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EIR Feature

Mexico's debt bomb explosion spreads: How LaRouche knew

by Dennis Small

The following is the speech of Dennis Small, EIR*'s Ibero-American editor and a former political prisoner, to the Feb. 19-20 conference of the International Caucus of Labor Committees and Schiller Institute. Small's presentation was delivered as part of a panel, in two parts, with the presentation of* EIR *Economics Desk reporter John Hoefle in between. The second part of Small's presentation appears on p. 29. Other speakers on the panel, whose presentations appeared in our March 3, 1995 issue, were Carlos González, who is the political secretary of Argentina's former President Arturo Frondizi and was representing President Frondizi; and Uwe Friesecke, who read a speech on the Russian economy prepared by Michael Liebig and Konstantin George of* EIR*'s European headquarters in Wiesbaden, Germany.*

Victor Grunewaldt, Peter Rush, and Valerie Rush contributed to the preparation of economic data, graphics, and other research used in Small's presentation.

On Monday, January 30, 1995, as the *crème de la crème* of the international financial elite held their annual ritual gathering in Davos, Switzerland, the nation of Mexico came within a hair's breadth of defaulting on its $183 billion in foreign obligations. Its foreign reserves had plummeted from nearly $30 billion in early 1994 to just over $3 billion; the government had been unable to market its Treasury bills for over a month; it had about $4 billion in such notes maturing over the next few weeks; and Mexico was staring at the staggering prospect of having to cover at least $65 billion in foreign obligations coming due over the course of 1995, with hardly a penny in its coffers.

Had Mexico defaulted that Monday, it is likely that this would have ignited a chain reaction of capital flight and ensuing defaults across Ibero-America on Tuesday; chaos throughout the other "submerging" markets in eastern Europe and elsewhere by Wednesday; and full-scale meltdown of the $45 trillion world derivatives bubble by Thursday, Feb. 2. Wall Street would have had a *bad* weekend.

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Dennis Small at a press conference on Jan. 18, 1994. "In the face of all the blather from all the established authorities and other idiots with degrees, LaRouche and EIR have repeatedly and publicly warned about the imminence of a blowout of the world financial system, and of its Mexican component in particular."

On that same day, Thursday, Feb. 2, as they were beginning to breathe again, London's *Financial Times* moaned in print: "There was little to indicate a massive crisis in the making. . . . The procedures of the IMF should be improved to detect problems in member countries before they get out of hand."

You might think that the cheapskates at the International Monetary Fund (IMF) and in London could just purchase a subscription to *EIR* and be done with it—since Lyndon LaRouche and *EIR* have been warning of precisely such a crisis for years. In the face of all the blather from all the established authorities and other idiots with degrees, LaRouche and *EIR* have repeatedly and publicly warned about the imminence of a blowout of the world financial system, and of its Mexican component in particular. Most recently, LaRouche issued his famous "Ninth Forecast" in June 1994, in which he warned of the coming disintegration of the financial markets as a result of a reverse-leveraged implosion of the derivatives bubble.

In the course of this panel, we will document and prove this beyond a reasonable doubt. The evidence of the last 15 years is conclusive: In TV documentaries, written statements, coverage in *EIR*, and in organizing on the streets of the U.S., LaRouche has been loud and clear. Everybody else either:

a) failed to correctly forecast the events, as we did repeatedly;

b) failed to take our warnings into account; or

c) incompetently failed to act on the basis of our proven superior method.

Does that tell you something about their method, and about ours?

The political problem we face today is that the next particular financial blowout that comes along—such as the one that is clearly in the works in Argentina—may not be momentarily defused like Mexico's was. It may instead lead to a chain reaction of thermonuclear financial proportions. Under those circumstances there will be no time or room for mistakes; governments will have to act pretty much instantly, along the lines repeatedly explained by LaRouche, and LaRouche himself has to be completely free to bring that about. There is no way around the need for the immediate and full exoneration of Lyndon LaRouche and all his associates, including those currently still serving barbarically long sentences in Virginia jails: Mike Billington, Anita Gallagher, Paul Gallagher, Larry Hecht, and Don Phau.

Until that issue is addressed and redressed—the issue of LaRouche's unique authority and competence to solve the global crisis, and therefore of the necessity of his full exoneration and that of his jailed associates—there will, in fact, be no solution. Mexico will be only a prelude of far, far worse to come.

As I emphasized in a conference like this back in 1991, right after I was released from jail: "As enormous as the injustice is around LaRouche's jailing, the withholding of his leadership and policies for economic recovery is much

more serious. Because he was jailed, the human rights, in fact, the right to life of hundreds of millions of people is endangered, and has been violated. That's the true crime."

The systemic crisis

When the debt bomb exploded in Mexico at the end of last year, LaRouche noted that this was not a Mexican problem, but a New York and London problem, meaning a problem of the world financial system. He explained that it was the lawful follow-on to the Orange County blowout of earlier in 1994, and that it would not stop in Mexico, but could hit next just about anywhere: Argentina, Hungary, some other U.S. county—you name it.

