seen in the cases of telephones and oil deregulation, although government policies seem to be pointing in the right direction, the timing of the reforms will be slow. So, for the time being, only sectorial recoveries may be expected in a context of very moderate growth for the economy as a whole.

Needless to say, the best opportunities lie in sectors with high potential to do business abroad.

#### Exports and B.O.P. outlook

From a fiscal standpoint, the 90-day-old stabilization plan was not favorable to exports and export growth. The 14% devaluation of the peso, hours before dying to give birth to the austral, was offset by an equivalent across-the-board increase in export taxes and reduction in rebates. Worse: a 10% surcharge was slapped on all imports, further deteriorating the price competitiveness of local goods abroad in direct proportion to their content of imported materials. Added to the depression of commodity prices in world markets, these fiscal measures do not help to improve the export outlook.

The shock, however, had several positive impacts on the Balance of Payments as a whole. First of all, the plan helped to normalize disbursements of the us\$ 1.2 billion I.M.F. stand-by loan granted to Argentina late in 1984.

This was, in turn, a necessary condition to trigger the draw down of other B.O.P financing loans obtained from creditor banks and from official financing agencies. Second, the policy change reversed the sign of net autonomous capital flows from negative to positive. The combination of both events will undoubtedly speed up the normalization of the country's payments situation. Finally, regardless of taxation, it is reasonable to expect that the present, more stable environment will be more favorable for the development of export business than the apocalyptic scenario of past months.

The markets

Interest rates remained high on austral free-credit markets. High rates in part reflect the authorities' tough monetary policies, but are also due to the still wide credibility gap among market participants.

The Central Bank has been imposing incremental reserve requirements on banks to sterilize the extra liquidity resulting from capital inflows. By these means, austral rates never fell below 6% per month.

But, even with such rates, the parallel/official exchange rate gap has been hovering between 15 and 20%. This seems to be the best possible trade-off, given the present level of confidence. Easier credit and lower rates would lead to a larger exchange gap. A smaller gap would seem to require even higher austral rates.

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Bank of Boston issues Argentina Newsletter occasionally as a service to customers and friends interested in general, informal commercial coverage on the region. We welcome your comments and suggestions. Although Bank of Boston makes every effort to insure that information contained herein is accurate, this Newsletter is intended for informational purposes only, and the Bank does not assume responsibility for its contents. Not to be quoted or published.



**The First Shaky Steps  
Of The  
New Argentina**

**BY DOUGLAS FOSTER**

# AFTER



*Alfonsín: More than a 50-50 chance?*



# THE TERROR

*"Look, this is a fascist society. We have to change its authoritarian character. . . . And in the process we have to let a lot of people get away with [crimes]."*

—Jaime Malamud, Argentine presidential advisor



**T**he former police official slams one fist into his open hand. He is a man of medium height, wild-eyed and sweating; it is almost possible to imagine he was once handsome. But now his pupils are ragged and permanently enlarged. When he smiles, as he does often at inappropriate moments, he reveals rows of bad teeth and discolored gums.

His name is Carlos Hours. During the worst years of Argentina's repression, he worked under the command of provincial police chief Ramón Camps, widely known for torturing newspaper publisher Jacobo Timerman. Hours asks for (but doesn't receive) \$2,000 to talk about Argentina's death machine—"things I have not told anyone." He is willing to please, to describe it all—individual tortures, individual murders—in excruciating, eyewitness detail.

Had Hours merely witnessed the tortures and murders, or had he participated? Hours just grins and tosses what he calls an "extermination order" on the bed. The order called for the detention of a young woman named María Falcone in 1976. She was picked up in an operation that snagged 14 other subversives one night, Hours explains. Falcone and the others were mercilessly

tortured, then shot to death and dumped into a large hole. During the torture, the names of Falcone's co-conspirators were forced from her.

The name of the operation was "The Night of the Pencils." Falcone was 16 years old, and her coconspirators were 14- to 18-year-old high-school students. She and her friends had demonstrated their subversive potential by organizing a petition campaign calling for student-rate bus tickets to school.

Carlos Hours is the flotsam of yesterday's Argentina, one of hundreds of unemployed torturers and hitmen trying to make ends meet now by peddling all they have: first-hand accounts of the terror that stalked the country between 1976 and 1983. They represent the old Argentina, the nation that deserved its reputation, during seven years of brutal dictatorial rule, as a hemispheric thug. At home, its government was responsible for the mass murder of thousands of its own citizens; meanwhile, its intelligence agents were scattered across Latin America, plotting coups against democratic governments and training death squads.

In December 1983 human rights activist Raúl Alfonsín, Argentina's George McGovern, became president and began to turn Argentina's barbaric reputation around. Alfonsín seemed to embody the needed balance: he was prepared to denounce mass murder and move against those responsible, while holding the line against an outpouring of mob vengeance. In his inaugural ad-

PHOTOGRAPH BY CARLOS CARRION/SYGMA





dress to Congress, Alfonsín was solemn: "We have lived death here in this Argentina. There are lessons we cannot forget." But riding with his wife in an open 1950s Cadillac on his way to the Casa Rosada (the Pink House, Argentina's presidential offices), Alfonsín was cheered by a throng of 100,000, who seemed to sense in his election a chance for redemption and transcendence. "The people, united, will never be defeated!" chanted the crowd—and their new president.

In the first few months of his administration, Alfonsín moved with confidence, his personal popularity rivaling even that of former President Juan Domingo Perón. The new leader sacked dozens of generals; charged

three of the past junta chiefs with crimes, including murder; and appointed a national commission (chaired by a respected novelist) to investigate the estimated 6,000 to 20,000 cases of the "disappeared." He acted as though Argentina could spread its example across the Southern Cone—to Uruguay, Paraguay, Brazil, and Chile. (In Brazil, demonstrators began declaring, "Give us a leader like Alfonsín!")

But one year after Alfonsín's jubilant inauguration, Argentina's democratic experiment is in serious jeopardy. The president is hemmed in by economic problems (see "Alfonsín's Challenge: Boom or Bust," page 35), trade union opposition, mixed signals from the United States (see "The U.S. Shadow





over Argentina," page 38), and increasingly sharp attacks from even his former allies in the human rights movement. Exorcising Argentina's savage spirits has proven vastly more difficult than Alfonsín and his supporters had expected. The most important question now is, Will Alfonsín's "New Argentina" survive?

**O**n the streets of Buenos Aires, especially in the endless rows of chic sidewalk cafés and shopping malls, it is possible to forget that Argentina is a Third World country. You have to board a train at Constitution Station and head out toward La Plata to be reminded. Painted and whitewashed houses along this line

soon give way to shabby house-fronts, and each station stop along the way is more pathetic, the paint chipped, the floors decrepit. There's more color in the faces, and more Indian features, more hand-knitted sweater vests in place of silk suits, more tennis shoes and fewer Italian dress leathers. The monotonous terrain is broken up by the *villas miserias* (villages of misery), shacks stitched together from scrap lumber and rotting wood.

These are the towns that General Juan Domingo Perón relied on in the early 1940s, when he fashioned his peculiar brand of right-wing populism. The populations of these towns rose up in October 1945 to bring Perón to power; voted him into the presidency twice, only to have the military remove him during his second term; and longed for his leadership for 18 years until his fellow generals allowed him to return triumphantly from exile to be elected once again in 1973.

Taming these towns has been a military preoccupation since 1945, and when the generals booted Juan Perón's widow out of office in March 1976, it was partly to crush this militant labor base. The coup had broad political support because Isabel Perón had proven to be empty-headed and corrupt. (During a policy dispute, she once shouted, "Do you know what this head is for? It is to hold up these curls!") Violence between armed gangs had also worsened under her uneven rule. Even the liberal Timerman backed the generals, in hopes that the military junta would restore order, put the economy in shape, and exit promptly to make way for new national elections. But this scenario wasn't what the generals had in mind.

