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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

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