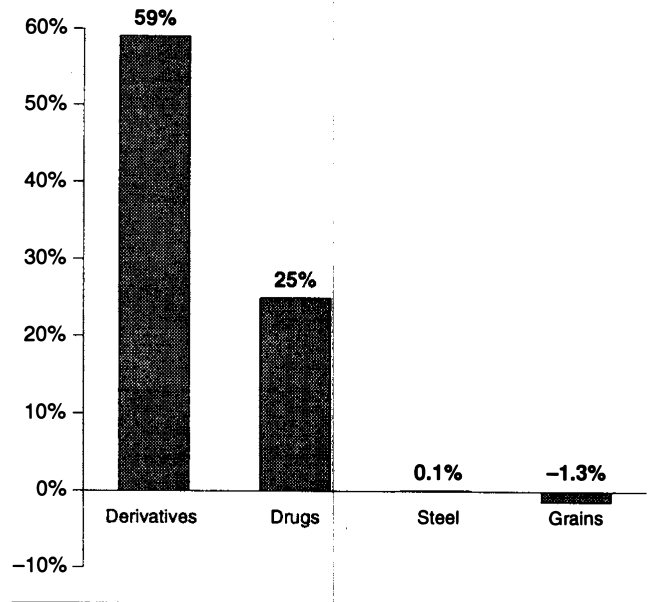
But the idiots with degrees refused to get it. Everyone from Federal Reserve Chairman Alan Greenspan to IMF director Michel Camdessus is now running around admitting that "the whole system" is endangered, but they insist that it was the Mexican crisis which caused the danger to the system—and that this was due to "bad management" in Mexico and Washington. But the Mexican crisis didn't endanger the system; rather, it is the systemic crisis which endangered Mexico. The problem will not be solved by improved management in Mexico City, Washington, and the IMF. It will only be solved by putting the entire world financial system through Chapter 11-style bankruptcy reorganization—an idea which is not much to the liking of Greenspan, Camdessus, or the evil little gnomes of Zurich.

The financial packages which have been implemented thus far at best buy a little time; they do not resolve the problem, and the time bomb is ticking away and could explode again at any time, in Mexico, Hungary or, most likely of all, Argentina.

Why did the debt bomb blow out in Mexico (note that I didn't call it the "Mexican debt bomb," but "the debt bomb in Mexico")? Here's a graph which answers that question **Figure 1.** Over the period from 1986 to 1994, the world derivatives market has grown from a mere $1.1 trillion to over $45 trillion—an annualized growth rate of 59%. There is nothing on the face of the earth that has grown as fast as that speculative bubble—except some deadly cancers that my brother the oncologist treats. The only thing that even came close was the world drug trade, which we estimate to be growing at the rate of about 25% per year—which might tell you something about just what is propping up the derivatives bubble. But as the speculative bubble has grown exponentially, the productive physical economy of the world—the food, steel, energy, and so on, on which the survival of the human race actually depends—has been in rout. Over the last eight years, world steel production per capita has been dead flat. Grain production per capita has actually dropped by 1.3%.

Sooner or later, when the speculative cancer has devoured most of the physical economy underlying it, the system breaks down. The day or hour may be unforeseeable,

FIGURE 1
World growth rates, 1986-94
(average annual percent)



Sources: U.S. Departments of Agriculture and Commerce, EIR.

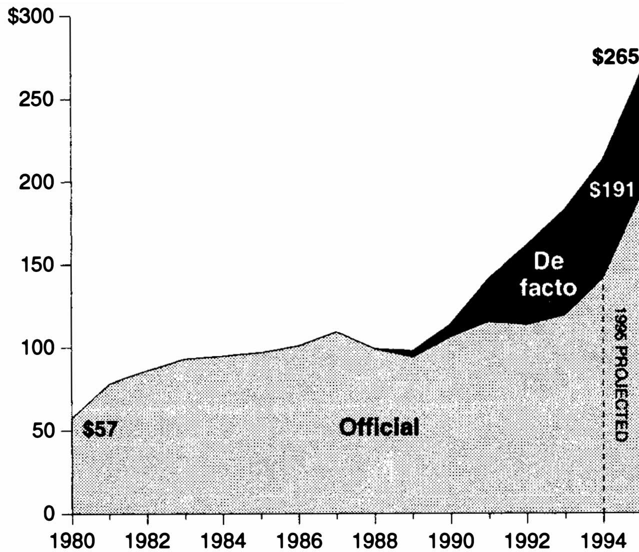
but the process is inexorable.

What happened in Mexico is a microcosm of this big picture (**Figure 2**). Between 1980 and 1994, Mexico's official foreign debt soared, reaching $141 billion by 1994. But in addition to the official debt, Mexico—like most of the so-called "emerging markets"—began taking on huge new quantities of other foreign obligations, such as dollar-denominated government bonds and foreign investments in the stock market. These speculative hot money flows increased Mexico's real foreign debt to about $213 billion by the end of 1994. Those obligations are now being converted into official government debt through the so-called $50 billion rescue package, which will bring Mexico's official foreign debt up to $191 billion. And if the underlying policies which created the mess in the first place are not changed—which they certainly have not been thus far—Mexico is going to have a $265 billion real foreign debt cancer by the end of this year.

Did the productive economy keep up with this growth?