In the final six months of her abbreviated reign, Isabel Perón approved a gloves-off attack on two guerrilla groups, the Perónist Montoneros (who despised her) and the Trotskyist Ejército Revolucionario del Pueblo (ERP). Grassroots labor organizers who were thorns in the sides of Argentina's right-wing union chieftains (staunch allies of Isabel's) were also targeted for arrest and detention. In late 1975 the spinal column of guerrilla resistance was snapped in a series of open battles with

regular army forces.

But the generals who had charted these campaigns were not yet satisfied. They had decided to overthrow Perón herself and surgically remove forever "the cancer of unpatriotic subversion" from Argentine life. They planned the massive "Process of National Reorganization" (*El Proceso*) and, in a secret meeting one month after the coup, they laid out the goals of their purification crusade. It was a war in "the defense of tradition, the family, and property," a former government official testified several years later.

Police chief Ramón Camps—who thanked liberals such as Timerman for their support of the coup by rounding them up and overseeing their torture—wrote later that the battle against subversion had been a logical extension of French antiguerrilla efforts in Algeria and the U.S. campaign against communism in Vietnam. "The moment arrived," Camps exulted, "when we matured and we applied our *own doctrine*, [and] that definitely allowed us to launch the Argentine victory against subversion."

To carry out this "Third World War against subversion," as one of Camps' colleagues grandly titled it, 340 secret detention centers, each staffed with a crew of trained torturers and interrogators, were set up across the country. Prisoners were turned into a commodity, capital to justify drawing further resources, more troops, more supplies. Efficient handling of the "ES" (*elementos subversivos*) problem became the basis for promotions through the ranks.

Each service refined its own methods, often in competition with the others. Air force commanders preferred interrogation while airborne, so corpses could simply be dropped in the ocean afterward. The navy had a predilection for burning people, after severing limbs and removing teeth to make identification more difficult. And the army, as armies usually do, relied on bullets.

Once the death machine was organized, officers quickly discovered the opportunities for monetary reward. Homes belonging to the disappeared were sold or occupied; automobiles were seized and used; and clothes, fur-

*Under Lieutenant General Videla, the jaunty military commander, thousands of Argentines were put to death. Now the former junta chief sits in a federal penitentiary, awaiting trial on murder charges.*



niture, and personal belongings were consigned to a string of second-hand shops run by military men. Even children became objects of theft and barter. Abducted children, or those born in detention centers, were shunted into a black market in kids operated by the military government. More than once, torturers adopted their own victims' offspring.

As the repression unfolded, agents were sent to Uruguay, Paraguay, and Bolivia to share notes, snare Argentine subversives fleeing their country, and help train other death squads. The generals reasoned that the Third World War had no geographic boundaries, only ideological ones.

"The repression is against a minority who we don't consider Argentine," declared Jorge Rafael Videla, the military junta's first chief. But the dictatorship's definition of who was "non-Argentine" grew ever wider. First, suspected guerrillas and their supporters were targeted; then labor organizers and their followers; then professors and students harboring foreign ideas; then psychologists, artists, and journalists who might carry infected ideas. "Some people would give names of people they knew not to be [politically] involved, in order to escape torture and to avoid giving names of people who were politically involved," a key investigator for the National Commission on the Disappeared told me. "They assumed that the innocent would not be imprisoned or killed, that the intelligence [services] would discover these were bad names. But they didn't. People were simply tortured and killed—and more names forced out of [the innocent]."

For many Argentines, of course, the military regime delivered order and a revived economy. Argentina's banking and importing classes still call the early years of *El Proceso* the time of *plata dulce*, sweet money spread around largely through the largess of foreign banks and the International Monetary Fund. The country borrowed close to a staggering \$37 billion during these years, and the money trickled down to the middle class, partly as the result of an increase in state employment and raised salaries.

Affluent families still remember this period as the time of "Give Me Six," because the goal of shopping sprees in Europe or the United States was to purchase six of everything. "We'd go

into a shoe store in New York and buy six pairs for everybody," a businesswoman remembered. "One time our youngest daughter wasn't there and we weren't positive of her shoe size. So we got two pairs at size four-and-a-half, two pairs at size five, and two pairs at size five-and-a-half." The family, formerly one of relatively modest means, could suddenly afford vacations in Key West and Paris, or chauffeured limousines to the Plaza Hotel in New York—all thanks to the policies of the military's first minister of economy, José Alfredo Martínez de Hoz, who kept the value of the Argentine peso propped artificially high.

At the time, the military government argued publicly that the disappeared were really guerrillas who had faked their own kidnaps, gone to Europe or underground. And many Argentines, living an economic fantasy, were all too eager to believe.

For the relatively few who spoke out against the nighttime raids and disappearances, it seemed that all of Argentine society, from top to bottom, had enlisted in the Third World War. One woman approached her nephew, an army major, two days after her daughter and son-in-law vanished from their home. "Ah, if only it had been the day before, it might have fallen to me to do the kidnapping," the nephew told her. "Then it would have been so much easier to trace them!"

An eerie silence blanketed Argentina—even those most touched by the bloodshed often held their tongues. One of the men who left the deepest impression on me during my recent tour of the country was Juan Emiliano Miranda, a retired mechanic with white hair swept back from a lined face. In the summer of 1976, Miranda read a newspaper account of a "battle" the night before between the army and five subversives. Publication of the address made things painfully clear; the army had used a platoon of troops with bazookas to wipe out his 26-year-old daughter, her husband, and their three children—aged six months, four, and five. Miranda mourned silently. He didn't report the deaths or try to recover the bodies. "At that time, you couldn't do anything without throwing suspicion on yourself. Much less could you complain," Miranda told me in shame and sorrow.

In every story of a disappearance, there is a stunning element of passivity and complicity. Shortly after Miranda's loss, a 16-year-old boy named Alfredo Forti boarded a Venezuela-bound plane with his four brothers and mother. As the family waited for takeoff, a group of armed, uniformed men burst onto the plane and demanded that the Forti family get off. Mrs. Forti and Alfredo beseeched the other passengers to come to their defense, but the others simply turned away in silence. Forti and his brothers survived, but their mother was taken from them and she has never reappeared. So it was for tens of thousands of Argentines.

In the junta's Argentina, the only expression of labor dissent was a properly meek letter from overburdened morgue workers to President Videla. In the 1980 letter, several men working in the Judicial Morgue of Córdoba summoned their courage and humbly requested *Excelentísimo Señor Presidente* to intervene in the deteriorating situation at their morgue. Their problems, stated the exhausted workers, were caused by bands of police officers and soldiers who had regularly dumped bodies in the morgue ever since 1975 without the required legal papers indicating the cause of death. The bodies were horrible to see, even for men long inured to death. Hands and legs had been chopped off, jaws crushed, bodies flecked with torture marks.

Sanitary disposal of the bodies lagged woefully. Clumps of bodies were stacked on morgue floors, and family members looking for the disappeared had to be kept out. Masses of worms and larvae four inches deep crawled through the bodies and over the floors. Burning incense and jars of disinfectant failed to quell the stench. Finally, after many entreaties to civilian officials and military commanders alike, a small truck was provided for transportation. The corpses were shoveled onto the trucks in the middle of the night, transported in three trips, and dumped into mass pauper grave sites. Their deaths were reported on neat morgue forms as NN (*ningún nombre*)—identity unknown.

The morgue workers apologized to the president for bothering him but explained that everybody else in the line of command had already been notified about this situation and had failed to respond. The crushing workload had



not let up, not for a single weekend in years. Couldn't the president do something? The workers desperately needed his help. They wanted more time off—and a raise.

