EIR Feature

Ibero-American debt bomb is about to explode, again

by Dennis Small

You've heard it said that the Third World debt crisis of the early 1980s has been solved permanently. You've been told that the countries of Ibero-America, with Mexico in the lead, have reformed their economies and are back on the road to recovery. You may have even had the misfortune of reading the blather of high-paid idiots like the head of Citibank's Latin American operations, William Rhodes, who recently pronounced that Brazil was the last country of Ibero-America to resolve its debt crisis when it signed a "Brady" debt renegotiation, which he called "an historic day for Brazil."

Well you'd better think again. Because it is highly likely that 1994 is going to witness an explosion of the Ibero-American "debt bomb" that is going to make the 1982 crisis pale in comparison, and could well bring down the entire international financial house of cards with it.

Back in 1982, over $300 billion in Ibero-American foreign debt nearly went up in smoke, as country after country was physically unable to make good on its debt service payments. The nations of Ibero-America, led by Mexico, came within a hair's breadth of forming a debtors cartel, proclaiming a joint debt moratorium, and forcing the reorganization of the world financial system. Only the political crushing of that initiative, followed by violent austerity imposed by the International Monetary Fund (IMF) and the creditor banks over the course of the decade of the 1980s, salvaged the situation for the banks.

This time around, the debt bomb that is about to explode has a destructive power an order of magnitude greater than the 1982 one, for the following reasons:

1) It has a *direct explosive charge* 2-3 times larger than the 1982 one, because the real foreign debt of Ibero-America now totals $700-750 billion.

2) It will have a *multiplier effect* that is far greater, because this three-quarters of a trillion dollar cancer is today more intertwined than its predecessor with a gigantic international structure of speculative finances, in particular the highly insolvent world derivatives market. For example, there is a booming market in

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Mexican President José López Portillo at a rally in support of his nationalization of the banks in September 1982. The nations of Ibero-America came close to forming a debtors cartel and forcing a reorganization of the world financial system, as Lyndon LaRouche had recommended.

Ibero-American debt and equity instruments piled on top of the debt bomb, not to mention extensive direct participation of U.S. and other foreign banks in the various national banking systems of Ibero-America.

3) The 1994 bomb is *more volatile* in its composition than a decade ago. This structural instability is a result of a dramatic shift away from sovereign national debt and into diverse forms of privatized capital flows over the last five years in particular.

4) The physical economies of Ibero-America are far *less resilient* today than they were a decade ago, and cannot continue to sustain the rates of looting required to keep the speculative bubble going.

It is, of course, impossible to predict precisely when the debt bomb will go off. It may be triggered by the ongoing collapse of the international derivatives markets. It could be brought on by the mid-May half-point rise in U.S. interest rates. Or it could detonate in the first week in July, when the Brazilian government attempts to impose its disastrous "Real" economic plan, which will instantly "dollarize" the continent's largest economy and open it up fully to unrestrained international financial looting. But whether the explosion occurs this year or next, the current course is suicidal, both for the world financial system, and more importantly, for the nations and populations being victimized by it.

The Brady-NAFTA revolution

The turning point in the evolution of this new debt bomb began around 1989, with the infamous Brady Plan for debt renegotiation, and was consolidated with the 1993 approval of the North American Free Trade Agreement (NAFTA) among the United States, Canada, and Mexico. Named after Bush administration Treasury Secretary Nicholas Brady, this plan reorganized and consolidated certain categories of Third World debt at slightly lower interest rates, in exchange for major concessions in economic and monetary policy on the part of the debtor nations. To prevent any possible future reneging on debt payments, and to open up the economies of Ibero-America to foreign financial looting, the Brady Plan has meant, inclusively:

1) full convertibility of local currencies with the U.S. dollar;

2) total central bank autonomy, which takes all control over national credit generation out of the hands of governments;

3) pegging the value of local currencies to the dollar, and limiting issuance of new credit to one-for-one backing in dollar reserves;

4) eliminating all barriers and regulation of foreign financial involvment in the domestic economies, including banking, stock markets, etc., which has greatly facilitated the laundering of drug money;

5) eliminating all tariff and other trade barriers, allowing foreign imports to flood the Ibero-American economies; and

6) dismantling the state sectors of the economies, and handing them over to foreign financial interests to use as

LaRouche and the 'debt bomb'

The use of the debt bomb was first proposed by Lyndon LaRouche on May 23, 1982 during a visit to Mexico, in the course of which he met with senior government officials, including Mexican President José López Portillo. In a speech to the Fourth Congress of the Mexican Labor Party, LaRouche specified how the Ibero-American countries, which were being destroyed one by one through genocidal financial conditionalities, could use their debt to impose conditions on the foreign bankers:

Latin America: "We want a gold-based monetary system!"

Bankers: "No, no, no."

Latin America: "You just lost $200 billion.

Bankers: "Well, I guess we have no choice."

Latin America: "We want credit at 2% interest."

Bankers: "No, no, no."

Latin America: "You just lost $200 billion."

Lyndon LaRouche addresses the Mexican Labor Party, May 23, 1982, on the policy of the "debt bomb."

the asset-base for the generation of further derivatives speculation.

