

EIR Feature

The fraud of Castro's and Kissinger's debt proposals

by Dennis Small

Excerpts of a speech delivered at the First Continental Conference of the Schiller Institute Labor Commission, on July 16, 1985. Mr. Small is EIR's Ibero-America Editor.

This year will be absolutely decisive for the debt fight, which is a fight for survival, not only for the Ibero-American economies, but for the world economy as well. We will evaluate today the three options on the Ibero-American foreign debt which have been presented for public discussion so far this year: the Kissinger proposal, the Castro proposal, and the "Operation Juárez" proposal of Lyndon LaRouche.

Ibero-America is going to opt for one of these choices: Either we will go with the Kissinger model or that of Fidel Castro, which in the end will lead to exactly the same results, i.e., turning the continent over to Moscow, after it is wrecked economically; or we will adopt the option LaRouche proposes, of sovereign development tied to the Western Alliance.

I will cover two basic points. First, exactly what do Kissinger, Castro and LaRouche propose to do with the debt problem? And second, what would be the consequences, economically and monetarily, of the adoption of each of these policies? But to adequately review either of these two points, it is first necessary to describe the true nature of the current Ibero-American debt problem.

Figure 1 shows the total Ibero-American foreign debt of \$355 billion in 1984. But how much of this is legitimate debt, and how much represents pure looting? First, we must see what the debt would have been without U.S. Federal Reserve chairman Paul Volcker's usurious interest rates. If interest rates had stayed at their 1978 level, before the "Volcker shock," Ibero-America's foreign debt would only total \$301 billion today. \$55 billion in debt is really disguised interest-rate robbery.

Second, if Ibero-America's terms of trade had not worsened dramatically since 1978—if the average price per ton of the continent's exports had stayed constant—Ibero-America would have earned almost \$150 billion more, and its debt would have been smaller by at least that amount. This is disguised trade robbery.

And finally, over \$100 billion in flight capital was sucked out of Ibero-America



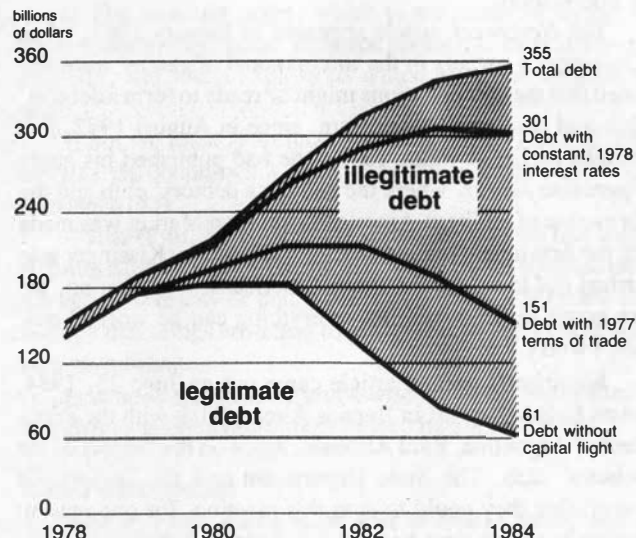
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The only difference between the Castro and Kissinger proposals for the Ibero-American debt crisis, is that Castro says it is not necessary to pay all the debt—and Kissinger says it is. The Schiller Institute has another solution. Shown are speakers at the conference of the Institute's Trade Union Commission in Mexico City: (l. to r.) Fernando Quijano (Ibero-American Labor Committees), Max Londoño (Andean Labor Party), Manuel Carulias (Argentine trade union leader), and Pedro Rubio (Colombian trade union leader).

over recent years—another “debt” which is really disguised highway robbery.

In summary, out of a total debt of \$355 billion, only \$61 billion, or about 15%, can be considered the legitimate debt of Ibero-America.

FIGURE 1
Ibero-America's legitimate and illegitimate debt (1978-84)



Another indication of this debt looting can be seen in **Figure 2**, which shows the actual service on the foreign debt of the continent. The black bar is the official simple debt service. To this we have added the hatched part, which is the loss by reduction in the price of exports. In other words, in order to earn the same amount of money through exports, it has been necessary to export a larger volume, precisely because of the drop in export prices. Therefore if we think in terms of the physical quantity of wealth which went out of the continent to pay the debt, we are not talking about \$59.4 billion, but \$81 billion in payments in 1984.