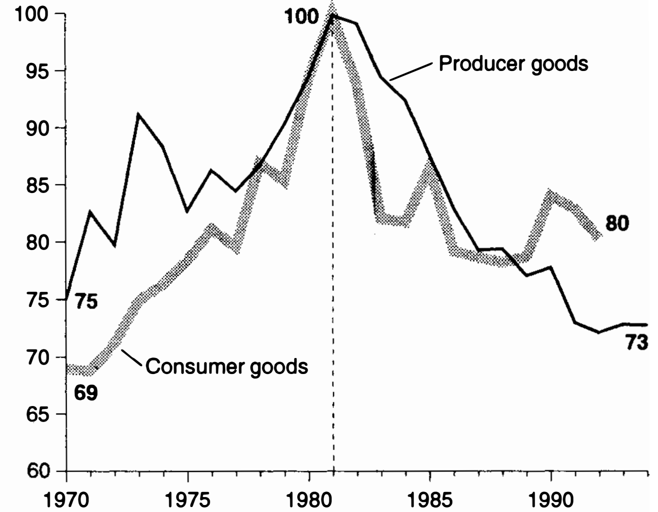
Judge for yourself. **Figure 3** shows *EIR*'s indices of Mexico's per capita physical production of a market basket of 15 important consumer goods (corn, beans, meat, clothing, autos, and so forth) and of per household production of a market basket of 17 producers goods (steel, cement, tractors, etc.). Both rose respectably during the 1970s, as Mexico positioned itself to launch in-depth industrialization in the 1980s, which was the policy adopted by then-President José López Portillo. But the bankers thought otherwise. Nineteen

FIGURE 2
Mexico's real foreign debt
(billions $)



Sources: World Bank, EIR.

FIGURE 3
Mexico: producer and consumer goods
(index 1981=100)



Sources: ECLAC (United Nations), INEGI (Mexico).

eighty-one was the last year of growth, and then the IMF and the oligarchy launched all-out war on Mexico. In the subsequent two administrations of Miguel de la Madrid and Carlos Salinas de Gortari, every aspect of British free market dogma was dutifully implemented—and the Mexican economy collapsed as a result. Bean production dropped by 37% per capita; milk by 22%; steel by 27%. Overall, consumer goods dropped by 20%, producer goods by 27%.

So the debt soared, while the physical economy fell apart. The international financial oligarchy chattered in delight about this "Mexican economic miracle," and demanded that every nation of the world imitate it.

LaRouche, however, warned all along that the touted "Mexican model" was a formula for disaster and would soon enough blow apart. He was right.

The evidence

Allow me to review the documentary evidence on this, covering three decisive developments over the last five years.

The first is the famous Brady Plan announced on March 10, 1989, which supposedly reorganized the foreign debt of Mexico—and later other countries—to make it more "manageable" with slightly lower interest rates. Treasury Secretary Nicholas Brady and his boss George Bush modestly thought it was a brilliant idea.

On Feb. 4, 1990, the day that Mexico was officially "Brady-ed," the treasury secretary proclaimed: "Mexico is on the move again. Jobs are being created. Flight capital is returning. Investor confidence is growing. In short, a new dawn is rising. Mexico stands as a beacon of hope for other debtor nations. The burden of foreign debt has been removed from the shoulders of the Mexican people."

Speaking with all the respect that their intelligence and morality deserved, LaRouche expressed a somewhat different view on March 24, 1989: "Actually, Mr. Brady is simply proposing to do, in a cleverer way, what the absolute stubborn idiots are proposing to do in a stupid way . . . loot these countries in an intensified way."

EIR, for its part, on March 24, 1989 called the Brady Plan "a silly debt deal," and "a hoax that is doomed to fail," explaining that it would only worsen the debt burden.

Figure 4, taken from the April 21, 1989 issue of *EIR,* projected that, after a brief dip, interest payments would continue to rise under the Brady Plan, as opposed to what would happen if the nations of Ibero-America adopted LaRouche's policy proposals from "Operation Juárez," including declaring a debt moratorium, imposing exchange controls, and reactivating their productive economies through a regional common market.

So, who was right? Brady's forecast, that "the burden of the debt had been removed," or LaRouche and *EIR?* Compare the two graphs: our projection, with what happened (**Figure 5**). Mexico's official foreign debt had almost doubled in the eight years before the Brady Plan; but after the Brady Plan it resumed its growth at an even faster rate, and is now on course for hitting $191 billion in 1995.

But the fact is, the Brady bunch wasn't really interested in lessening the debt load of Third World nations. Under the

FIGURE 4

Interest payments from Ibero-America due under Baker, Bradley, Brady, and LaRouche Plans 1985-95

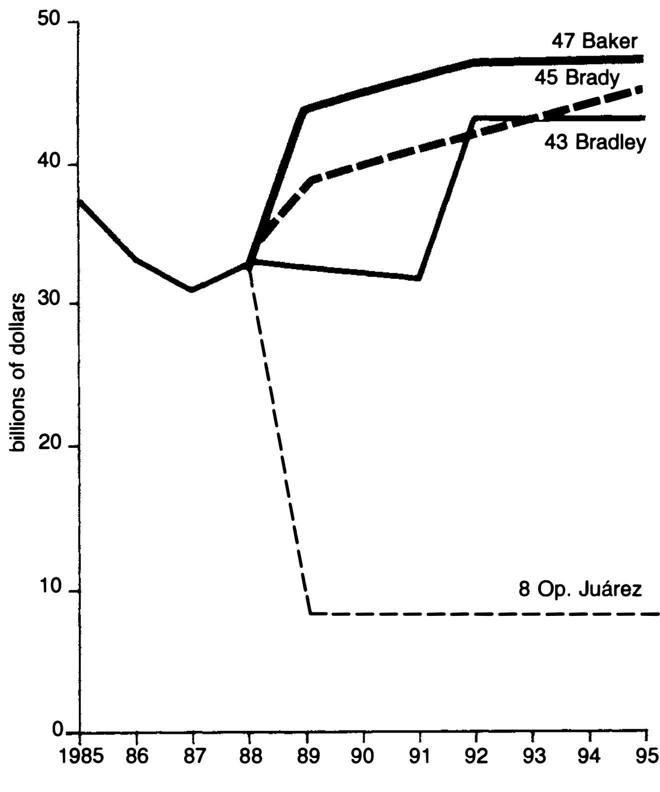
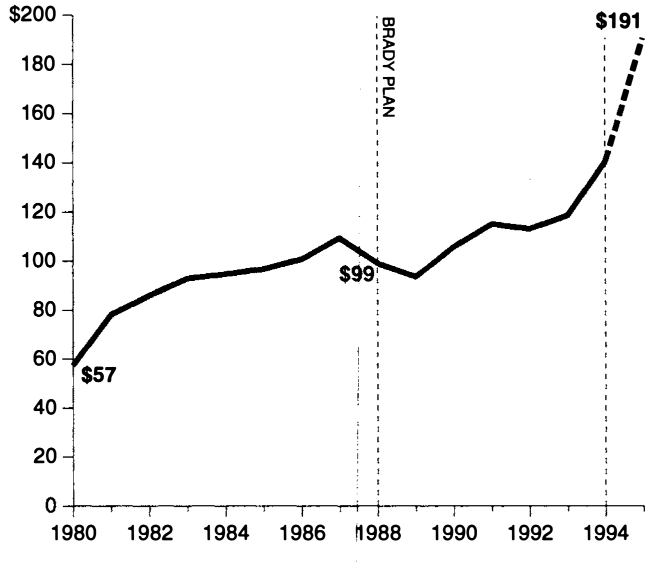