**N**ovelist Ernesto Sábato's *Sobre Heroes y Tumbas* (About Heroes and Tombs) concerns a man haunted by a ghost. Last September—as Sábato entered an ornate ceremonial room in the Casa Rosada, along with other members of the National Commission on the Disappeared—he looked as if he had come face to face with his own apparition. “I don't sleep too well,” Sábato whispered to me. “It's not just the death threats I've received. It's what I've seen in these documents of horrors.”

When a grim-faced President Alfonsín entered, Sábato began to speak so quietly that those in the room had to strain to hear him. “After having received thousands of declarations and testimonies, having verified and determined the existence of hundreds of secret detention centers, and accumulated more than 50,000 pages of documentation,” Sábato told Alfonsín and a television audience, “we share the conviction that the military dictatorship produced the biggest tragedy in our history—and the most savage.”

When Sábato referred by name to one general involved in the “dirty war,” Alfonsín's hands began to tremble. The president struggled to keep them under control, stacking them on top of one another on the table. It was only later that I learned the general was suspected of plotting to kill Alfonsín during the presidential campaign.

When Sábato finished speaking, he passed the commission documents to the president. Alfonsín had the entire pile swiftly taken from the room, and then delivered a carefully worded speech about remembering the past but moving on as a nation. It was a tight-rope act, but his fundamental message was clear: “*En el futuro que nunca más el odio y violencia perturben, conmuevan, y degraden a la sociedad Argentina.*” (“Never again shall hatred and violence disturb, agitate, and degrade Argentine society.”) As he spoke these lines, President Alfonsín punctuated each word by leaning forward in his chair and jutting his chin toward the microphone.

Outside the Casa Rosada, a throng of

demonstrators chanted angry antimilitary slogans. There was no mention of redemption, and certainly none of forgiveness. “Up Against the Wall! Up Against the Wall! All the military pigs who sold out the nation!”

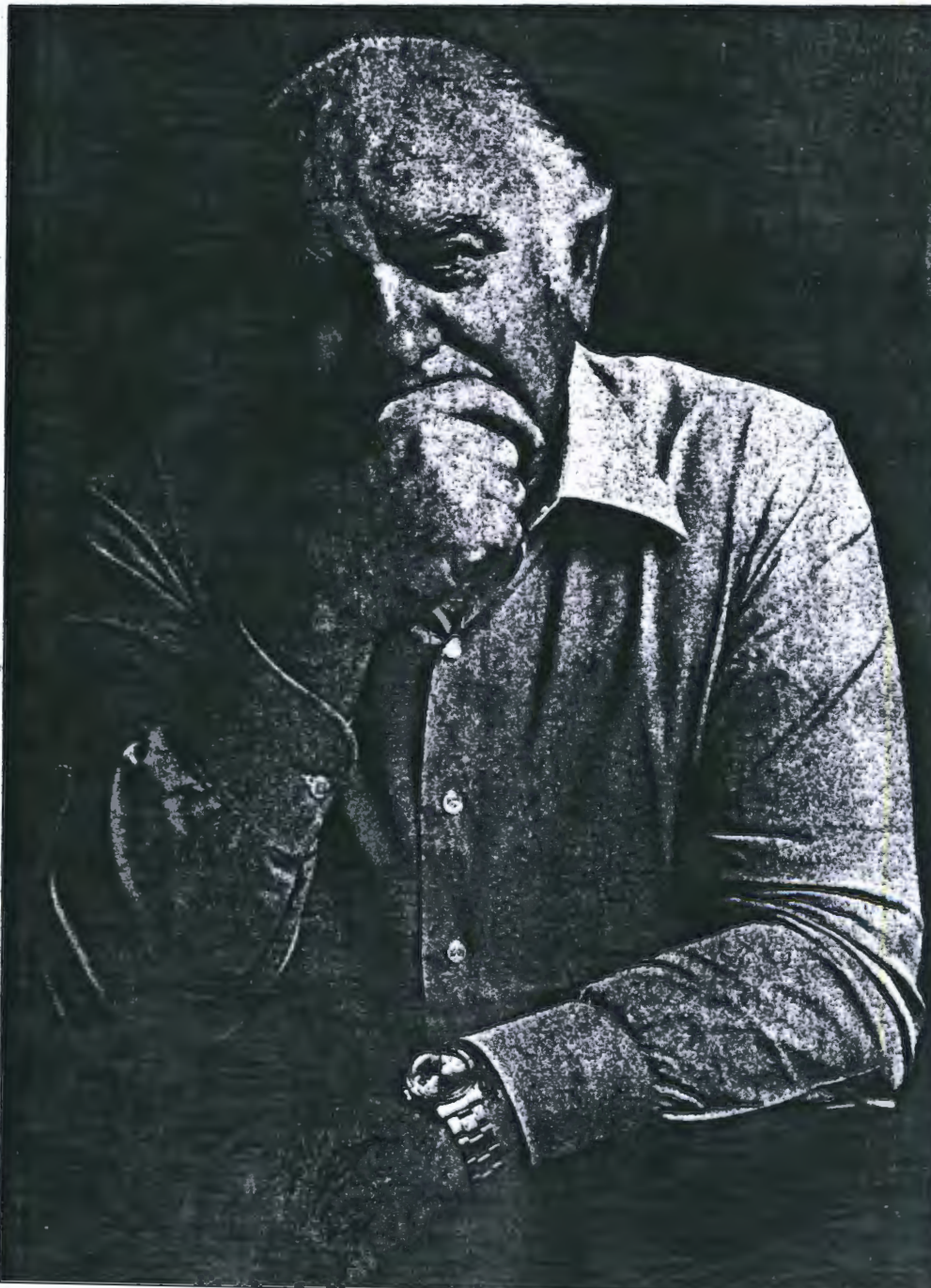
From the Casa Rosada, the vast crowd began marching to the courthouse, unveiling a huge banner reading, “*APPARICION CON VIDA!*” (Let Them Appear Alive!)—the plaintive cry of the human rights movement. From there, the crowd moved to Congress, where human rights leader and Nobel laureate Adolfo Pérez Esquivel urged the demonstrators to keep the

pressure up. “What is [Alfonsín] going to do with the Sábato Report?” demanded Pérez Esquivel suspiciously. “The repressive apparatus is intact. We still have to dismantle this band of unpatriotic scoundrels!”

Since the report was submitted to Alfonsín, he has continued to come under fire from human rights activists. Hebe de Bonafini is head of the Madres de la Plaza de Mayo (mothers of those who have disappeared). Bonafini herself lost two sons and a daughter-in-law to police raids, and her predecessor—along with a dozen other Madres—was

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*Timerman: A coup supporter, then a coup victim, now Alfonsín's biggest booster.*





## After The Terror

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kidnapped and murdered.

Bonafini, a hefty woman whose hair is wrapped in the Madres' symbolic white kerchief, operates on sheer adrenalin. She is a rapid-fire speaker, in command of her rhetoric, who seems omnipresent on the streets of Buenos Aires.

There must be "resolution" of the disappeared cases, argued Bonafini, slashing the air for emphasis. Justice must have its day. "Listen, we have been ignored before. Our people turned away before when we told them, 'They're kidnapping our children, they're torturing them, they're killing them.' They're turning from us now. But we have to keep on trying."

Above all else, Bonafini is enraged by Alfonsín's compromises with the military. Among the new administra-

tion's policies that especially angered the Madres was the president's decision to give the Supreme Council of the Armed Forces the first crack at judging the military brass charged with human rights abuses. Alfonsín insisted that this was consistent with traditional constitutional principles that those accused of serious crimes be tried by their "natural judges." Fernández Meijide, a key member of the Permanent Assembly for Human Rights, and an architect by profession, pointed out, "By this logic, if I caused an automobile accident, should I be tried by the Association of Architects or the Automobile Club?" The cases were recently handed over to the civilian First Appeals Court in Buenos Aires, where new reform-minded judges have been installed. But ten months of momentum in the cases has been lost—a matter of no small regret to the Madres.