If a debt moratorium were declared by the Ibero-American countries, the continent immediately would have at its disposal \$81 billion worth of goods which are now exported, which could be reinvested domestically.

To make these outrageous debt-service payments, Ibero-America has been forced to dramatically reduce imports by about 40% in three years, while exporting everything that wasn't nailed down (**Figure 3**). This has destroyed both living standards and industrial activity, creating a situation rapidly approaching African extremes of deprivation, starvation and disease.

Peru's per-capita caloric and protein consumption, for example, has reached the horrifying level, under IMF dictates, of only 1,500 calories per day, compared to a requirement nearly twice that of 2,800 calories per day (**Figure 4**).

Washington's current support for the IMF policies which have produced these results, and similar ones all over Ibero-America, is the quickest way to hand the continent over to the Soviets.

FIGURE 2
Ibero-America's true debt service
(1984)

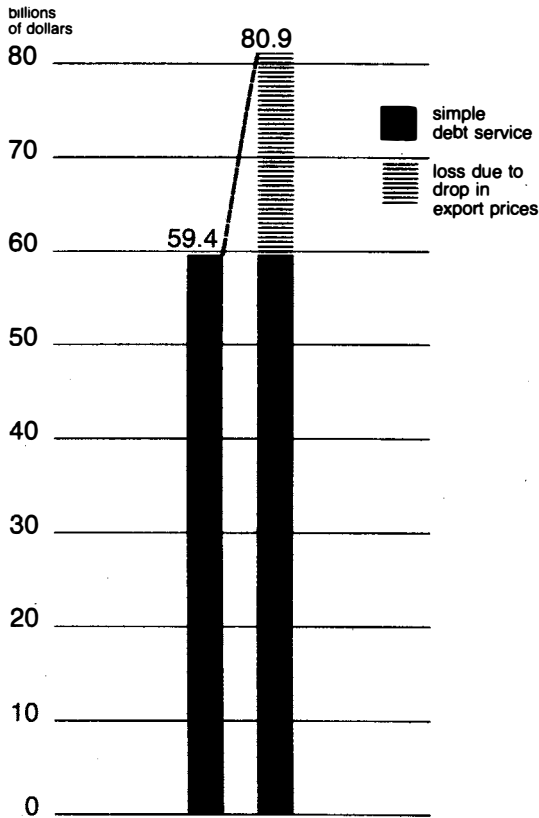


FIGURE 3
Ibero-America: exports and imports
(1979-84)

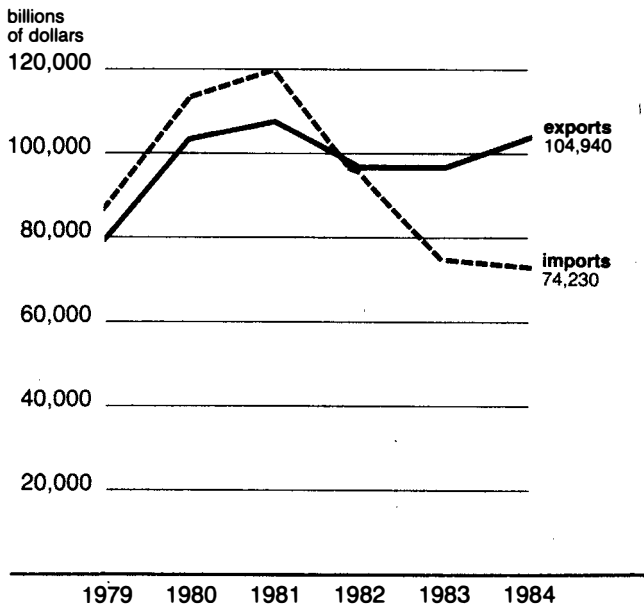


FIGURE 4
Peru: nutritional level
(1972-79)

	1972	1976	1979	Requirement
Caloric consumption per day				
Lower stratum	1,934	1,645	1,486	2,800
Middle stratum	2,150	1,700	1,595	2,800
Protein consumption (grams per day)				
Lower stratum	52.7	47.6	41.3	75.0
Middle stratum	65.6	55.5	48.4	75.0

Kissinger's proposal

What does Kissinger propose, what does Fidel Castro propose, and what is the program of Lyndon LaRouche? Let's take the case of Henry Kissinger first (Figure 5).

