How to save, and how to invest

Part 15
Ibero-American integration

By the year 2000, 100 million new jobs will be created in Ibero-America, in which workers will be trained to be skilled in the production of capital goods. By 2015, the continent will be an economic superpower, whose production and productivity will equal the level attained by the industrialized countries of today.

This installment concludes Chapter 5 of the Schiller Institute's book, *Ibero-American Integration: 100 Million New Jobs by the Year 2000!* published in September 1986 in Spanish, and appearing exclusively in English in *EIR*'s serialization. An international team of experts prepared this study on the urgent measures needed to free Ibero-America of its economic dependency and spark a true, worldwide economic recovery, elaborating the outline of Lyndon LaRouche's 1982 proposal, "Operation Juárez."

Numbering of figures and tables follows that of the book.

The secret of successful development is designing an investment policy that uses available economic surplus for investment—that is, the "free energy" of the economic cycle—and reinvests it such that it maximizes that same rate of "free energy" produced in the subsequent production cycle. In the specific case of Ibero-America, this means choosing investments that will generate 100 million new jobs by the year 2000, in the indicated areas of production, with emphasis on manufacturing, capital-goods producing industry, and construction (see *EIR*, Nov. 21, 1986, pp. 20-25).

We assume an average level of productivity in Ibero-America of approximately one-fourth that of the leading industrialized countries. If we reinvest the entirety of the domestic savings of the Ibero-American countries, we could generate over the next 12 months about 5 million new jobs, with a productivity rate twice that of the current average of the region. The immediate result of this step would be to increase the total productivity of the economy, which in turn would allow for increasing the margin of reinvestment and therefore the number of jobs to be created the following year, which would represent yet another increase in levels of productivity. Over the course of 15 years, this process would translate into 100 million new jobs, and into total productivity levels twice that of the present. In addition, Ibero-America would reach the year 2000 with the capacity to generate jobs with productivity levels comparable to those of the developed nations today (see **Figure 5-14**).

Ibero-America today has a level of overall domestic savings of 25% of the aggregate gross product, which is adequate for generating an initial growth rate of 10%—as long as investments are carried out properly and efficiently, and within the framework of continental economic integration.

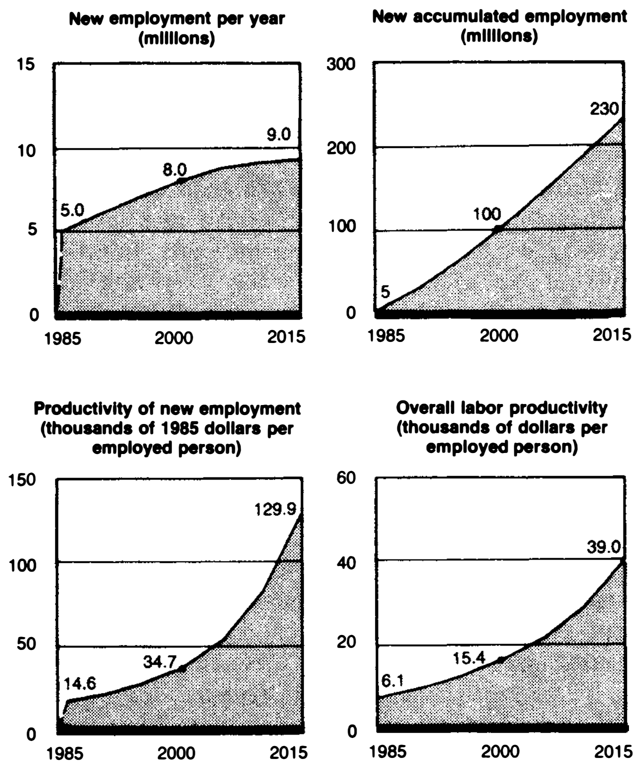
The main problem in this regard is that the domestic savings of the subcontinent are not entirely channeled into the process of economic reinvestment, since a considerable portion of those resources goes into servicing the foreign debt—as much as 5% of the aggregate gross product. Another part disappears through deterioration in the terms of trade, implying an additional 3%. In truth, as can be seen in **Table 5-8,** only some 17% of the aggregate product of the continent is being reinvested, which represents the lowest level of gross investment that Ibero-America has had in the past 15 years. If one also considers the fact that approximately one-third of the current gross investment is allocated to replacement of depreciated assets—that is, capital used up in the economic cycle—then the net margin of investment is reduced to only 11% of the gross product. And from this figure one must deduct the large percentage that is dedicated to non-productive investment, to speculation, to the drug-trade, and to other parasitic and destructive activities. What remains—if anything does remain—is inadequate to the growth perspective we have proposed.

