

Dennis Small

Ibero-America's debt cancer out of control

The following is an edited transcript of the speech delivered by Dennis Small, EIR's Ibero-American Editor.

I'm going to begin with a quiz. I'm going to read you two quotes, and I would like you to try to come up with an educated guess, as to the author of each of the quotes, and, if possible, the date as well. They're very short.

The first one is: "Economic reforms must be carried out, and you must put an end to protectionism. In this regard, the IMF can provide critical help and guidance." Who said it? Camdessus? No. Close—I mean, reasonable, but no. Any other educated guesses? Lyndon LaRouche? No. He wouldn't say something like this, except sarcastically. Greenspan? No, no.

Let me give you a hint. The date was Sept. 30, 1982. The speaker: George Shultz, then U.S. Secretary of State. Subsequently, after leaving the State Department, he came out advocating the legalization of drugs, presumably based on his experience at the State Department. And more recently, he was one of the leading signers of an advertisement placed in various newspapers promoting drug legalization. This is the George Soros crowd.

This is what George Shultz said on Sept. 30, 1982, right smack in the middle of the Mexico debt crisis. And that's what he was talking about, among other things. It sounds like it could have been said yesterday by Michel Camdessus or Alan Greenspan.

Here is the second quote: "Either a new world economic order is accepted, or civilization will sink into a new medieval Dark Age with no hope of a renaissance." Definitely not George Bush. Lyndon LaRouche? A very good guess, but wrong.

Well, I'll give you a hint. The date of this quote, is one day after the first one, and it was in answer to it, among other things. It was said on Oct. 1, 1982, by then Mexican President José López Portillo, in answer to the insistence that Mexico must follow IMF conditionalities, impose the end of protectionism, and adopt free trade. He said no: "Either a new world economic order is accepted, or civilization

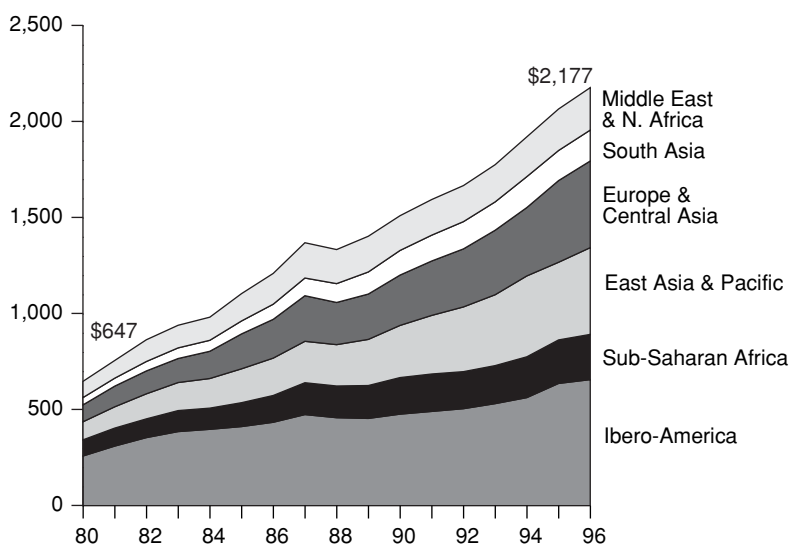
will sink into a new medieval Dark Age with no hope of a renaissance."

So the issue has been clearly posed for decades. It's not a new issue. Back at that point, 16 years ago, Lyndon LaRouche had issued a very specific proposal that was in circulation at the time, which was called *Operation Juárez*, which proposed a way out of the crisis that was clearly evident, of a major, catastrophic world financial crisis. LaRouche's solution at that time would have allowed the world financial system to survive intact, although reformed, by getting back on to the path of growth and development. That is no longer possible today.

We failed in that period of 1982; we, as humanity, failed to adopt LaRouche's solution. But the world *does* face a second chance. We *do* have another opportunity today. Except at this point, it is no longer possible, in any fashion whatsoever, to save the existing world financial system. As John Hoefle has explained, *the system is the problem. It can not possibly be saved.* We are infected with a cancer which must be removed. The only thing that will function, is to get rid of the cancer, and to strengthen the healthy tissue of the physical economy. And that is the essence of LaRouche's New Bretton Woods proposal for today.