Kissinger's latest article on the debt attracted enormous attention. It was published by thousands of newspapers all over the world, and it was called the newest thing under the sun. Kissinger was congratulated for "realistically" calling for serious debt relief.

But this is actually the *third* time (at least) that Kissinger has said exactly the same thing. His latest article, of June 23, 1985, "A Plan of Help, Hope for this Hemisphere" is identical to an article that appeared a year ago called, "Debt Crisis: Kissinger Warns U.S. Must Act Now to Prevent Latin Catastrophe," and both articles are identical to another Kissinger article which was printed in *Newsweek* in January 1983, "Saving the World Economy." I could give you quotes from each of these three articles where he says exactly the same thing.

But if you really want to know what is behind Kissinger, don't bother reading his arguments; look instead at the *date* of publication.

The *Newsweek* article appeared in January 1983, when Kissinger's owners in the international oligarchy were terrified that the debtor nations might be ready to form a debtors' club and declare a moratorium, since in August 1982, five months earlier, Lyndon LaRouche had published his study *Operation Juárez*, where the call for a debtors' club and the formation of an Ibero-American Common Market was made for the first time. Against this, in 1983, Henry Kissinger was rushed out to assure the Ibero-Americans: "No, no, no, we are going to negotiate this, everything can be worked out, don't worry."

Kissinger's second article came out on June 25, 1984, when LaRouche was in Buenos Aires talking with the President of Argentina, Raul Alfonsín, again on the subject of the debtors' club. The State Department and the Soviets did everything they could to stop this meeting, for one reason: Alfonsín at that time had not yet decided definitively to go with the IMF's program, and was considering declaring a



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Living standards in Ibero-America are rapidly approaching African levels of deprivation, under pressure of IMF policies. Shown is a Schiller Institute demonstration in Mexico City against the Fund.

moratorium and calling for a debtors' cartel. As a deployment against this, out came Kissinger's second article.

The third article was released when the Schiller Institute and its Trade Union Commission began to organize masses of Ibero-Americans behind the policy of integrating the continent.

Kissinger's plan is nothing but an attempt to stop what is being organized right here.

The argument of the three articles is the same, and it is as follows:

1) Frankly, the Ibero-Americans cannot pay the debt under the present conditions.

2) The austerity crisis, which is the result of trying to force them to pay, could provoke populism, mercantilism, dirigism, and social explosions which we won't be able to stop.

3) So, we must "politicize" the debt issue. The IMF has to relax its conditions a little; the interest rates should be lowered a little.

4) Above all, we have to get across the *illusion* that there is going to be an improvement. It doesn't matter if conditions get better in reality or not; what is important is to create the illusion that things are going to get better, so that people will stop mobilizing.

5) In terms of concrete proposals, Kissinger says bluntly that IMF conditionalities must indeed be implemented.

Castro proposal

Now let's take a look at the case of Fidel Castro, who is a bit more interesting. The first question is why, all of a sudden, are the Cubans and the Soviets so interested in the

debt question? We all know that for 10 years the Soviet Union has backed the conditions imposed by the International Monetary Fund on Ibero-America. Why has the Soviet Union suddenly aligned itself with the continent-wide anti-Fund movement?

Because they are sure that the United States will go on being associated with the IMF's policies, and that, therefore, the rebellion of Ibero-America against the Fund is going to hand over the continent on a silver platter to the Soviet Union.

What is Cuba's role in this? In **Figure 6** we see that the foreign debt of Cuba with the West is \$3.4 billion. Chile, an equivalent country in Ibero-America with the same population, more or less—10-12 million inhabitants—has a debt of over \$27 billion. In other words, Cuba has no debt with the West; they don't have an IMF problem, they don't have the same problems as the other Ibero-American countries. What they do have is another problem, an *implicit* debt with the U.S.S.R., disguised as subsidies, which is truly enormous.