TABLE 5-8
Generation of domestic savings in Ibero-America 1985

	Value (billions of dollars)	Percentage of GDP (%)
Gross domestic product (GDP)	708.6	100.0
Consumer costs	554.1	78.2
Gross domestic savings	154.5	21.8
Gross domestic investment	122.5	17.3
Resources sent abroad	32.0	4.5
Export of goods and services	108.0	15.2
Import of goods and services	76.0	10.7
Effect of terms of trade	19.9	2.8
Real domestic savings	174.4	24.6

Source: Estimates based on preliminary figures of ECLA.

FIGURE 5-14
Generation of new employment and levels of labor productivity in Ibero-America 1985-2015

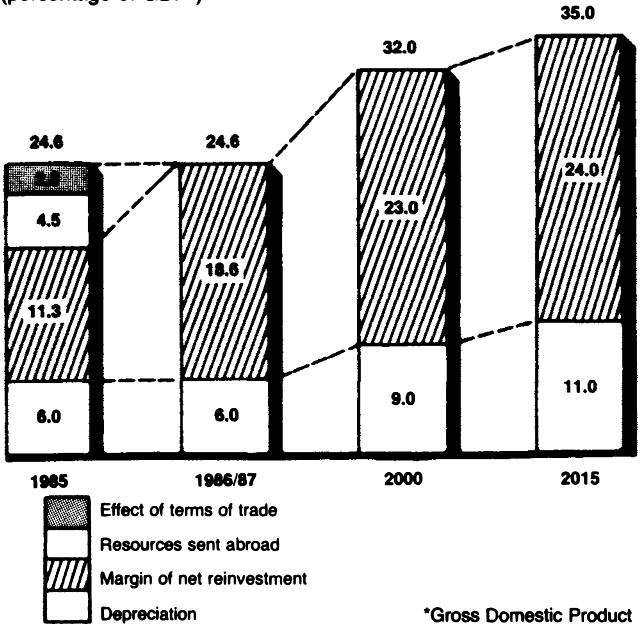


Therefore, the possibility of launching a process of accelerated development depends on channeling the entirety of the gross domestic savings of the continent toward investment and economic growth, reorienting in this direction all the resources currently wasted on payment of debt service, deterioration of terms of trade, and non-productive or speculative expense. In this way, the level of gross investment will immediately increase to 25% of gross product, and the net margin of investment to 19%, after covering the replacement costs for depreciated capital. By applying this policy over the course of three decades, the growing capitalization of the Ibero-American economies through the application of increasingly advanced technologies will generate productivity increases sufficient to raise the gross margin of reinvestment to 35% of the gross product (see **Figure 5-15**).

Once the available resources for investment are maximized, they must be reinvested in two key areas. The first is direct investment in the productive apparatus itself, using frontier technology. The second is investment in infrastructure, including social infrastructure which, while not directly contributing to production, nonetheless increases the general levels of productivity of the economy.