Now, I want to address this issue in the Ibero-American format, by reviewing three points. First, I want to lay the basis for understanding the current situation by looking quickly at what happened from 1982 to '95. Second, I will take up the so-called "Mexican solution" of 1995-96, designed to deal with its December 1994 debt blowout, since it is promoted so much, and presented to Asians and others as the model to be

FIGURE 1
World foreign debt, by region
(billions \$)

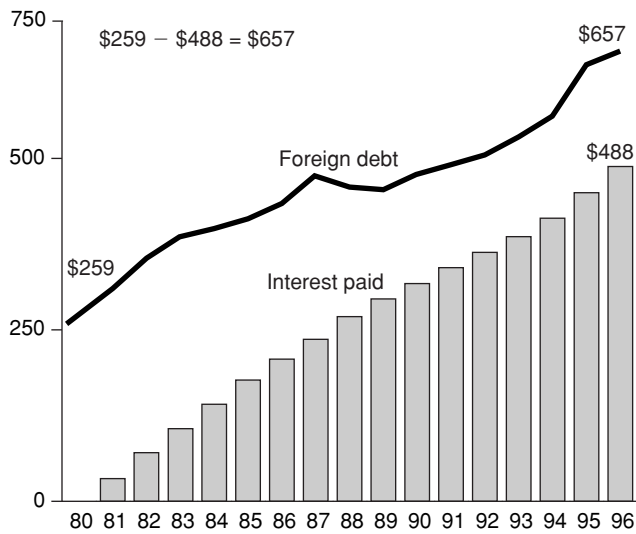


Source: World Bank.

FIGURE 2

Ibero-America, bankers' arithmetic

(billions \$)



Source: World Bank.

followed. And finally, I will conclude by looking at Brazil in 1998, because it is indeed one of the world's financial hot spots, which could blow up imminently.

I should note that much of the material included in this presentation was provided by Carlos Cota and Lorenzo Carrasco, from *EIR*'s offices in Mexico City and Rio de Janeiro, respectively.

1982-1995: the cancer takes over

What happened during the 1982 to 1995 period? **Figure 1** is the picture of total world foreign debt taken by region—Ibero-America, Africa, Asia, and so on. You can see that total world debt rose from \$647 billion in 1980, to about \$2.2 trillion in 1996. In other words, it more than tripled over this period. When we look at the situation in Ibero-America (**Figure 2**), this debt bubble was clearly not addressed, despite what López Portillo, LaRouche, and others were talking about at the time.

This process is what I like to refer to as “bankers’ arithmetic.” If you look back to 1980, the Ibero-American total foreign debt, officially, was \$259 billion. Over the intervening 16 years, through 1996, \$488 billion was paid in interest alone, against the \$259 billion that was owed originally. And yet, *despite the fact that the total original debt was paid at least one and a half times, it grew from \$259 billion to \$657 billion.* So, it would appear that $259 - 488 = 657$ billion. This is what we refer to fondly as “bankers’ arithmetic.” This is the arithmetic of a cancer growing out of control.

Now, let’s focus in on the case of Mexico, and what happened there over essentially the period from 1970 through

FIGURE 3

Mexico: typical collapse function 1

(index 1981=0)



Sources: FAO; ECLAC; UN; World Bank; INEGI; BdM, Conapo, SEMIP, SARH, SHCP, and SECOFI (Mexico); *EIR*.

1997. The real breakpoint is after 1981, which is when IMF policies were forced on Mexico with a vengeance.

Figure 3 strongly resembles, as well it should, the Triple Curve function that John Hoefle showed us earlier, and that we saw examples of in the Russian case as well. It is the characteristic function of the entire global economy today, so it’s not a surprise that it appears repeatedly, in country after country, continent after continent. Speculative values, both monetary values and financial values piggybacked on top of them, are rising hyperbolically out of control, like a cancer gone wild; while on the other hand, the physical economy, from which the real wealth is produced which is needed to maintain the population, and which is the basis for eventually paying off those financial instruments, has been collapsing at an accelerating rate.