FIGURE 5

Mexico's debt before and after the Brady Plan

(billions $)



Source: World Bank.

cover of so-called "debt relief," they imposed:

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

b) total central bank autonomy;

c) unrestricted opening to foreign banking and financial activities;

d) elimination of all tariffs; and

e) massive privatization fire-sales of national assets.

It was this that the IMF's Michel Camdessus drooled over back on Feb. 4, 1990, the day Mexico signed onto the Brady Plan: "The effect of the agreement today will be felt beyond the country. It will serve as an example to other countries struggling with debt problems."

A few months later, in September 1990, Citibank's William Rhodes told an audience at the annual trade fair in Leipzig, Germany, that Mexico's Brady Plan should be used as a model for solving the debt problem in Poland and other eastern European countries.

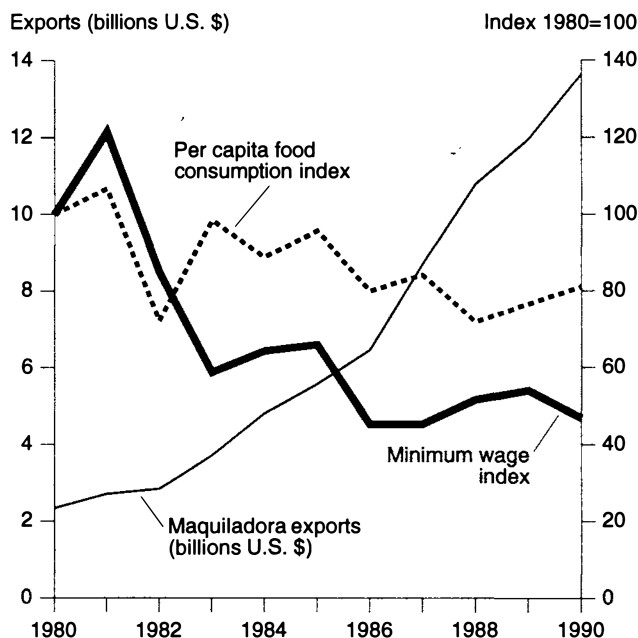
EIR's view was 180 degrees contrary, and on Feb. 16, 1990 we warned that the Mexican debt problem would eventually blow up in the bankers' faces: "There is an impending crisis of Mexico's financial and economic situation. . . . The [Brady] debt deal means very little. . . . Mexico has a precarious financial structure. . . . The bottom line is that Mexico since 1982 . . . has slashed investment in basic infrastructure, energy, and agriculture, to the point that the country now needs tens of billions of dollars of investment in these areas to avoid catastrophe."

The investment was not forthcoming; the catastrophe was.

The second major policy development where the record needs to be reviewed, was the North American Free Trade Agreement (NAFTA). This was announced on Feb. 6, 1991 by then-President George Bush: "A successful conclusion of the free trade agreement will expand market opportunities, increase prosperity, and help our three countries meet the economic challenges of the future."

EIR disagreed, to say the least. We issued a Special Report on May 1, 1991, with the demure title: "Auschwitz Below the Border; Free Trade Pact Is George 'Hitler' Bush's Mexican Holocaust." The 75-page study said that "NAFTA will destroy the U.S., Canada, and Mexico," and polemicized against the populist nonsense coming from pretty much all sides of the debate, pro and con. Many in the U.S. were favoring NAFTA with the argument that it would be good for American workers, who would supposedly benefit from increased exports to Mexico. At the same time, many in Mexico were opposing the pact, using the identical argument. Then there were those in the U.S. who opposed

FIGURE 6
Maquiladoras grow, Mexicans starve



Sources: Secretaría de Agricultura y Recursos Hidráulicos (SARH), Mexico; AFL-CIO, Exploiting Both Sides: U.S.-Mexico Free Trade, Feb. 1991; U.S. Department of Commerce (USDC); U.S. International Trade Commission (USITC); own elaborations.

NAFTA, saying it was bad for the U.S. but good for Mexico, since factories would move there for the cheaper labor. And inside Mexico, their counterparts favored NAFTA, with the same logic.