Human rights activists, once the backbone of Alfonsín's support, were also outraged by the president's decision last September to promote dozens of officers despite evidence of their complicity in the Third World War.

"He's promoting assassins identified by his own commission," complained a Perónist senator who fought against the promotions.

Finally, Alfonsín is faulted for sluggishness in reforming the judiciary. In 1976 junta chief Videla appointed new civilian judges, many of whom remain on the job. Some 70 percent of the nation's judges now on the bench are holdovers from *El Proceso*. But Alfonsín has moved slowly to reverse the damage, making every effort to treat each individual judge fairly and cautiously.

The behavior of these federal judges during the commission investigation gave the Madres and other concerned Argentines little cause for celebration. In Córdoba, for example, the commission encountered outright judicial sabotage. Top-level military officers suspected of murder were released routinely by judges while commission informants were thrown into jail on trumped-up charges. One young witness who placed General Luciano Benjamín Menéndez (world famous now for recently trying to stab demonstra-

## Alfonsín's Challenge: Boom Or Bust

**A**rgentina's economy is a shambles, wrecked by inflation and burdened by a \$45 billion debt to foreign banks. Unless there is dramatic progress this year in holding the line against a ravenous inflation rate, economic issues could prove to be the fragile Argentine democracy's downfall.

Inflation in 1984 was running at a rate of about 700 percent annually, more than 20 percent a month. What this means is made clear in the exchange rate: in 1970 the dollar was worth 400 pesos; today the dollar would buy 1.2 million. Price increases for services and goods are startling by U.S. standards. On my ride to Buenos Aires from Ezeiza International Airport, for example, the highway toll was 45 pesos; two weeks later, the fee at the same toll booth was 72 pesos. Landlords in Buenos Aires now demand 18 months' rent in advance because the value of the money plummets so quickly during the course of a lease.

During his 1983 campaign, Raúl Alfonsín promised to bring inflation down substantially in 1984. Partly because his campaign linked the return of democracy to a stabilized economy, his failure to achieve even modest economic goals has led to widespread bitterness. "We know all about human rights," says one middle-aged Buenos Aires resident. "Now we have to worry about how we're going to eat." Graffiti in working class suburbs read, "*Donde hay hambre, no hay democracia.*" (Where there is hunger, there is no democracy.)

Meanwhile the International Monetary Fund has pushed the Alfonsín government to impose austerity measures in exchange for further loans, and in October President Alfonsín

agreed to hold the line on wages. But the imposition of austerity measures puts him on a collision course with the unions—and places the country's newly established civilian rule at considerable risk.

Alfonsín's pledge to pay Argentina's debt also leaves him vulnerable to opposition politicians, who argue persuasively that only the "legitimate" portion of the country's foreign debt should be paid. "The banks were propping up a dictatorship," says Perónist leader Vicente Saadi, one of the most powerful members of the Argentine Senate. In his view, the banks should share the responsibility for the political and economic collapse brought on by the dictatorship.

This political argument may prove superfluous. Despite Alfonsín's best intentions, it may simply be impossible for Argentina to keep up with its debt payments. "If we put everything we earn into debt payments, there won't be any investment," says economist Ernesto Villanueva. And without investment, the economy will stagnate further.

Recent public opinion surveys by Alfonsín's pollster reveal that economic issues are the ones of most concern to the Argentine public; political freedom lags far behind. If the Alfonsín government does not take firmer control of the economy this year, the light that began to flicker in this part of the hemisphere may be extinguished. Canadian Ambassador Loren Clark, an astute observer of Argentine politics, says, "If democracy fails here, and the economy falling apart means the end of democracy, the effort to a return to democracy elsewhere—in Uruguay, Paraguay, Chile, and Brazil—will likely fail, too."

—Douglas Foster





Bonafini (right) and other human rights activists believe Alfonsín has failed them.

tors chanting at him on the street) at the executions of 32 prisoners, was held against commission wishes for 20 days in jail—cooling his desire to cooperate with the government.

By far the most astute of the human rights leaders is Emilio Mignone, president of the Center for Legal and Social Studies. "Alfonsín told me he thinks there are only two choices, blood or time. He thinks he needs time to change the mentality of the military. But how many years would it take to change the mentality of a [Rámon] Camps?" Mignone—and scores of others, many of them in government posts—believe Alfonsín missed a historic opportunity just after his election to cleanse the military ranks of murderers and coup plotters. "The generals he has left in charge were compromised by the repression," Mignone asserted. "They are compromised. And the colonels, too. And the majors. And the captains. And the lieutenants."

The weaknesses of the Alfonsín government—and the tainted character of the courts—are most evident in the cases of the children who were sold, traded, or adopted by military captors and torturers. The bustling group of Abuelas de la Plaza de Mayo (grandmothers of the disappeared) has assumed the task of finding these children. It has taken sophisticated sleuthing to track the children down, but when they are finally located, the frustrating battle has just begun.

Paula Logares was two years old in 1978 when she was abducted along with her parents in a park in Montevideo, Uruguay. Her parents were never seen





again. But through a remarkable network of grandparents—in Uruguay, Brazil, and Argentina—Paula was traced to a home in the suburbs of Buenos Aires, a home belonging to a former police official, Rubén Luis Lavallén.

Paula's grandmother, a tough, compact woman named Elsa Beatriz Pavón, visited Paula at her school, just to make absolutely certain she had the right girl. "I saw Paula in the playground," Pavón told me, her voice quavering. "I wanted to be absolutely certain, of course. She is exactly like her mother—same hair, same expressions, same way of carrying herself."

Pavón sued to have Paula, now eight years old, returned. And as a result of blood tests, and an analysis by a delegation from the American Association for the Advancement of Science, the likelihood that Paula was Elsa's granddaughter was established beyond a reasonable doubt. Yet the lawsuit Pavón filed has dragged on. In August the federal judge handling Paula's case came to the verge of handing the girl over. But after two long, private sessions with Lavallén—now in charge of security for the Mercedes Benz factory in Buenos Aires—the judge decided to allow him to maintain custody of the child pending the outcome of a full courtroom trial some time in the distant future.

I visited Pavón and her family in the modest working-class home built by her husband. Inside the home's front door is a wall-sized portrait of Paula, just one icon in the house that has become a kind of shrine to her. Down the hall is a room prepared to receive the girl, filled with furniture handcrafted by her grandfather and pillows sewn by her grandmother.

Pavón clutched at her chest as she chronicled her two-year struggle to reclaim her granddaughter. Some of her neighbors wonder, if her grandchild is cared for, why not let the matter rest. Why disrupt the child's life? "At the moment of her kidnapping, Paula lived with her parents, and she was beloved by them," Pavón said passionately. "She saw her parents beaten and dragged into a car. When she is 16 and guesses she was kidnapped, where does she get the truth about herself? [According to court testimony,] her new father worked as a torturer in a concentration camp. Will he tell her who she is?"



General Luciano Menéndez commanded the army's largest corps until 1979. Heckled by human rights demonstrators last year, he chased after them with his knife drawn.

**A**dvisors to President Alfonsín assure visitors that they "understand" the depth of the Madres' sorrow and anger. But they insist the president has done all he can to pursue human rights cases. They are quick to point out that the Argentine population as a whole has tired of the issue. Alfonsín's pollster, a crisp and witty man named Edgardo Catterberg, has discovered a declining interest in the subject in recent surveys. Since Catterberg was the one to predict Alfonsín's victory, while pundits and insiders were confidently predicting his defeat, his findings carry special weight. "What we see [in the surveys] is that the democracy issue is not so important," Catterberg assured me.