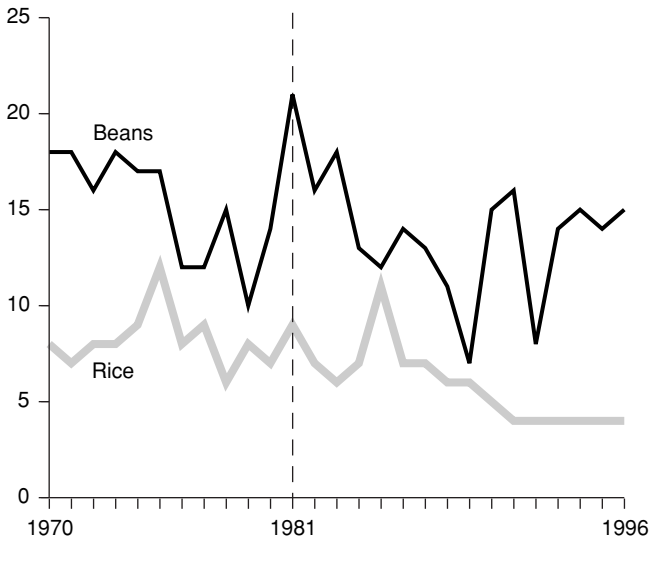
This can only have one conclusion, if it continues, as is clear in the case of a cancer patient, where the prescription given by Dr. Camdessus or Dr. Shultz, is to let the cancer grow and destroy the healthy tissue in the economy. That is exactly what the IMF says to countries. Any oncologist who proposed that therapy to you, would become an ex-oncologist very quickly. He would have his medical license removed. Well, the same thing should happen with Camdessus, Greenspan, and so on.

Returning to Figure 3, we see what happened with Mexico’s foreign debt obligations. These are the *real* foreign debt

FIGURE 4

Mexico food production

(kgs. per capita)

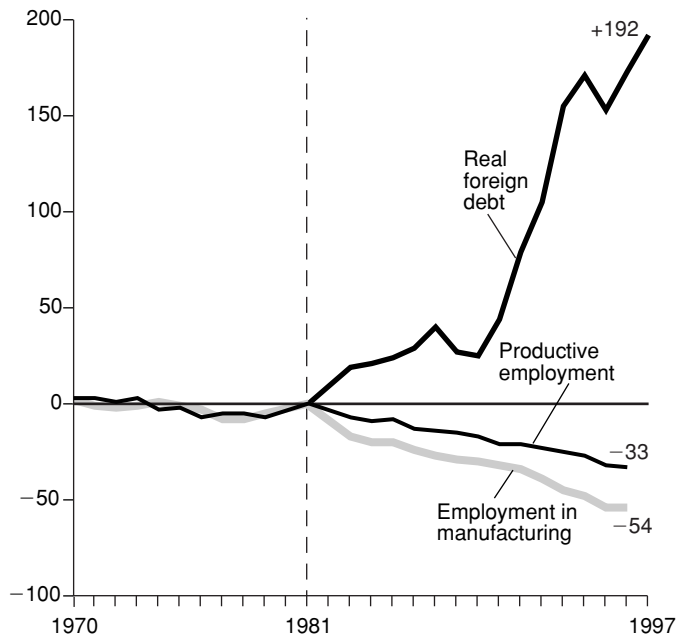


Sources: FAO; SARH (Mexico).

FIGURE 5

Mexico: typical collapse function 2

(index 1981=0)



Sources: FAO; ECLAC; UN; World Bank; INEGI; BdM, Conapo, SEMIP, SARH, SHCP, and SECOFI (Mexico); *EIR*.

obligations (which are greater than the official numbers), which grew from an index which we placed at zero in 1981, to an index of 192 by 1997. In comparison, our index of consumer goods production fell by 22% over the period 1981 to '96. In other words, there was an almost one-quarter drop per capita, while the debt was rising. The production of producer goods similarly dropped by 29%.

Now, these are indices. In dollar terms, the official foreign debt of Mexico in 1997 was \$185 billion. But there is, additionally, another \$53 billion in what we call de facto foreign obligations—and I'll come back to this issue when we take up the case of Brazil. These are basically disguised foreign debts, that don't show up in the official figures, but is money that is nonetheless owed. In the case of Mexico, you're talking about total real foreign obligations today of about \$238 billion—nearly a quarter-trillion dollars.

Let's look at a couple of concrete cases, to see what "an index of consumer goods" really means. Take the case of beans and rice, which, along with corn for tortillas, is what most Mexicans eat. As **Figure 4** shows, since the IMF's policies were implemented in 1982, per-capita production of beans has dropped by 32%, one-third. Per-capita production of rice has dropped 58%. Per-capita production of wheat has dropped 25%; corn has dropped 12%. The physical economy of Mexico is crumbling under their own feet.

In **Figure 5** we look at the employment side of the picture. We have an index of employment in *productive* jobs, as a percentage of the labor force. By "productive" we mean jobs actually producing the goods and services that are required

for a physical economy, as opposed to overhead costs, or stock market analysts, or economists, or other useless professions. Productive jobs dropped by 33% over the period of 1981 to '96, while the debt soared. And jobs in manufacturing (excluding the "maquiladora" slave-labor plants, which aren't really part of the Mexican economy), dropped by 54%, as a percentage of the labor force, over this 16-year period. This is a total catastrophe.