Now, what does Fidel Castro propose? First, it has to be recognized that Castro says some very correct things. Castro's analysis of the debt is very good, for a simple reason: He stole it from LaRouche! What is correct in Castro's analysis on the debt problem comes right out of *Operation Juárez* and other publications by Lyndon LaRouche. For example, in his interview on June 2 with *Folha de São Paulo*, Castro explains that there is a difference between the legitimate and illegitimate debt, and he says that the illegitimate debt comes from three factors: usurious interest rates, more than 8%; a fall in the prices of exports; and the forced overvaluation of the dollar. Castro says this in June 1985 as if it were the greatest discovery in the world. But we published a study in

FIGURE 5

The Kissinger proposal

- 1) Create a "development institution" for the Western Hemisphere with a lifetime of five to seven years.
- 2) Finance this institution by cutting the U.S. budget, including a reduction of the SDI to a program of research only.
- 3) Refinance the Ibero-American debt, reducing the interest rate by approximately 3%.
- 4) Capitalize this reduction in interest rates, adding the amount postponed to the total debt.
- 5) Pay part of the continent's debt service with the currency of each country.
- 6) Permit the bankers to use these national currency funds to acquire Ibero-American assets equal to 20% of the total debt.
- 7) Continue to impose the adjustment programs of the IMF, only slightly more slowly.

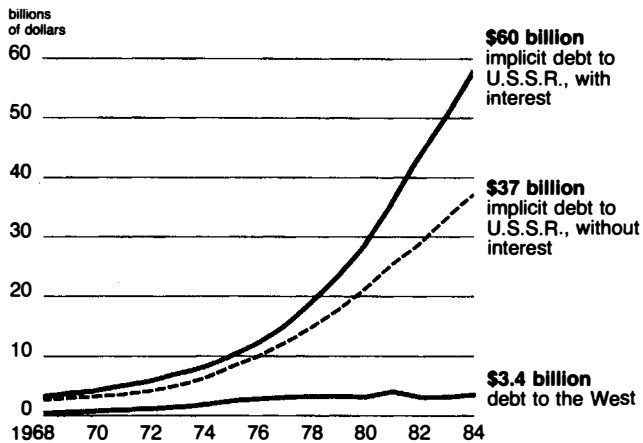
FIGURE 7

The Castro proposal

- 1) Pay no debt service on the "illegitimate" portion of the Ibero-American foreign debt.
- 2) Maintain the IMF as an institution.
- 3) Pay off the banks for writing off the "illegitimate" debt, through cuts in the U.S. defense budget.
- 4) Eliminate the U.S. SDI program.
- 5) Cut the defense budgets of Ibero-American nations, thereby destroying the defense capability of the continent.
- 6) Eliminate nuclear, laser, and other advanced-technology programs, on the grounds of their alleged role in "the arms race."

FIGURE 6

Cuba: external debt, official and implicit (1968-84)



September 1984 with the same three categories, with the calculations already made.

Castro is also right when he puts forward the need to form a debtors' club and declare a debt moratorium. This, too, he presents as the unique property of the revolutionary government of Cuba. Of course, in August 1982, in *Operation Juárez*, Lyndon LaRouche proposed forming a debtors' club and a joint debt moratorium—and a lot of other things that Castro chooses not to talk about. Castro is also right when he talks about the phony U.S. economic recovery—but we've

been saying this since 1980.

But now let's look at where Castro is *not* right: in the solutions he proposes. First, he says the way to solve the debt problem is to simply cancel payments on the debt and to save the creditor banks by taking money away from the U.S. military budget—particularly from the beam-weapons defense program. This may remind you of Kissinger's proposal, and it is identical, in effect.

Castro also says the IMF should be saved as an institution—so I don't understand his "anti-IMF mobilization," which proposes to reestablish IMF rule!

There's another important aspect: Castro and the Soviets propose not only to eliminate the U.S. beam-weapons defense program, but to reduce Ibero-America's military budgets as well, and to eliminate all advanced-technology programs, arguing that these programs are connected with the "arms race." For example, one can read in Soviet publications, such as the magazine *América Latina*, that the Argentine nuclear program should not go ahead, and that Brazil should not have a military industrial sector. In other words, they chose the areas where Ibero-America has achieved the most in terms of technological and scientific advances, and they say, "This has to be eliminated, because it could have military applications."

If this policy were applied, it would be like a strategic bombing of the most important points of the economy. If we take away the Argentine nuclear program, advanced capital goods in Brazil, scientific programs with lasers and rocketry, the result would be a dizzying collapse of the Ibero-American economy. This is why the IMF has also taken upon itself the task of wrecking these sectors. The first target of the Fund is exactly Castro's first target, using the same "pacifist" arguments.