LaRouche and *EIR* said they were *all* wrong, that no one would benefit from NAFTA, other than the bankers who had designed it in order to keep their teetering financial system afloat. British free trade policies had already created a terrible economic depression in both Mexico and the United States, and NAFTA would only aggravate this. *EIR* wrote on May 1, 1991: "Mexico today is in a deep depression, with soaring unemployment and real wage levels less than 50% of their 1982 levels, with more than 1 million new workers each year entering the labor market, most of whom will not find jobs."

Figure 6, taken from our May 1, 1991 Special Report, summarized the evidence against free trade for Mexico: While free trade *maquiladoras* were booming, as the ascending curve shows, the standard of living of Mexicans was plummeting. Per capita food consumption dropped by 20% between 1980 and 1990; and the minimum wage plummeted by more than half in the same period.

EIR countered all the NAFTA myths, one by one.

Bush's Commerce Secretary Robert Mosbacher argued that "NAFTA means more jobs for Americans," since U.S. exports to Mexico would allegedly rise by as much as $14 billion. Since each billion dollars in exports translates into 25,000 jobs for U.S. workers, NAFTA would mean about 350,000 new jobs, Mosbacher promised.

In our May 1, 1991 Special Report, *EIR* said the opposite would happen: "NAFTA means less jobs for Americans. . . . It will destroy the U.S., Canada, and Mexico. . . . As for an export boom to Mexico, it won't happen. The market for exported U.S. consumer goods is limited by the terrible poverty of the majority of the Mexican population. And the IMF and Mexico's creditor banks will not permit it anyway: They are demanding that Mexico export more and import less, in order to pay off their gigantic debt to the banks."

So, who was right, Bush or LaRouche?

As a result of Mexico's current debt crisis, the IMF and the creditor banks have just forced Mexico to cut its total imports for 1995 by half, exactly as *EIR* had forecast would occur. This means that U.S. exports to Mexico will drop by an estimated $27.5 billion this year—which, if we use Mosbacher's formula, translates into about 700,000 U.S. jobs lost—almost double what Bush promised would be gained through NAFTA.

EIR's Special Report added that what NAFTA had in store was far worse than just free trade: "NAFTA has one last principal goal: to permit the full opening up of Mexico's banking and financial system to takeover by the international banks . . . it transmogrifies Mexico's national savings into the means for international speculative activities earning profits for the banks, emphatically including the laundering of hundreds of billions of dollars in drug revenues every year. . . . [This dollarization means] a loss of economic sovereignty which is tantamount to erasing all national borders."

Over three years later, *EIR* discovered that NAFTA had indeed established secret financial protocols which did all of this—and more. Congressman Henry Gonzalez's House Banking Committee held hearings on Sept. 8, 1993 which first revealed that such secret negotiations had occurred.

As *EIR* put it in our Oct. 8, 1993 edition, the plot was to "actually increase Mexico's more than $100 billion nominal foreign indebtedness . . . to transform such increased dollar indebtedness into a source of offshore dollar credit through the proliferation of derivatives markets. These markets would be backed by the Mexican government, which would in turn be functioning as an agent of the U.S. Federal Reserve System; and to use the offshore dollar credits thus generated as a lever for a new form of financial control over the U.S. itself."

Permit me, at this point, a brief aside on the subject of drugs. It has to be said that the free trade policies of the IMF et al., such as those embodied in NAFTA, actively and deliberately promote drug trafficking.

Take the case of Mexico from 1970 through 1988, as documented in a graph that appeared on the cover of the July

FIGURE 7

8, 1988 issue of *EIR* (**Figure 7**). The curves show physical volume of production in Mexico of marijuana and heroin. Notice the way both plummet by 80-90% from 1976 to 1982, as a result of both the anti-drug and economic development policies of President López Portillo. Also note what happened after 1982, when IMF policies were implemented with vigor in Mexico: Marijuana and heroin production jumped right back up to their former levels.

Do the gurus of free market economics know that this is the consequence of their policies? They sure do: They know it, and approve of it.

As Harvard's punk economist Jeffrey Sachs proudly wrote back in 1988, referring to the success of his policies in Bolivia: "To preserve fiscal balance, the government had to launch a brutal battle to reduce payrolls. . . . Many of these workers are still unemployed, or only marginally employed, or have gone to the coca-growing region to find work."

Our warnings of impending disaster

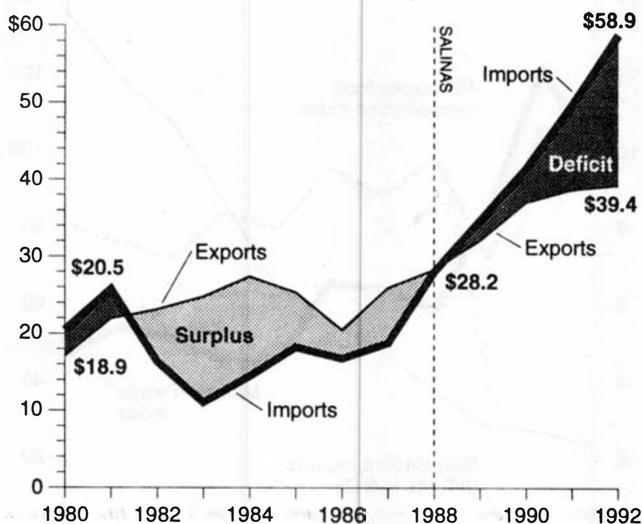
It was back on Dec. 6, 1991 that *EIR* first pointed to the specific nature of the time bomb that would soon explode in Mexico: "Mexico is currently running an enormous deficit in its current account. . . . In 1990 and 1991, the government financed this immense imbalance by having a net inflow of capital. . . . The capital inflow can be expected to decline, not to mention the ever-present threat of a reversal of the flow and a recurrence of massive capital flight. . . . The Mexican model is really just a disaster waiting to happen."