The result of these measures—which have been adopted to a greater or lesser degree by the principal countries of Ibero-America—has been the full "dollarization" of their economies. This does *not* simply mean that the dollar has become increasingly used throughout Ibero-America. It means that the dollar is rapidly replacing the local currencies as *legal tender* inside the respective countries, and that entire national financial systems are becoming mere *onshore enclaves* of the giant *offshore* (i.e., unregulated) international financial system. This means that the national banking systems of Mexico, Argentina, and other countries are rapidly becoming virtual branch offices of the U.S. Federal Reserve System, which removes all semblance of sovereignty from these nations. This means the elimination of U.S. sovereignty as well, in that the generation of dollar-credit bubbles in these offshore markets is now completely outside U.S. government control.

It was precisely such arrangements which were locked in place by the 1993 NAFTA accord, in particular its secret financial protocols which this magazine documented and denounced at the time (*EIR*, Oct. 8, 1993).

These developments have meant a profound transformation of the way in which the debt looting of Ibero-America occurs. Compare the situation before 1989, with the situation today.

The debt bomb—then and now

In the 1980s, the international banks looted Ibero-America principally through the mechanism of *sovereign national debt*. In other words, gigantic foreign debts were foisted on these nations by a combination of usurious interest rates (the Volcker package of the late 1970s), rapidly deteriorating terms of trade, and massive orchestrated capital flight. Then the *governments* of these countries were used to impose economic policies designed to collect that debt on the bankers' behalf, using the powers of the state for that purpose. Where governments were not compliant with these IMF and related demands, they were pressured, blackmailed, or simply overthrown and replaced.

The bulk of the debt run-up in the 1980s was public foreign debt, i.e., debt either owed directly by the government or private debt guaranteed by the government. The principal source of debt service payments were gigantic trade surpluses, generated by slashing imports while raising exports sharply. In other words, resources were taken out of domestic consumption and investment, and sent abroad.

In the 1990s, the looting process is different.

Major changes took effect as George Bush entered office in early 1989, and the Bush-Thatcher "new world order" was inaugurated with great fanfare. Simultaneously, Bush allies were swept into power in every major country of Ibero-America, and began to fully implement the Bush free market reforms: Carlos Salinas de Gortari in Mexico (December

1988); Carlos Andrés Pérez in Venezuela (February 1989); Carlos Menem in Argentina (July 1989); and Fernando Collor de Mello in Brazil (December 1990).

The big trade surpluses of the 1980s have been replaced by the large, and growing, trade deficits of the 1990s, as free trade reforms have led to uncontrolled growth of imports. In order to pay for this deficit, and to cover the required debt service payments, the Ibero-American nations have been inundated with a flood of highly volatile speculative capital. If that flood reverses, or even just subsides—as has begun to occur in the first quarter of 1994—the nations of Ibero-America will be forced to default on their debt payments, and the debt bomb will detonate.

More broadly, sovereign national debt is rapidly and deliberately being supplanted in importance in the 1990s by various private and speculative financial flows. Since 1989, the bulk of foreign debt growth has been private, not public; entire chunks of the internal debt structure have become "internationalized," or de facto foreign debt; and foreign portfolio investment and other purely speculative activity are growing astronomically.

In fact, the very institution of the nation-state itself has become a primary obstacle to the current one-worldist plans of the financial establishment, and they have thus targeted it for extinction, along with the principal institutions responsible with defending it, such as the national armed forces (see *EIR*'s forthcoming book, *The Plot to Annihilate the Nations and the Armed Forces of Ibero-America.*) As Citibank President John Reed put it in an infamous 1990 interview with the Brazilian magazine *Veja:* "Countries have disappeared from the face of the earth. Peru and Bolivia will disappear."

The extension of NAFTA-type agreements to the entire continent is designed to deal with the final remaining problem that the banking crowd foresees: the danger that nations may try to buck the new world order by removing governments that will not defend their national interests. It has not escaped the bankers' notice that, of the four mentioned Ibero-American Presidents who implemented the Bush-Thatcher reforms starting in 1989, two of them—Venezuela's Carlos Andrés Pérez and Brazil's Fernando Collor—were subsequently thrown out of office as a result of their personal corruption and their adherence to these policies, and one of them (Pérez) is currently sitting in jail. With a continent-wide NAFTA, nations will be permitted to change governments if they like, but they will be prohibited from changing economic policy—by international treaty obligation.

Below, we present a detailed graphical report on the evolution and structure of this 1994 debt bomb, as well as case study documentation of the bankers' strategy—in their own words—focussed particularly on Venezuela, which is currently on the chopping block of these economic policies.

How the debt cancer went out of control

by Dennis Small and Peter Rush

There is a curious logic to the cancerous mass otherwise known as the Ibero-American debt: It seems that the more you pay, the more you end up owing. This is apparent from even a cursory glance at the official debt statistics made available by the World Bank. **Figure 1** tells the story for Ibero-America as a whole between 1980 and 1993. In 1980, the total official foreign debt was about $257 billion. Over the course of the next 13 years, a cumulative total of $372 billion was paid back to the banks in interest alone—i.e., this does not include any amortization payments. Yet despite the fact that the entire original debt of 1980 was paid back one and a half times over, the total foreign debt *grew* to $513 billion by 1993. This is almost exactly *double* the original debt of 1980. In other words, 257−372=513! That is what is known as "bankers' arithmetic."

After the Brady Plan debt reorganizations of 1989 and onward, the foreign debt continued to grow, as did the process of looting. Nearly $100 billion in additional interest payments were made between 1989 and 1993, and yet the

FIGURE 1
Ibero-America: foreign debt and cumulative interest paid
(billions $)