What is even worse, although we do not have the full data yet to document this systematically, is that, since the crisis of 1994-95, when the Mexican debt bubble blew out and the great IMF bailout package was put in place, not only did the physical economy not recover, but its rate of collapse has increased. In other words, it was falling apart; but it's now falling apart faster.

The opposite occurred with the debt bubble. After the little drop from 1994 to '95, where the speculative bubble was slightly contracted, they got the speculative machine revved up all over again, and now it is soaring and back on track. On track to what? To a second blowout of the Mexican debt bubble. It will come. Before or after Russia or Brazil, that we don't know. But it will occur.

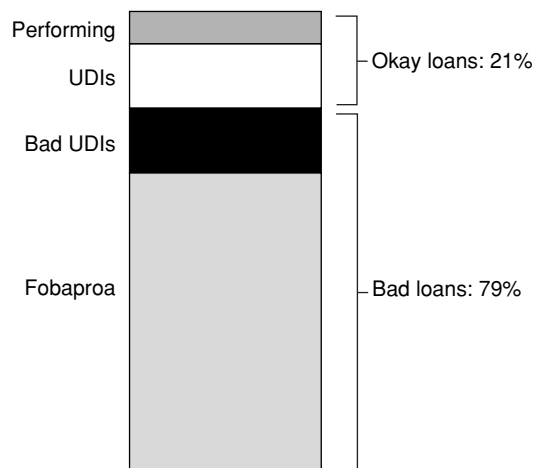
Mexico's 79% solution

Now let's turn to the so-called "Mexico Solution" to the crisis that was implemented starting in 1995. The point to be

FIGURE 6

Mexican bank loans, 1994

(total = \$100 billion)



Sources: SCHK and CNBV (Mexico); EIR.

made on the Mexican economy today, nearly four years later, is that it is disappearing. It's simply disappearing.

Let's start with the case of the Mexican banking system. There's an object lesson here, because the Mexican banking system and what was done with it in 1995, is the model now being promoted around the world by the IMF crowd, as the solution which the Asians and the Russians and everybody else should adopt. In fact, Mexican President Ernesto Zedillo, in a widely praised speech that he gave in Vancouver on Nov. 24, 1997, at the Asia-Pacific Economic Cooperation meeting, said the following: "Asian countries today should do what Mexico did three years ago, by showing strong financial support for their domestic banking systems. Once that is done, governments then have to determine which expenses must be adjusted, and what taxes have to be raised, to pay for that support."

Zedillo, a trained economist from Yale University—the only thing worse is to have a degree from Harvard—clarified: "Such policies are often unpopular with voters, and come with a high political cost. But it's vital not to let a country's financial system go down the drain. The common man on the street only thinks that bankers are being saved. But that's not true," Zedillo argued. "By avoiding bank failures, we supported depositors, debtors, and most fundamentally, we avoided a chain reaction that would have moved through the whole financial system, and into the real sector of our economy."

So what did they do? Well, the Mexican banking system, in 1994, held a portfolio of approximately \$100 billion worth of loans outstanding (see **Figure 6**). In other words, they had

lent out \$100 billion to companies and individuals, which was their loan portfolio. In the intervening period, over the last four years, \$65 billion worth, that is to say, 65% of that total portfolio, became non-performing—bad debt—and was then taken over, bought out, by a government bank rescue program called "Fobaproa." In other words, the government moved in, and bought up the non-performing bad debt. These were loans that the banks had made, that they simply could no longer collect—i.e., they were bankrupt. So the government came in with \$65 billion to bail out the banks and clean up their books by buying out this debt.

Then there was another debt reorganization program, called the UDIs, which is the Spanish acronym for "Investment Units." There was a total of \$28 billion of UDIs issued. And our best estimate is that about half the UDIs remained performing, while the other half of the UDIs went bad, they simply became non-performing loans as well. And then there was about 7% of the original \$100 billion which is still performing debt.

What you're looking at here, then, is that a total of 79% of the Mexican banking system blew out, went bankrupt in the 3-4 years after the whole debt bubble exploded. *There is no Mexican banking system today.* You may want to call the remaining 21% a banking system, but it's not. They're not issuing credit to industry, there's no credit being issued for development.