On Aug. 7, 1992, Malcolm Forbes, the billionaire whose qualities of acumen and judgment are shown by his preference for riding big motorcycles and his relationship with Elizabeth Taylor (or have I got that backwards?) thought that Mexico was the cat's meow: "The Mexican government is performing a miracle rivaling those of Germany and Japan after World War II, and of Korea and the other so-called Asian Tigers in recent years. . . . The U.S. Congress should take a crash course in economics from [Mexican President] Salinas."

It appears that they did.

In 1993, and then again in 1994, *EIR* published in-depth cover features on the impending explosion of the debt bomb

FIGURE 8
Mexico's balance of trade
(billions $)



Sources: Banco de México, U.S. Commerce Department, *EIR* adjustments.

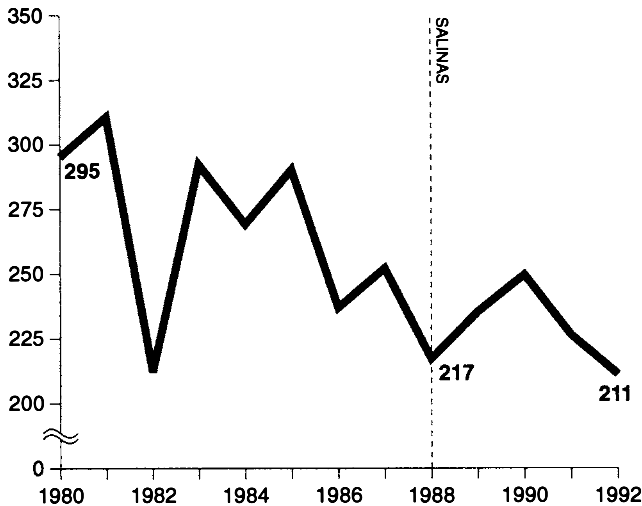
in Mexico and Ibero-America. The first of these packages, dated April 23, 1993, was called: "Mexico's 'Success Story': The Charade is Ending," and it pointed to the crisis reflected in the country's out-of-control trade deficit, which was a result of years of British free-trade policies.

By 1992, that trade deficit had reached almost $20 billion per year, as we documented in **Figure 8,** and we wrote on April 23, 1993: "To finance this $20 billion per year current account deficit, Mexico has been driven to attract an unstable inflow of loose money looking only for speculative profits. . . . Today, this jerry-built house is about to fall apart. . . . It is increasingly likely that Salinas will be forced to devalue the peso—a measure which he has desperately tried to avoid, as it will deflate the international myth of the 'Mexican model,' and bring the country's foreign debt crisis back to center stage."

EIR pointed to the devastation of Mexico's physical economy, as the underlying cause of the crisis.

Figure 9, taken from that same April 23, 1993 issue of *EIR*, shows the devastating 28% collapse of per capita grain consumption between 1980 and 1992. And we went on to warn, frankly prophetically, that the world had to wake up to the reality of the impending collapse of Wall Street's Mexican model: "Not only has Mexico's physical economy been looted to the point of collapse, but the figures show that even the final phase of bankers' speculative gain has been reached, and a financial blowout is imminent. Other Ibero-American economies that have followed similar regimens, such as Ar-

FIGURE 9
Mexico: annual food grain consumption
(kilograms per capita)



Source: Department of Agriculture, Mexico.

gentina and Brazil, are also rapidly approaching a blowout phase. . . . In short, the charade about the Mexican success story is about to end. Will the nations of eastern Europe, of Ibero-America, and of the rest of the Third World wake up in time?"

I think that question still needs to be answered today.

While the warning signs were there to be seen by anyone willing to look, or subscribe to *EIR,* throughout 1993 and 1994, Wall Street's hired scribblers kept churning out the line that Mexico was the miracle market of the 1990s, while the investment banks and mutual funds kept pouring uncounted billions of hot money into the Mexican stock and bond markets. A true speculative financial bubble was in the making, a gigantic Ponzi scheme of promissory notes with no backing. Typical of the pathetic commentary spewed out from Wall Street is the following Oct. 25, 1993 quote from David Goldman, of Bear Stearns, who, as many of you recall, was never one to be left behind when he saw an attractive Ponzi scheme swish by: "Mexico's dynamic economy is on the move and will stay that way, NAFTA or no. . . . In my view, nothing can stop Mexico's economic modernization."

Sorry, Dave.

On Aug. 6 of 1993, Lyndon LaRouche was interviewed on a Monterrey, Mexico radio station, where he warned: "Mexico is suffering the spillover of a global pattern typified by the growth of the derivatives bubble. . . . When it will pop, we can't say; but looking over the period of the next 9-12 months, we must expect major financial implosions, coming out of the activities of pirates, buccaneers, thieves, such as George Soros."

Perhaps not in direct response, George Soros protested before the House Banking Committee of the U.S. Congress a few months later, on April 14, 1994: "I reject any assertion or implication that our activities are harmful or destabilizing."

By the time Soros was issuing these protestations to the U.S. Congress, it was more than apparent to us at *EIR* that Mexico was about to undergo a debt bomb explosion more dramatic than that of 1982, and that it might well be followed quickly by the rest of Ibero-America. *EIR* said just that, in its May 13, 1994 cover feature, titled "About to Explode Again, Ibero-America's Debt Bomb": "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."