Because public support for a strong human rights stance has faded, presidential advisors caution that Alfonsín's task is intricately complicated. Alfonsín's key advisor on the treatment of the military, Jaime Malamud, was refreshingly direct in discussing the difficulty of holding Argentina's equivalent of the Nuremberg trials: "Had we leaned more on the Supreme Military Tribunal . . . we might have threatened the whole structure."

Malamud said the government decided to go after only top generals on criminal charges and hoped to reform the remaining brass through a long process of careful education. (New courses in constitutional procedure, with special sections on the importance of democracy, are now offered in many military

academies.) Cutting into the military structure, he said, would have been a herculean task, since the ranks were so widely compromised. "It's a very tough judgment," Malamud says, shrugging his shoulders. "Do you try and condemn a young lieutenant who followed orders and committed these crimes? And if so, why not try my aunt, too, while you're at it—because she and many other civilians knew what was happening and supported it."

On the day when the *Sábado* Report was handed to Alfonsín, the Casa Rosada was ringed by two regiments of police officers and rows of sleek new police vans. Several commission members had wanted to publish the names of 1,000 military men, some still active, who had taken part in the mass murder. But as I made my way through a series of appointments in the Casa Rosada, the idea of publishing the list was quietly but firmly vetoed by Minister of the Interior Antonio Troccoli. "Every one of those officers they planned to name has five friends, right?" Malamud explained. "We're not going to run the risk of having 5,000 armed men in the streets out to get us."

**W**ithin a few days of my arrival in Buenos Aires last September, a goon shot at a congressman; human rights activists began receiving written and telephoned death threats; and a clandestine cache of arms was discovered a block away from Congress. These were passed off largely as



the work of stray zealots. But the arms cache discovery seemed particularly disturbing, since one reliable source told me a member of police intelligence was suspected of buying the arms.

Since my departure, matters have grown worse. The office of a former National Commission member has been bombed, and, once again, church workers and labor activists have disappeared—so far, for only a few hours at a time. In a two-week period last November, several cases of short-term kidnapping occurred. The victims were driven around in cars, threatened, beaten, and tortured with lighted cigarettes. So far, no one has been killed.

In late October, retired military officers—including a suspect in the plot on Alfonsín's life—joined young military officers and family members for a mass honoring military men who had fallen in the line of duty. They sat sol-

emnly while the priest urged the military to take up "spiritual arms and material ones" to defend Christian values. The priest, Julio Triviño, spoke of a "corrupt and pornographic democracy." As the young cadets left the mass, they chanted: "Long live the army!", "Out with the Communists!", and "Now They'll be MM!" The final chant was especially chilling: MM stands for *mucho más* (much more), the intention to add many others to the ranks of the disappeared.

In the past month, presidential advisors have abandoned their brave poses, and have begun to speak in private about a new "dirty war" being waged against the democratic regime. "Give me your honest assessment," a key presidential aide asked me. "Do you give us better than 50-50?"

There are three major obstacles to an immediate return to military rule in Ar-

gentina: the generals' humiliating defeat in a real war, the effort to take the Malvinas (Falkland) Islands from the British; a new surge of grassroots organizing in the unions; and the sheer force of will exercised by Alfonsín and his followers.

The military's disastrous assault on the Malvinas in 1982 still haunts them. The generals created their own stark contrast: forces so efficient in wiping out high-school students, nuns, and unarmed union organizers proved laughably inept up against another nation's military force. Apparently the Third World War was no preparation for confronting a real enemy on the Malvinas, where at least a thousand Argentines lost their lives. One veteran, with a skull now constructed partly of plastic, sums up the fiasco: "I was in the army, and we were shelled by the navy and

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## The U.S. Shadow Over Argentina

**W**hen U.S. Ambassador Frank Ortiz told Argentine reporters last November that relations between the two countries would greatly improve during President Reagan's second term, he was simply stating the obvious. Relations between Washington and the new Alfonsín government were so strained during the first Reagan term that there is nowhere to go but up.

The U.S. backed Alfonsín's opponent in the 1983 campaign and Washington has been slow to warm up to the new Argentine president. Officials from the Inter-American Defense Board, including a U.S. general, visited Argentina shortly after the election without making the customary courtesy call on the president-elect. A close friend of Alfonsín's recalls that the president was perplexed and angered by this treatment, fearful that Argentina's generals would interpret it as a sign of disrespect from the United States.

In the past year, U.S. embassy attachés have cozied up to retired and active military officers, drawing protests from Alfonsín's advisors. Relations hit a low point last September, when Alfonsín—angered by the imperial attitude in a letter he received from Ambassador Ortiz—studied the possibilities of declaring the ambassador *persona non grata*.

In late 1984 relations between Ortiz and the president finally began to thaw, after a meeting between Alfonsín and Reagan in New York. In November Ortiz issued a string of public statements supporting Alfonsín, and he has even started playing tennis with Alfonsín's close associates. "He's a lousy tennis player," says one. "I hope he's better at explaining our needs to Washington."

There is still a substantial residue of distrust between the two countries. The Reagan administration, after all, regarded Argentina's military junta as stalwart allies. Reagan himself was a long-time champion of the generals. In 1978, two years after the military government had begun its policy of mass murder,

Reagan wrote a column excoriating the Carter administration for making a fuss about human rights abuses in Argentina. "In the process of rounding up hundreds of suspected terrorists, the Argentine authorities have no doubt locked up a few innocent people," Reagan wrote. "This problem they should correct without delay. The incarceration of a few innocents, however, is no reason they should open the jails and let the terrorists run free." (In retrospect, human rights organizations estimate that hundreds of lives were saved by the intervention of Patricia Derian, Carter's human rights watchdog.)

Immediately following Reagan's election in 1980, David Rockefeller, chairman of Chase Manhattan Bank, traveled to Buenos Aires to assure the generals that the new American president would "deal with the world as it is." Not long afterward, Reagan's U.N. ambassador, Jeane Kirkpatrick, told a gathering of military men in Buenos Aires that the presidential election marked the end of a "national identity crisis" in the United States and a return to the good old days, when U.S. military aid was not dependent on a clean human rights record.

Kirkpatrick—an ardent fan of the generals—openly sought Argentina's help in subduing insurgent forces in Central America. Later, she tried unsuccessfully to align the United States with Argentina when the junta launched its invasion of the Malvinas (Falkland) Islands—the military debacle that proved to be the generals' last stand.

Argentines have little patience when visiting Americans express shock about the country's recent human rights nightmare. After all, the U.S. government, with the exception of the Carter administration, had traditionally supported the generals. "It's curious to us sometimes," says an Alfonsín supporter. "Our generals listen to the Pentagon. They learn the ideology of national security and commit all these crimes. Then the same people who gave us this gift come and ask, 'How did this terrible thing happen?'"

—Douglas Foster



**MJ:** Justine Carpenter's back-up singing sounds great on "Tenderness" and some other songs on the LP. Why isn't she a group member—in fact, why are there no women in the group?

**DW:** She's my sister-in-law, and she very much wanted to come on the American tour. But, although the group knew something about each other, we didn't have a clue what each other was like under enormous pressure thousands of miles from home. And, because of that, I didn't feel comfortable bringing my sister-in-law with me, because I couldn't guarantee to her what the mood of things might prove. So what we said was we'd do this tour, and then she'd come on the next one. Because then we'd know where we stood with each other.

**MJ:** Are there problems with having a woman along in this traditionally all-male scene?

**DW:** I don't think it would matter at all. It'd be fine. Certainly having a girl on the tour bus usually makes the boys more polite—even if it's only because they're trying to show off and look good in front of her. It means that there is usually less bad language and farting competitions—that sort of thing. (Laughs.)

**MJ:** In putting together the band, did you

consider including a woman?