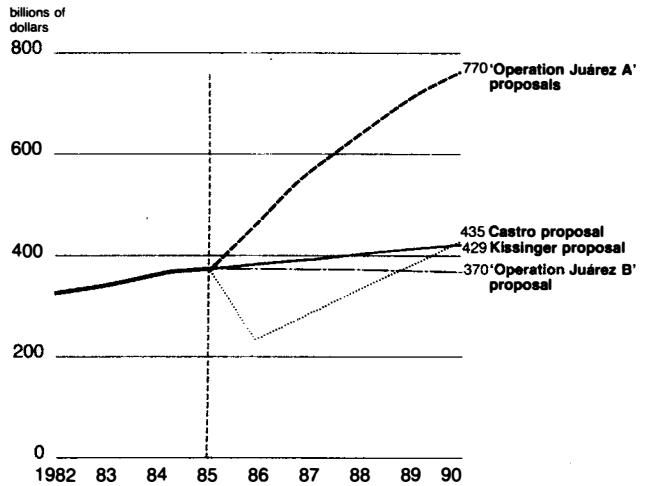
So if we place the Kissinger and Castro proposals side by side (Figure 7), you will see there is really no difference.

The Operation Juárez proposal

- 1) Reorganize the foreign debt of Ibero-America through collective negotiations;
 - a) declare a moratorium on the existing debt;
 - b) issue new Ibero-American longterm bonds at 2% interest;
 - c) bury the IMF and the World Bank.
- 2) Form an Ibero-American Common Market;
 - a) establish a customs union to stimulate intra-Ibero-American trade;
 - b) create an Ibero-American development bank;
 - c) establish a "Golden Peso" with new revalued parities with respect to the dollar, defended by exchange controls;
 - d) reestablish the true value of Ibero-American exports.
- 3) Launch great projects of economic development in Ibero-America.
 - a) physically integrate the continent through infrastructure projects;
 - b) emphasize advanced industrial technology, especially nuclear energy and lasers;
 - c) modernize agriculture.
- 4) Reactivate the economies of the advanced sector.
 - a) export \$100 billion in capital goods per year to Ibero-America by issuing new, low-interest credits;
 - b) promote the SDI and other advanced technologies;
 - c) federalize the Federal Reserve; put gold back behind international dollar transactions; drastically lower both domestic and international interest rates, and insure that the credits thus loaned go exclusively for productive purposes.

Both propose to reduce the military budget; both propose to destroy beam weapons, which in turn guarantees the economic and military destruction of the West; both propose to destroy the Ibero-American economy; and both defend the IMF. The only difference is that Fidel Castro says it is not necessary to pay *all* the debt and Kissinger says it is. That's why we say "neither Kissinger nor Castro."

FIGURE 9
Ibero-American debt: four alternative proposals (1985-90)



Operation Juárez

What is the alternative? The proposal of Lyndon LaRouche, the basic points of which can be summarized as shown in **Figure 8**.

The first three points—debtors' cartel, common market, and great infrastructure projects—are measures that can be adopted immediately by Ibero-America, regardless of political developments in the United States. The fourth point, however, depends on a U.S. policy shift back toward sanity. Thus we have chosen to analyze both what would happen to Ibero-America if Operation Juárez were fully implemented ("Operation Juárez A"), but also its trajectory if point 4) did not occur ("Operation Juárez B").

The next graphs are a first approximation, pending a more detailed econometric study, of what the impact on Ibero-America's debt and industrial development would be of each of the four policy proposals under review—Kissinger, Castro, Operation Juárez A, and Operation Juárez B. In each case, we have given the most generous interpretation of each option and, for the purposes of analysis, have preferred to take each proposal at face value.

Figure 9 shows what happens to Ibero-America's total debt under each of the four options. First, we can see that the total debt under the Kissinger proposal does grow some, but not a lot. This is because no new credits are issued to Ibero-America, and the banks only refinance the old debt. With the Castro proposal there is a steep drop at first, as about half of the foreign debt is wiped off the books as "illegitimate," but then the total debt rises by approximately \$50 billion per year, since Castro states that the banks would renew "normal lending operations" in short order. With Operation Juárez B,

FIGURE 10
Ibero-American interest payments:
four alternative proposals (1985-90)