But up to the last minute, the house organs of the financial oligarchy refused to face the facts. For example, as late as Nov. 9, 1994, the *Journal of Commerce* was insisting editorially: "Carlos Salinas, Mexico's President, leaves office later this month with a record most other leaders would envy. . . . The turnaround in Mexico's public finances offers a good lesson for most other countries."

And on Dec. 5, 1994, barely two weeks before the Mexican blowout, the ubiquitous managing director in Bear Stearns's Financial Analytics and Structured Transactions Group, David P. Goldman, wrote in *Forbes:* "Is it foolhardy to reach for the extra yield [of Mexican bonds]? Some commentators say so. They call emerging market debt the next great investment debacle. I think they're wrong."

Sorry again, Dave.

LaRouche's nine forecasts

So, LaRouche was right on Mexico, while everyone else was wrong. Why?

In order to properly answer that question, it would not be unproductive to spend an entire three-day conference reviewing LaRouche's nine economic forecasts. But we will not attempt that now; we will limit ourselves to quickly recalling Forecasts No. 3, 7, 8, and 9.

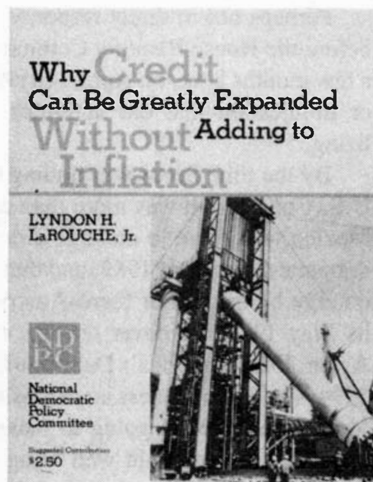
LaRouche Forecast No. 3 of 1979 warned that Paul Volcker's stratospheric interest rate policies would lead to a devastating recession beginning in 1980, and to subsequent debt crises in the developing sector.

Volcker was named head of the Federal Reserve by Jimmy Carter on Aug. 6, 1979. He immediately announced that the source of all evil in the world was inflation, and that he would slay the dragon by credit contraction and by raising interest rates as high as necessary, which turned out to be a prime rate of 21.5%.

LaRouche responded that this was nonsense, that credit can be greatly expanded without adding to inflation, so long

as the issued credit is used for productive economic activity, and not speculation (**Figure 10**). In fact, if credit is issued for activities which overall increase the productive powers of labor, it will lead to a larger increase in physical output than in credit issued, and is therefore anti-inflationary. Volcker's policy, on the contrary, would lead to a 15% recession of the U.S. economy, LaRouche warned.

FIGURE 10



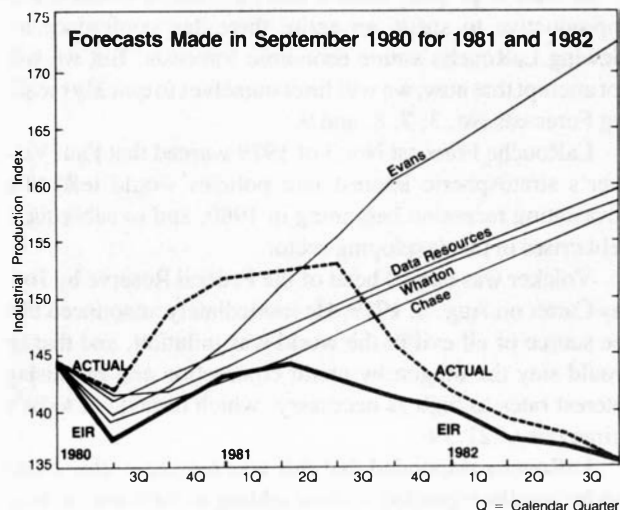
In September 1980, associates of LaRouche issued a series of forecasts in this regard, which used the LaRouche-Riemann econometric model. The results of specific forecasts made in September 1980 for 1981 and 1982 industrial production, are seen on this graphic of that time: LaRouche and *EIR* were right on the mark; Chase, Wharton, Data Resources, and Evans were in outer space (**Figure 11**). Even back then, we gave the competition the opportunity of educating themselves by subscribing to *EIR*.

Over the following months, LaRouche elaborated on the necessary measures to get out of the Volcker depression. In January 1982 he listed four such steps:

1) monetary action, including federalizing the Federal Reserve;

FIGURE 11

How EIR predicted the Volcker collapse



2) construction of nuclear energy plants on a large scale;

3) major water and transportation infrastructure projects; and

4) expansion of world trade and investment, by reorganizing the foreign debt that was strangling the developing sector nations. He pointed in particular to the role that Mexico could play, as a potential $100 billion export market for U.S. capital goods.

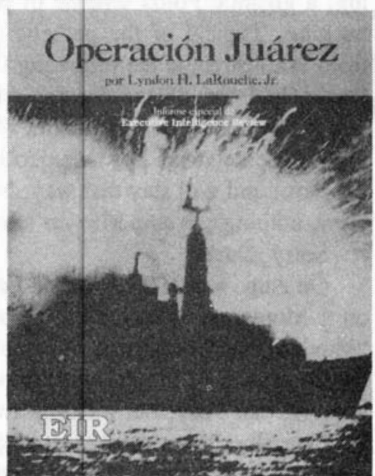
As Mexico came under attack from the international financial community in February 1982, when a 28% devaluation was forced on the country, LaRouche urged that Mexico act quickly, as reported in the March 9, 1982 *EIR*: "LaRouche said Mexico should slap on strict foreign exchange controls; quickly reduce domestic interest rates to accelerate industrial growth; and nationalize any private banks in the country that tried to sabotage these steps."