**DW:** We didn't, and I realized afterwards, because people asked us about it, that it was an oversight.

**MJ:** I'm not saying that you have to be an equal opportunity employer.

**DW:** No, I think possibly you're right—it would have been a good idea. It may be that there is such a jaundiced appraisal of things in England that, by having a woman, it would have meant we'd be accused of incredible tokenism. (Laughs.) But the real truth of the matter is that I don't know many women musicians, and there aren't many in Birmingham, and I didn't think about the sex of any of the musicians when I was scouting them. I'd just listen to them play.

**MJ:** I understand that you did two different videos of "Tenderness."

**DW:** Right. Very funny, that. "Tenderness" is a cute pop song, but it also has to do with promiscuity and the fact that "lust without love often leaves young men searching for that little tenderness."

So, in the English video, I'm in a Holiday Inn room on the phone to my wife and baby daughter back home. They played themselves, which even the director was horrified by. I said, "Well, you're not putting my life on the screen and having half

of it. You have to take the whole lot." So my family's at home, doing all cute things. And I'm in the Holiday Inn being seduced by a muscle woman—a body builder with strong, masculine arms. It does make you feel very uncomfortable, and a lot of men have said to me, "God, that video—it's my life story. How could you put that in a video?" I mean it starts with me sitting in the hotel room looking at pictures of the family and ends with me sitting in the hotel room, my head in my hands, looking at pictures of the family—like the morning after.

We brought it over and showed it to [our American record label] I.R.S. "Good video, eh—what do you think?" And they all just stood there *horrified*. So we had to make another video for the American audience that makes us look very pretty. My mum thinks the American video is fantastic. So you can take your pick. Play the American one and say, "Look, here's Dave and Rog, the pop stars." And then play the other one and say, "Here's Dave and Rog, the slightly frightened real people who have to face up to being pop stars."

*Adam Block is pop music editor of The Advocate.*

## After The Terror

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bombed by the air force. Our own navy! Our own air force!"

Argentines were further scandalized by tales of corruption: food and clothing sent by mothers to their sons on the front lines were diverted and sold on the black market, a scam that came to light when the surprised purchasers discovered loving notes from mothers hidden in the goods. Close observers say there has never before been such a generalized antimilitary feeling among Argentines. Enrollment in military academies has plummeted, and soldiers are now the butt of jokes.

The widespread resurgence of grassroots labor organizing is establishing another bulwark against a military coup. Hundreds of young organizers are at work among the country's 8 million union members, educating their fellow workers about democracy in the

country and democracy in the unions. These young men and women have already scored remarkable victories in wresting control of several unions from old-line, right-wing officials.

Among the most effective of these organizers are the survivors of *El Proceso*, such as Francisco Gutierrez of the Metalworkers, the largest union in the country. Gutierrez spent more than seven years in prison during the military government's reign—being tortured and watching many of his companions beaten to death or shot. The day after he was released from jail, Gutierrez returned to organizing. "I had a lot of time to think during the imprisonment. What's a life for, what's it worth, what's worth suffering for," Gutierrez told me. "I'm working with people who were 12 years old when I was taken away. We've got some momentum going."

Finally, Alfonsín's political brilliance stands in the way of a military takeover. During his first 300 days in office, Alfonsín was on the campaign hustings a reported 275 days, exhorting his fellow citizens as if another election contest was in full swing. Despite his errors, his positive image remains largely intact. A

kind and rumpled country lawyer, Alfonsín moves slowly and speaks softly in personal encounters, glancing down humbly. But on the stump he is a man transformed, slicing the air with his hands and thundering into the microphone in a stereophonic bass voice.

Alfonsín is a *caudillo* (political boss) at these moments—but a *caudillo* in the best sense, someone who captures the spirit of a new Argentina—and Argentines have longed for a dynamic *caudillo* for some time. Alfonsín still convincingly promises to lead Argentina away from their recent nightmare and to rebuild a national consensus.

But history seems against Alfonsín. The opportunities for democracy have narrowed over the past three decades in Argentina. Juan Domingo Perón survived for nine years as president before being ousted by his fellow generals; Arturo Frondizi survived only four years of his six-year term; Frondizi's successor, Arturo Illia, was allowed less than three years; and the Perónist restoration lasted a mere two years and ten months. But Alfonsín just keeps insisting, as if standing tall as president can make it so: "*Con democracia, se come,*



*se vive, se educa.*" (With democracy, you eat, you live, and you educate.)

If any one man symbolizes Argentina's recent turnaround, it is Jacobo Timerman, the former publisher and editor in chief of *La Opinión* who was tortured and imprisoned during military rule. Timerman has returned to Argentina, and he is now editor in chief of the newspaper *La Razón*, which once defended his imprisonment and published the columns of his chief torturer, Ramón Camps.

One afternoon last September, Timerman interrupted our interview to bark instructions over one of two telephones on his broad wooden desk: "Keep it brief! And always start with a pretty little story! You have to get the reader interested first. Then you can go on. Well, try it! Remember, a pretty little story! Goodbye."

"That was General Alejandro Lanusse," he said after hanging up, rolling the name around in his mouth. "General Lanusse, [a] former president. I hired him to write a column."

Timerman plays Argentina's psychiatrist these days, cheering Alfonsín on

and examining the contradictory forces that threaten to bring the president down. Timerman also analyzes his own past. "I made many mistakes in my life. But participating in two coups, once in 1966 and the other in 1976—those were the most important. And now I am trying to understand why a Jewish boy from an immigrant family who believes in pluralism, tolerance, freedom, liberty, who was raised as a Zionist Socialist . . . how could I become allied with reactionary, fascist anti-Semites? How could I come to the idea that they could save the country? Save the country from what? And I don't have an answer to that question, except one: I am part of the Argentine society."

"I asked a psychiatrist once, 'What am I supposed to do?'" Timerman later remarked. "After my release from torture and prison, I was in a very bad situation. And the psychiatrist said, 'For the moment, just breathe. Just breathe.'"

Whether Argentines will take the time to breathe and to reflect is an open question. One retired brigadier general told me he expected the current period "of noise" to pass quickly and looked

for the military to reassert itself within the next year. If Alfonsín manages the national crisis firmly, added the general, the military would lie back and exercise power indirectly.

But perhaps the gravest threat to Argentine democracy is the growing popular impatience with human rights questions. How did the terror happen? Who was responsible? How can the structure that supported terror be safely and permanently dismantled? Impatience is subtly turning into a muted yearning for a return to simpler days.

"Look, we're in the middle of a crisis," a top presidential advisor acknowledged. "But give us our due. There are no banished parties. There is no censorship. The three branches of government are functioning. . . . At the same moment, we admit that the dangers—and the dangerous ones—are always squatting, waiting to spring."

*Douglas Foster is codirector of the human rights project of the Center for Investigative Reporting. Research assistance was provided by Nancy Kanwisher in San Francisco and Patricia Pittman in Buenos Aires.*

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LAURENCE W. LEVINE

October 2, 1985

William P. Cheshire  
Editor of Editorials  
Washington Times Newspaper  
3600 New York Ave. N.E.  
Washington, D.C. 20002

Dear Mr. Cheshire:

I would like you to consider this for publication,  
I am the President of the Argentine-American Chamber  
of Commerce and for many years in the 1960's handled  
the reorganization for the Union Bank of California,  
I was chairman of the Creditors Committee of Harvard  
Industries, American Hydrofoils, and Imperial "400"  
National Inc.- just to name a few--acting for the banks.

Yours very truly,

  
Laurence W. Levine

Encl.