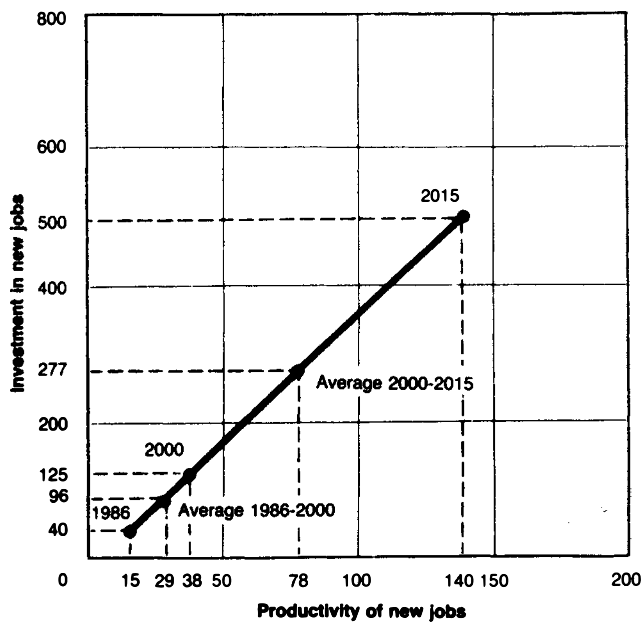
Given the indirect function of infrastructural investment, some governments tend to fall into the trap of believing they can "save" resources if they stop investment in this area. This can lead to disastrous results in a very short period of time, by creating a series of bottlenecks that strangle growth of the productive sectors. Any country that advocates the development of its economy must allocate substantial resources for the strengthening of its basic economic infrastructure.

FIGURE 5-15
Projection of domestic savings and reinvestment in Ibero-America 1985-2015
(percentage of GDP*)



*Gross Domestic Product

FIGURE 5-16
Relation between investment and production in Ibero-America 1985-2015
(thousands of dollars per employed person)



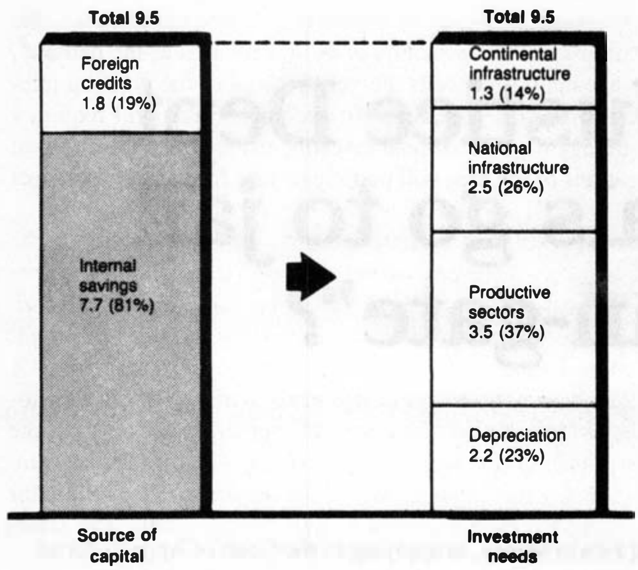
In addition to the infrastructure of each individual nation, the process of economic integration requires establishing infrastructure for increasing intra-regional trade, particularly the construction and expansion of ports, the integration of a continent-wide railroad network, the linkage of waterways, and the construction of a second inter-oceanic canal, to mention some of the most urgent investment necessities. This continental infrastructure is as fundamental as the national, since upon it depends the very process of the physical integration of the continent. To accomplish this will require a strategy of multinational investments, in which the different nations of the area will participate as a function of the direct benefits they will receive.

Speaking in numerical terms, we have calculated the annual reinvestment amount required to reach these objectives and, by adding these figures up, have reached the conclusion that an approximate total of $9.5 billion at current prices is needed for investment over the next 15 years. Of this amount, $6 billion corresponds to investment in expanding the productive apparatus and internal infrastructure of the countries of the sub-continent; $1.3 billion for infrastructure of continental integration; and the remaining $2.2 billion for recovering depreciated assets in the productive and infrastructural areas.