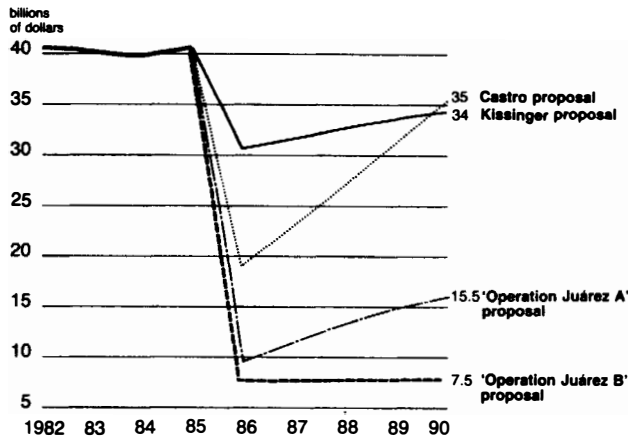
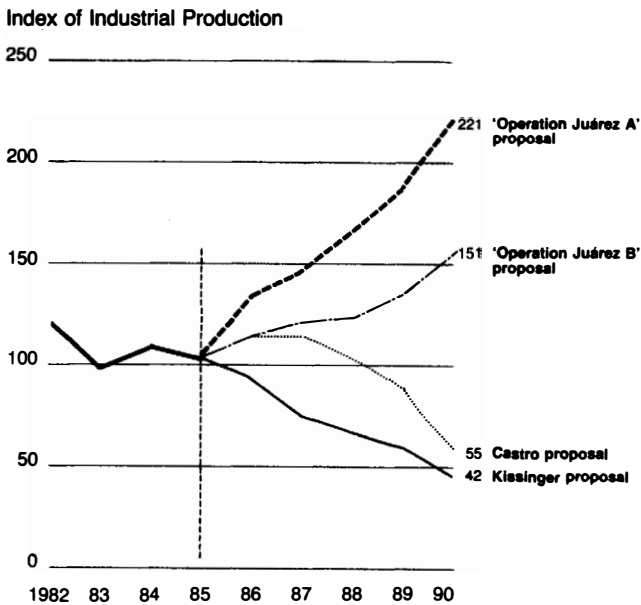
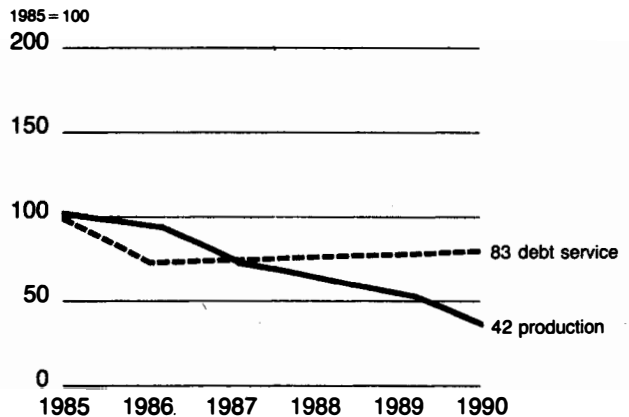


FIGURE 11
Industrial growth in Ibero-America:
four alternative proposals (1985-90)



there is no transfer of technology or new capital to Ibero-America, and therefore the total debt is fixed at the current mid-1985 level of \$370 billion. With the full implementation of Operation Juárez A, however, Ibero-America's foreign debt grows by almost \$100 billion per year, representing new loans for high-technology development, to reach a total of \$770 billion by 1990. One might be tempted to conclude that this is bad, since the debt is growing so rapidly. But in fact the new debt is simply a vehicle for the transference of tan-

FIGURE 12
The Kissinger proposal: indices of pro-
duction and debt service (1985-90)



gible capital, and not a vehicle for looting, as it is under the current world monetary system.

Figure 10 shows Ibero-America's interest payments under each of the four proposals, how much would have to be paid each year to service the debt.

Under the Castro proposal, interest payments drop at first as an 8% interest rate ceiling is decreed on the "legitimate" portion of the debt. But payments then rise, as total debt also rises. Kissinger's proposal leads to very similar results. Even under the most generous interpretation, Kissinger would have interest rates drop by only 3% from their current 11% level—down to a level ironically identical to that suggested by Castro. This would lead to something of a reduction in interest payments in the first year, from about \$40 billion down to about \$30 billion; but debt service would then rise gradually, as can be seen in the graph.

Under Operation Juárez A, even though a large amount of new money would be lent to Ibero-America, service payments on that debt would not go much above \$15 billion per annum in 1990. This is so because the proposal calls for a 2% interest rate—substantially less than either the Kissinger or the Castro cases. With Operation Juárez B, debt service would be even less, because the 2% would apply only to existing debt, since no new loans would be received.