Sept 30, 1980

## A SOLUTION FOR THE THIRD WORLD DEBT

The United States, as its ingenuity showed when the Japanese struck Pearl Harbor or when we had a crisis with the Continental Bank of Chicago, responded as perhaps no other people can, with a zest and professionalism unequalled in the world. When we have a problem we usually know how to solve it. The problem is to recognize that we have a problem. It has been my impression since Brazil, Mexico and Argentina had a repayment problem in their debt, that none of these nations could repay their debt -- either interest or principal. I said that three years ago because I think I know the countries involved, their structural set up and their productive and financial capabilities. Yet, at that time, the IMF and the creditor banks stated that if there was a problem it was only a minor one. Brazil and Mexico, much to their political credit, signed up quickly in an arrangement that the banks said would end the problem. Argentina did not sign up and, much to its discredit as a nation, suffered. The American banks suffered as large reserves had to be created, write-offs taken, the price of the shares of bank stocks involved went spiraling downward and the stock options of major officers became worthless, to say nothing of the terrible publicity and Congressional hearings that took place putting fear into the markets.

Today, neither Brazil or Mexico can meet their obligations. That is a fact of life. And to the credit of the American political planners, I think they recognize this and thus recognize that they have a major problem which now is not only economic but political. Neither Brazil, Mexico or Argentina, in my opinion, can meet their debt obligations even on interest. If there is a default, it will surely hurt these countries, the world economic system and the United States. A default does not have to happen and, if as I think that the government has recognized that there is a problem, there is an easy solution.

We should solve this repayment problem in a manner consistent with American ingenuity and common sense and it should be resolved exactly as I, a lawyer, and the experienced bankers in this area would solve it, if we were dealing with the restructuring of a private corporation.

We should first require that the debt be extended for a lengthy period reducing both interest rates and principal payments. Then a new facility should be opened at



either the World Bank or at private institutions, where the borrowings from their new facility would be dependent upon the country making its repayment schedule on its old debt. This would be a "carrot and stick" approach to make sure that if an agreement was signed with country X and its creditor banks to repay the old debt, their new borrowings be dependent on that repayment. In other words, if on June 1st a payment on the old debt is due, it's paid or the country cannot draw on its new facility. And I would require all past quotas on the old debt due until you could borrow on the new one -- cumulatively. A plan such as this or similar to this would do so many things that I don't have room to list them all:

1. It would solve an unsolvable problem and stop a coming disaster for the nations and the banks.

2. It would allow the banks to reduce their reserve for bad debts and permit them to carry their Third World debt as good loans, increasing capital, dividends - even bonuses.

3. The countries would not only have breathing space but have no excuse for not getting their houses in order.

4. The effect on American exports would be like a storm. Psychologically, the shut doors for markets would open and we would have a market for the products we do best -- heavy industry which is shut down today.

5. Lastly, the political result to the United States, the western free world and to the concept of free trade would be enormous. We have a Monroe Doctrine that has not been mentioned in years. As we used a Marshall Plan after World War II, we would be able to show the developing countries that we not only have economic capabilities but intellectual responsibility and interest in them.

#### CONCLUSION

There is no point in trying to blame anyone. Both the banks and the nations themselves were guilty of perhaps gross negligence in lending and borrowing these funds. No



responsible banker looked at a balance sheet. They just kept throwing money at these countries. The countries were equally guilty by taking the money and creating this debt. The problem today is to make sure that the banks receive their money without my help, your help or a subsidy. If a bank in Texas went broke because of loans to the oil industry, I see no reason to save a bank with any money that made foreign loans. At the same time, we don't want to let these nations off without paying. My solution is an easy and practical one and it ought to be suggested by the government which has very substantial influence over the parties.

Lawrence W.  
Seris



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INFORMATION

October 4, 1985

MEMORANDUM FOR ROBERT C. MCFARLANE

FROM: STEPHEN I. DANZANSKY/HELEN E. SOOS <sup>HS</sup>

SUBJECT: African Economic Initiative

Treasury plans to announce a major African Economic Initiative which, like the recent G-5 meeting, has not been cleared by the NSC or with the President. Treasury has been discussing this initiative with State and AID for several months. There was a Wall Street Journal article on it a week ago (Tab A), and State sent Helen a copy of a proposal (Tab B). Helen called Treasury and was told they could not provide a copy. Treasury advised OMB that they would not provide them a copy unless instructed by Baker who is on an airplane. Steve called Darman directly and was supplied a copy at 7:00 PM this evening.

The proposal involves a joint IMF/World Bank Facility for Economic Reform which is designed to reschedule IMF and other debt for up to 50 years on a low-interest basis. Eligible countries would be those with 1) low per capita income and reliance on concessional aid; 2) protracted balance of payments problems, and 3) willingness to undertake comprehensive economic policy reform. The funds would come from the IMF Trust Fund (\$2.7 billion); existing World Bank funds (\$1.8 billion); the Sub-Saharan African Facility (\$1.3 billion) and donors. From the U.S. they would like to absorb the Economic Policy Initiative which the President announced 18 months ago, or scarce ESF funds. We think that would be a mistake, since the program has resulted in significant policy reform, directed in large part at reforms promoting private sector development. State, however, has agreed to the change.

While not exclusively directed at Africa, all but 6 African countries would qualify for the program, in terms of income levels. Not all African countries need the program, however.

The idea has many merits and some weak areas which should be strengthened. Encouraging the IMF and the World Bank to work together is a big plus. The IMF has dealt with stabilization without regard to growth criteria, which it considers to be outside its domain. However, how a country implements stabilization factors such as credit ceilings and imports can impact heavily on growth. This deficiency has led to a great deal of

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economic stagnation, whereby countries simply cannot generate growth while achieving stabilization, thereby falling to lower income levels which have led to political instability. The World Bank could focus on these issues and improve the stabilization process.

One weakness of the proposal is that reform is limited to 2-year programs, with the option to follow up. For a 50-year loan, 2 years of reform, which always turns out to be gradual, is insufficient. Another potential weakness is that the nature of reforms is not specified. Until we focus on private sector growth, we are unlikely to see any growth. Neither the IMF nor the World Bank seem to understand this, and this program could provide a major impetus to this type of policy reform. These points are details which could be worked out later. Helen has discussed some of them with one contact at Treasury, and he seemed to be interested. But it is important that NSC play a role to ensure this happens.

State is pleased with the proposal, but fears that the IMF and World Bank staff may sabotage the plan because it would force them to change the way they do business.

Early this week Steve and Dave Wigg sought your approval to request a briefing of the debt issue from Treasury. Deputy Secretary Darman casually mentioned the matter to Steve yesterday, expressing uncertainty as to whether it would take place because of "problems at State". Steve spoke with Darman again this afternoon and was told State had signed off on a proposal. When asked what proposal Darman responded that it was incorporated in a paper which he would send over. Darman continued that the paper proposal was not what would be announced in Seoul since there was some negotiating to be done and the extent of U.S. commitment wasn't to be revealed. When asked what was to be announced in Seoul, Darman responded, "I don't know, they are working on that on the plane."

The "final" proposal that Darman sent this evening from Treasury, contains a copy of a statement supposedly to be delivered by the Secretary of the Treasury in Seoul on October 6, 1985 (Tab C). The statement indicates that the USG will use \$75 million in bilateral assistance in FY86 and "seek to assure roughly equivalent amounts in direct contributions to the facility in FY87-91, provided other donors also make equitable contributions."



While we expect this to be discussed as a U.S. proposal in Seoul, we are unclear whether that means there will be a major announcement by Baker, or merely a statement read to the interim committee. Perhaps the form and content of the announcement are being massaged on the airplane. If you and Don Regan agree that the announcement should be made by the President, some contact will have to be made with the delegation on the plane to clarify what it is that can be announced and to stop any pre-conference "leaks" by Treasury here or in Seoul. Your decision.

Clearly, the NSC and the President have been left out of the process. We understand Treasury has been discussing a proposal for Latin American and other middle income countries as well, and we should insist upon participation in that process immediately.

*PR*  
Phil Ringdahl concurs.