These investment figures are directly derived from the production levels required to create the projected 100 million jobs between now and the year 2000 (see **Figure 5-16**). In view of the average level of capitalization of Ibero-American economies today, we would need to invest within the first few months approximately $40,000 to generate one job with a productivity level twice the current average, as the economic progress of the area demands. But in the following years, the amount of investment per new job must be increased to assure its technological superiority and thus an increase in productivity. Thus, by the year 2000, an investment of approximately $125,000 is required to create a job whose productivity is four times that of current levels. In the most advanced areas of the developed sector, investment costs to generate a single job is approximately $500,000, and implies a level of productivity 17 times greater than the current average in Ibero-America. This is the level of investment and productivity that the subcontinent will have reached by the year 2015, based on the reinvestment policy we are proposing.

Of a total $9.5 trillion in investments between now and the year 2000, approximately 80%—that is, $7.7 trillion—could be generated internally by the Ibero-American countries themselves, premised on a reorientation towards developing those resources in the subcontinent currently looted by the IMF and by the international banks (**Figure 5-17**). This level of domestic savings would represent approximately 28% of the gross product accumulated through that period, and would easily cover the required investment costs for

FIGURE 5-17
Financing of investments in Ibero-America 1985-2000
(billions of 1985 dollars)



developing the productive apparatus and the vast bulk of the internal infrastructure of the countries of the subcontinent, with a 10% annual growth rate.

The rest of the resources, approximately $1.8 trillion, specifically corresponds to investments needed for developing the continent's integration infrastructure, and would have to be acquired from abroad, through long-term and low interest credits from the advanced sector nations. This amount—$1.8 trillion over 15 years, or some $120 billion per year—is relatively small with respect to the economic potential of those countries, but is nonetheless considerable in view of the needs and capabilities of Ibero-America over the next 15 years, since it is equivalent to 7% of the total gross product that Ibero-America will generate during that period. Repayment of these new credits will be guaranteed by the additional economic growth of the sub-continent such continental integration projects would produce, since their repayment would represent less than 2% of the gross product that Ibero-America would generate in the first 15 years of the next century. The increase in productivity that would result from such infrastructure projects would undoubtedly be more—much more—than that 2%.

Financing these infrastructure projects should be subject to repayment schedules appropriate to the useful economic lives of the projects, with grace periods during the time of construction and with non-speculative interest rates. This implies that in the majority of the long-term national and continental infrastructure projects, whose construction would take approximately 10 years and whose economic life would last more than two to three decades, the credits could be amortized over at least 20 to 30 years, with 10 years of grace and annual rates of interest at 2%.

With the establishment of infrastructure for the development and economic integration of the continent, Ibero-America could continue well into the next century with levels of productivity that would allow the generation of internal savings continent-wide equivalent to 36% of the aggregate gross product in the next 15 years, thereby equaling the high level of internal savings that Japan accomplished during its period of accelerated economic growth. Such levels of savings will represent available resources for reinvestment on the order of $36 trillion, *after* covering the costs of infrastructure credits. On this basis, approximately 130 million new jobs will be generated between the year 2000 and 2015, with productivity levels at least 10 times greater than present-day levels, achieving thus levels of employment and productivity comparable to the developed sector nations.

In sum, as can be seen in **Table 5-9,** a total investment of $45.5 billion between now and the year 2015 will create 230 million new jobs, giving us the means to turn Ibero-America into an economic superpower.

TABLE 5-9
Needed investments in Ibero-America 1985-2015

Period	New jobs (millions)	Productivity of new jobs (thousands of dollars per employed person)	Needed investment to create each new job (thousands of dollars)	Total investment (billions of 1985 dollars)
1986–2000	98.4	29	96	9.5
2001–2015	130.0	78	277	36.0
Total	**228.4**			**45.5**