LaRouche calls for new Ibero-American currency to reverse vastly undervalued parities

by Richard Freeman, Renée Sigerson, and Dennis Small

Lyndon H. LaRouche, the founder of *Executive Intelligence Review*, has urged the sovereign nations of Ibero-America to form a new common currency, as a vital step toward resolving their explosive debt and trade crises and beginning the economic reactivation of their economies. LaRouche suggested that the new currency might be denominated the "Peso de Oro" (the "Golden Peso"), and that its value be pegged at approximately 750 per troy ounce of gold.

Introduced by an *EIR* correspondent at a press conference at Organization of American States meeting in Washington, D.C. Nov 17, the LaRouche proposal was labeled "very interesting" by Ecuadoran Foreign Minister Valencia Rodriguez. He added that, indeed, the Andean Pact heads of state had at their July summit at Caracas proposed that an "Andean peso" be created to "serve as the first step toward a single Latin American currency."

In the LaRouche proposal, the Peso de Oro currency reform would be a unifying currency for Ibero-America, to which all the area's national currencies would be pegged. The Peso de Oro would vastly expand U.S. and advanced sector trade with Ibero-America and inter-Ibero-American trade, starting initially by a factor of two to four times, and increasing within five years to approximately eight times.

The Peso de Oro would be premised on a change of the existing exchange rate parity between Ibero-American currencies and the U.S. dollar, which parity has constricted all trade and led to the destruction of Ibero-American economies. The relative parities of the Ibero-American national currencies would be set on the basis of the real purchasing power that they command. Were the U.S. dollar properly replaced on a gold-exchange standard also at about 750 dollars per ounce of gold, then the dollar and the Peso de Oro could trade on about a one-to-one basis.

The current parities of the Ibero-American currencies vis-à-vis the dollar, according to an emergency *EIR* economic task force commissioned by LaRouche, are vastly inferior to what they should be. In a shocking revelation, the *EIR* team has preliminarily concluded that the Mexican peso, for example, is trading at about 28 percent of its actual worth—i.e., that the parity should not be 159 pesos per dollar (today's free market valuation), but *46 Mexican pesos to the dollar*. Similar results were obtained in the study of the six major Ibero-American currencies.

The preliminary *EIR* study shows that the continent's currencies are currently undervalued by between 200 to 400 percent, i.e., that they are trading at approximately one-forth to three-forths of their economic value. To blame for this dangerous situation are the usurious financial practices of the International Monetary Fund and allied institutions—forced devaluations, instigated capital flight, unbearable interest rates and "spreads," and other "conditionalities."

This means that the Ibero-American nations have lost between 25 and 75 percent of their sovereignty to IMF-rigged and imposed world parity arrangements, being denied the ability to import high-technology goods. If their currencies were revalued to their true parity level to the dollar, then *the Ibero-American nations could import between two and four times the level of high-technology goods from the advanced sector than they do*. The Commerce Department reports that U.S. trade to Ibero-America collapsed from $38.95 billion to $30.09 billion in 1982, and in 1983, the level probably collapsed to $20-$22 billion. This would be reversed, and U.S. exports to Ibero-America would soon reach $100 billion, on the strength of the gold-based peso alone.

Conversely, although a stronger Ibero-American currency would seem to depress opportunities to export, in fact, it will bode well for Ibero-American exports on two counts: 1) under a currency reform, and Operation Juárez, Mr. LaRouche's proposal for Third World debt reorganization, the Ibero-American nations will *not* have to export frantically to pay off exorbitant foreign debts, which means a much larger real purchasing power to use; 2) the Ibero-American nations will develop strong internal economies, meaning that they can export to their neighbors, instead of the current futile practice of each country attempting to dump cheap goods on the others.

Use of the market basket

How did *EIR* arrive at its conclusions? The task force employed a methodology in the preparation of this study which has been tested over four years of econometric forecasting, and which has made *EIR*'s Quarterly Economic Forecast of the U.S. economy, on record, by far the most accurate such service available. The true parities were derived through a standard market basket of consumer purchases. What is the price, in each of the six countries studied, of an identical market basket of domestically produced consumer goods? How does that market basket compare with a nearly identical market basket of domestically produced goods in the U.S.A.?

Thirty-five ordinary consumer items, plus consumer services, were listed. Two market baskets were figured: a "small basket" of foodstuffs, plus simple household products; and a "complete basket," which brought in transportation, consumer durables, rent, and services.

The principle of these comparisons could be stated as follows: A loaf of bread equals a loaf of bread of the same grain, no matter where it is produced. If the fixing of exchange rates—by the IMF or other "market forces"—upsets this parity, then the country whose output has been so debased is being looted of the full value of its output by the creditor institutions.

This is not hypothetical: It is what actually occurred over the last 18-24 months of IMF-dictated forced devaluations. Thus, *EIR*'s "small" market basket (of foodstuffs) costs $21.80 in the United States; but at current free market exchange rates, it costs only $6.12 in Brazil. Or, $21.80 will buy you one market basket of goods in the United States, while the same $21.80 will buy you enough cruzeiros to purchase 3.5 market baskets in Brazil. The cruzeiro must be upvalued by a factor of 3.5 in order for the same currency-equivalent to purchase the same amount of goods in both countries.

The *EIR* study found that the same essential patterns prevailed in each country with both the "small" and the "large" market basket of goods, and it is expected that further refinements of the indices—e.g., by incorporating capital goods into the "basket," and prorating according to productivity factors—will produce results in the same general range emerging from *EIR*'s preliminary study.

What are the implications of this? The U.S. dollar—or, increasingly, debt obligations denominated in U.S. dollars—is being deployed as an instrument for looting the productive output of Ibero-America. Thus, for every dollar of foreign exchange earned by Brazil, for example, it must export 3.5 times the equivalent amount of physical goods produced in the United States. Since such foreign exchange earnings from exports are principally used for debt repayment, the artificial undervaluation of Ibero-America's parities is contributing in a major way to making the continent's debt unpayable. As most observers of the area's financial situation will admit, the foreign debt has become *physically unpayable*.

The LaRouche Peso de Oro proposal looks favorably upon the establishment of a regional central depository institution or Ibero-American Development Bank, with representation from all of the area's countries, which would be assigned the task of issuing the Peso de Oro as a unit of account and serving as a clearinghouse for both international and intra-regional trade.

LaRouche proposed that the Ibero-American nations appoint an Emergency Commission to review the study's conclusions, and propose concrete steps. LaRouche suggests that the SELA organization (Latin American Economic System) might be one institution charged with the task, and that the findings might be usefully presented at the Jan. 9-14, 1984 summit of the Latin American Economic Conference in Quito.