Attachments

Tab A Wall Street Journal article of Sep 20  
Tab B Proposal  
Tab C "Final Proposal" and Statement by Secretary Baker

cc:

John Poindexter



# U.S. to Propose Lending Pool To Aid Africa

## Plan Calls for World Bank, IMF to Direct \$5 Billion To Needy Countries

By ART PINE

**Staff Reporter of THE WALL STREET JOURNAL**  
WASHINGTON—The Reagan administration plans to propose a new international lending pool designed to channel more than \$5 billion to poor countries, mainly in black Africa, over the next five years.

The proposal, in final drafting, is expected to be unveiled by Treasury Secretary James Baker at the annual meeting of the International Monetary Fund and the World Bank in Seoul, South Korea, early next month. U.S. officials have shown por-

*For other major international news, please see:*

—House panel votes to impose quotas on some textile imports, page 54.

—Richardson-Vicks's planned issue of super-voting preferred stock is temporarily blocked, page 10.

tions of the plan to their counterparts from industrial and developing countries. Formal IMF-World Bank approval could come as soon as the Seoul meeting.

The first major U.S. initiative for developing countries in several years, the plan is designed to help grapple with two serious economic and financial problems involving African countries:

—First, how to stave off possible defaults by African nations on some \$7 billion in loans that the IMF made to these countries in the early 1980s and that are coming due in the next several months. Some African countries, hard hit by drought and a continuing decline in export earnings, don't have the money to repay the IMF. A series of defaults could undermine the IMF's own finances.

—Second, how to step up aid substantially to help black African nations cope with their economic and political problems. The World Bank already has assembled a \$1.1 billion special lending pool, but the money is considered inadequate to help revitalize the African economies.

The move represents a major change by the Reagan administration. Only last autumn, the U.S. declined to contribute to the World Bank's sub-Saharan Africa fund, saying it preferred to step up its own bilateral aid. The new program would be funded by major contributions from the U.S. as well as the IMF and World Bank.

### Joint Administration

The plan calls for the lending pool to be administered jointly by the IMF and the World Bank, the first time the two institutions would share responsibility for a major new program.

About 80% of the new lending would go to black African countries. The rest would go to other poor countries such as Bangladesh.

The proposal, though, isn't designed to provide relief for Latin American debtor countries. Top administration officials have said they are sympathetic to those nations' pleas for relief, but so far haven't come up with any new proposals. Washington still hasn't lifted its opposition to increasing the World Bank's general lending pool.

The money would be disbursed only after the borrowing countries formally agreed to a series of long-term policy changes designed to streamline and revitalize their economies. However, because of the special problems that the African countries are facing, the conditions wouldn't be as harsh as those the IMF typically demands from debtor countries.

### Funding From Gold Sales

At least half the money for the new lending program, some \$2.7 billion over the next five years, would come from another IMF lending pool—a special trust fund established in 1976 using money from the late-1970s sales of the IMF's stock of gold.

The remainder of the package would come from a variety of sources. The Reagan administration would ask Congress for \$300 million to \$500 million in new money over the next five years to serve as the U.S. contribution. U.S. officials already are considering disbursing \$75 million in existing bilateral U.S. aid to Africa "in conjunction with" the new fund.

The World Bank would contribute a sizable portion, both by tapping its own unused resources and by diverting part of its own sub-Saharan Africa aid program. And the U.S. would ask other major industrial countries to contribute, mainly by redirecting some of their bilateral aid.

Separately, the World Bank said it is considering stretching out repayment periods on loans to developing countries with heavy debt burdens, in an effort to ease the world debt situation. The repayment terms will be discussed at the Seoul meeting.



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Statement by Secretary of the Treasury

James A. Baker, III

at the IMF Interim Committee Meeting

on Use of Trust Fund Reflows

October 6, 1985

Mr. Chairman:

Our discussion this morning confirms that in spite of a number of positive signs in the world economic outlook, the economic conditions in most of the poorest countries which rely primarily on concessional financing have not noticeably improved. The economic facts bear witness to this situation:

- o Economic growth in the poorest countries in recent years has averaged 1.8 percent annually, and in some countries living standards are currently at the levels of 15 years ago.
- o Their trade and current account deficits have not improved despite recovery in the world economy, and are not projected to improve over the next few years.
- o Debt servicing difficulties in these countries have resulted in the imposition and intensification of trade and payments restrictions and in growing arrears on financial obligations, both domestic and external,



including substantial arrears to the IMF, which are weakening the financial integrity and monetary character of the Fund.

The IMF has provided balance of payments financing and advice in the context of economic adjustment programs for many of these countries in recent years. The World Bank has also mounted an effort to assist these countries, through both project, sectoral and structural adjustment lending. But, these programs have met with only limited success. In part this reflects inadequate action by the countries on the fundamental reforms needed to create the conditions for sustained growth and development. It also reflects, however, an adverse external environment and natural disasters. Finally, the lack of success also reflects the fact that the problems of the poorest countries transcend the traditional role and policies of the Bank and Fund and the need for closer cooperation between the institutions.

We now have before us an important opportunity to develop a new approach to reverse the economic decline facing the poorest countries. The United States proposes that a new joint IMF/World Bank facility be created that would combine the resources and expertise of both institutions in coordinated, comprehensive economic programs that would promote structural adjustment and growth.



The basic features of the new facility would involve the following elements:

- o Eligibility would be based solely on low per capita income, perhaps the \$550 level used by the World Bank to determine IDA participation. Actual use of the facility, however, would be based on an eligible country having a protracted balance of payments problem and being willing to implement a comprehensive economic program.
  
- o Terms on loans would be concessional with low interest rates, substantial grace periods, and extended maturities.
  
- o Conditions for participation would include a commitment to a multi-year economic program in which funds would be disbursed semi-annually based on satisfactory performance under the program. The programs would involve policies aimed at promoting adjustment and removing the structural impediments to growth. They would include sound monetary and fiscal policies; exchange rate, interest rate and pricing policies to provide more efficient use of resources and to help eliminate domestic and external imbalances; measures to encourage savings and investment,



such as tax reform and economically efficient investment programs; and greater openness to foreign investment and trade liberalization.

- o Operations would be undertaken jointly by the IMF and World Bank, including joint teams and a single document detailing the program that would be submitted to both Executive Boards. Such a joint operation is particularly important as it will facilitate the close cooperation and coordination needed to achieve the consistent policy advice and approach essential for success.

The United States believes that a joint IMF/World Bank facility could provide the framework for channeling up to approximately \$5 billion in resources to support reform efforts in the poorest countries. We believe that the full \$2.7 billion in resources arising from the Trust Fund reflows should be used for this purpose. In addition, the World Bank could provide a comparable amount to support the operations of the facility.

The United States is convinced that such a facility could make a real contribution in addressing the severe economic problems of the poorest countries. We are prepared to seek to use \$75 million in bilateral assistance in close cooperation with the operations of the facility in fiscal 1986, and to seek to assure roughly equivalent amounts in direct contributions to the facility in fiscal 1987-91, provided other donors also make equitable contributions.



In our view, an effective response by all major donors could result in direct new donor contributions for the full period in excess of \$1 billion, which could be supplemented by other World Bank funding sources. Mr. Chairman, a joint facility combining the resources and expertise of the Bank and Fund would introduce a new element in our efforts to overcome poverty in the poorest countries. It provides a mechanism to obtain more consistent and effective policy advice by improving coordination and strengthening cooperation between the Fund and Bank. It would initiate mutually reinforcing policies that could break the cycle of failure of recent years and create the conditions for sustained growth and development. And, most important, it would provide tangible evidence that the world community is responding in a constructive, cooperative manner and on a significant scale to assist the poorest countries, thus providing renewed hope to these countries.

I hope you will join me in this initiative and give your strong support to the proposal.