FIGURE 12

On May 26, 1982, in the middle of the Malvinas War, Lyndon LaRouche met with Mexican President José López Portillo. At that meeting and others with high-level Mexican politicians, and in public comments for the press, LaRouche urged Mexico to use "the debt weapon" in alliance with other countries of Ibero-America. *EIR* did the same (**Figure 12**).

And then in August 1982, LaRouche issued his famous report "Operation Juárez" (**Figure 13**). In his Author's Foreword to that document, dated Aug. 10, 1982, he wrote: "During the Winter months of 1981-1982, the continuation of the so-called Volcker measures in the United States triggered the eruption of a second, worldwide 'Herbert Hoover' depression. . . . This new depression will probably lead into a general, chain-reaction collapse of finan-

FIGURE 13



cial institutions by September 1982."

Three days later, on Aug. 13, 1982, Mexican President López Portillo imposed exchange controls to stop the massive capital flight that was destroying the Mexican economy—as LaRouche had urged months earlier. Two weeks after that, on Sept. 1, he nationalized the private banks. As the Mexican President called up the heads of state of Brazil and Argentina to urge them to join Mexico in forming a debtors cartel and declare a debt moratorium, as specified in "Operation Juárez," the international financial community held their collective breath in fear.

But the Brazilians and Argentines chose not to join Mexico—and they, and the world, have paid the terrible price for that blunder ever since.

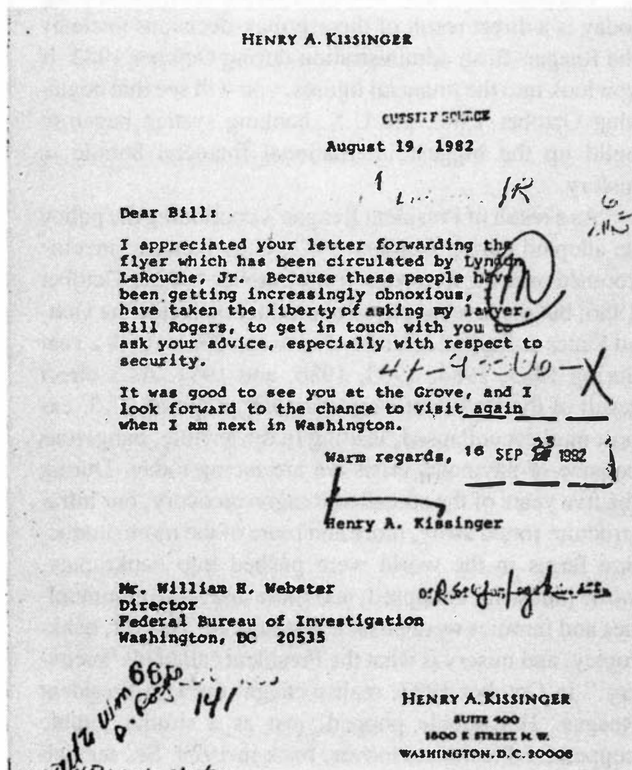
It just so happens that round about that time—to be precise, on Aug. 19, 1982, exactly nine days after LaRouche issued "Operation Juárez" and six days after López Portillo announced exchange controls—self-proclaimed British agent of influence Henry Kissinger wrote his famous "Dear Bill" letter to the head of the FBI, William Webster, demanding action against LaRouche **Figure 14**).

But it should be added that the scare LaRouche was giving the British-Kissinger crowd around the debt crisis was actually a secondary consideration for them; they were even more worried about what he was up to about the same time on what became the SDI proposal, which we will hear a little more about later.

By January 1983, *Time* magazine finally came around to recognizing what LaRouche and *EIR* had been saying throughout 1982, and they even picked up our expression "debt bomb" (**Figure 15**). Now, some people I've spoken to dispute that LaRouche was the first to use that expression. And admittedly, a search of *EIR* and *New Solidarity* headlines of that period left the matter open to doubt. But with the help of our photo staff, I have come up with the documentary proof to end this debate (**Figure 16**). This is an NDPC rally in the streets of San Francisco, on Sept. 14, 1982—a full three months before *Time* magazine got around to the idea. Notice the sign: "LaRouche Says: 'Debt Bomb' Must Stop Depression."

This brings us to LaRouche's Forecast No. 7, from April 1988 (see box, p. 24).

FIGURE 14



HENRY A. KISSINGER

August 19, 1982

Dear Bill:

I appreciated your letter forwarding the flyer which has been circulated by Lyndon LaRouche, Jr. Because these people have been getting increasingly obnoxious, I have taken the liberty of asking my lawyer, Bill Rogers, to get in touch with you to ask your advice, especially with respect to security.

It was good to see you at the Grove, and I look forward to the chance to visit again when I am next in Washington.

Warm regards, 16 SEP 1982

Henry A. Kissinger

Mr. William H. Webster
Director
Federal Bureau of Investigation
Washington, DC 20535

HENRY A. KISSINGER
SUITE 400
1800 K STREET N.W.
WASHINGTON, D.C. 20006

Henry Kissinger's famous "Dear Bill" letter to FBI Director William Webster, demanding action against LaRouche.

FIGURE 15

FIGURE 16

Organizers with the National Democratic Policy Committee (NDPC), the LaRouche wing of the Democratic Party, in San Francisco in September 1982.