But only in Figure 11 do we really see just what each of the four proposals means in terms of Ibero-America's industrial growth. A rising foreign debt is not the problem per se—so long as industrial growth rises more rapidly than debt. This is the secret behind Operation Juárez. In Option A, for example, the index of industrial production would rise dramatically from a 1985 level of 100, to over twice that within five years. With Operation Juárez B, industrial production would grow by a lower, but still very respectable, 51%.

The Kissinger proposal, however, would continue the IMF looting of Ibero-America, and lead to a total collapse of industrial production down to a level of 41—that is, there would be less than half of today's level of industrial output by 1990.

The Castro proposal is the most interesting, because at first there would be a slight improvement in the physical economy, simply because much of the debt-service looting would be stopped, and those goods, rather than being exported, would be available for use within the area. In that sense, for the first year, the Castro proposal might seem to resemble Operation Juárez. However, after a few years the Ibero-American economy would begin to show the effects of Castro's "strategic bombing" of the high-technology sectors. This would quickly bring about a dramatic decline in the continent's industrial output, in a fashion almost identical to what Kissinger's proposal would produce. Under Castro the industrial production of Ibero-America after five years would also have collapsed by about 50%. Castro is nothing but Kissinger dressed up with a socialist ruffle!

We are now in a position to compare the relationship of debt service to industrial output in each of the four cases—using relative indices for each. Figures 12-15 demonstrate that with both the Kissinger and the Castro options, the growth of debt service rapidly outpaces industrial production, leading to a certain blowout of the Ibero-American economies. Only with Operation Juárez, in either of its variants, will Ibero-America's productive capability grow more rapidly than debt-servicing requirements. It is the only proposal which both solves the debt crisis, while resuming necessary economic growth among the debtor nations.

We are now armed with a scientific analysis with which

to argue a point that many of us suspected from the outset: that the Kissinger proposal means genocide for Ibero-America; that Castro's version under the best of circumstances is pure demagoguery, and in its actual implementation would also mean genocide; and that the only solution to the Ibero-American debt crisis is the one proposed by Lyndon LaRouche, Operation Juárez.

Now, all that is needed is political will to move forward and implement the LaRouche option. And that, of course, is why we are gathered here today.

FIGURE 14
'Operation Juárez A' proposal: indices of production and debt service (1985-90)

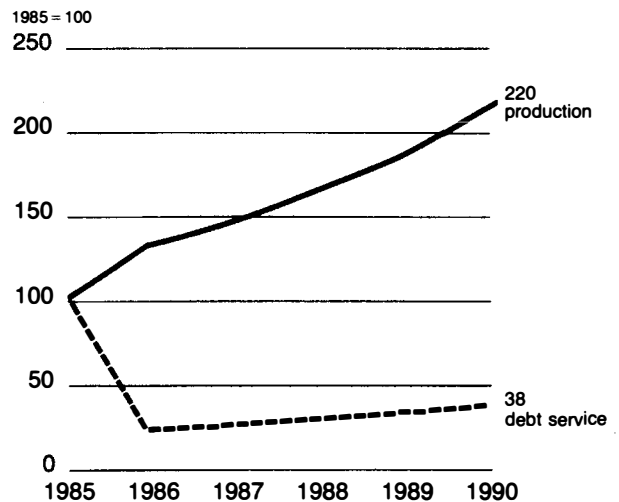


FIGURE 13
The Castro proposal: indices of production and debt service (1985-90)

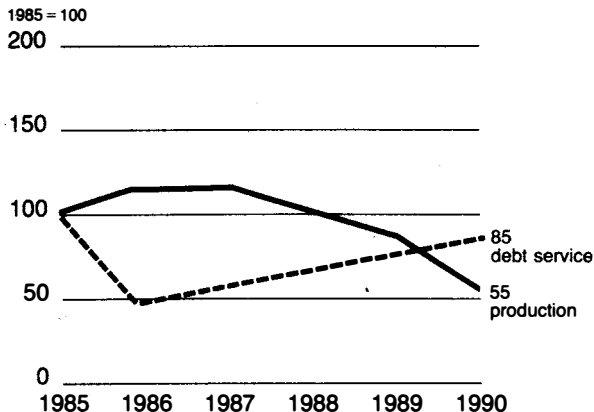


FIGURE 15
'Operation Juárez B' proposal: indices of production and debt service (1985-90)