What happened is that over 60% of the Mexican banking system has been bought out and taken over by foreigners since it blew out in 1995. The Mexican government picked up the bad debt, and then they handed the remains over, at ridiculously low prices, to international banks. Which kind of international banks? Which kind of international banks have money today? *Drug money-laundering international banks.* The Hongkong and Shanghai Banking Corp., for example. Have you ever heard of them? Read the book *Dope, Inc.*, and you'll know all about them. Another is the Bank of Montreal. Ever heard of them? If you haven't, go down to the Cayman Islands, and try to launder some drug money: The Bank of Montreal is all over the place in the Caribbean money-laundering havens.

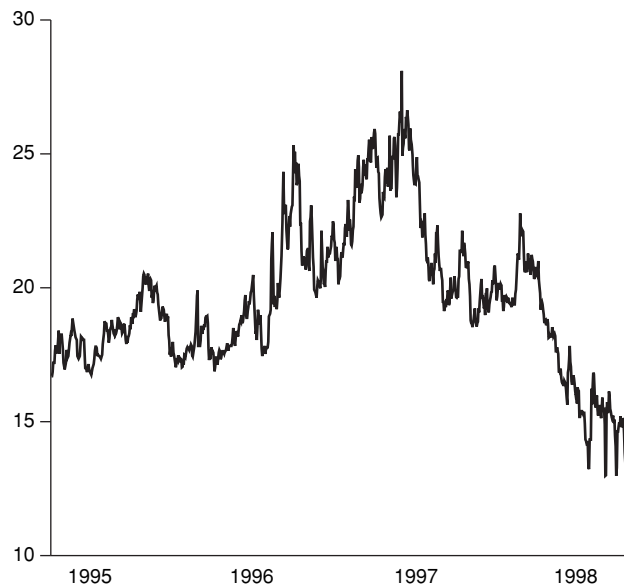
The Mexican banking system was taken over by the Dope, Inc. banking apparatus. So, what's the big surprise when the United States government runs a sting operation, called "Operation Casablanca," with some admittedly questionable practices, inside Mexico, and finds that "Mexican" banks are laundering drug money? They're not actually Mexican banks. It's the Hongkong and Shanghai Bank. It's the Bank of Montreal. They didn't have to run a sting operation to find that out; they could have asked me, I would have told them. It's obvious.

Of course, they only got the little guys, instead of going up the ladder to the City of London, where they should have gone, and should go, and must go, if we're going to solve this

FIGURE 7

Crude oil prices

(\$ per barrel, West Texas Intermediate)



Source: Wall Street Journal.

drug problem. So that's the secret behind Operation Casablanca.

So there's no Mexican banking system; you can forget it.

Now, take the question of the budget. Some 40-60% of the Mexican budget is based on oil revenues. But oil prices, internationally, have dropped by approximately 30%, one-third, since October-November of last year (see Figure 7). What do you think has happened to the Mexican budget as a result? It has blown out, and has been cut twice so far this year, to the tune of \$3.5 billion. They are about to cut it again, and what are they slashing? Debt payments to the banks? Not a chance; that you don't touch, not if you're an economist following the guidelines of Shultz and the IMF.

They're cutting social spending, they're cutting investment programs, they're cutting education, health, and so on and so forth. So, the Mexican federal budget is also gone, like the banking system.

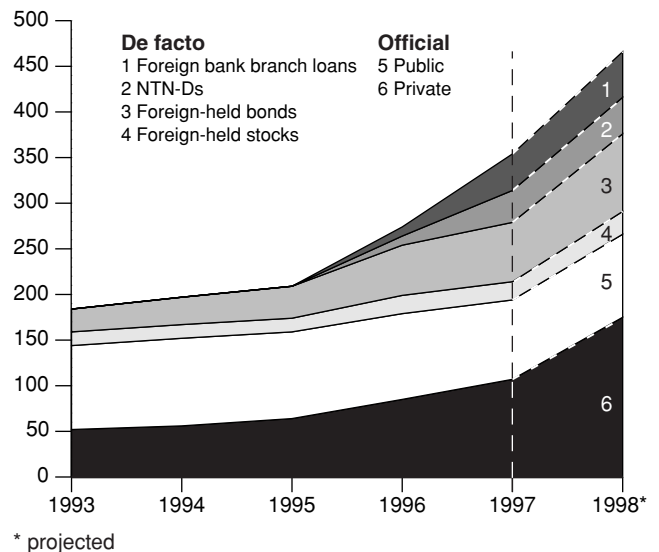
A third area of the Mexican economy that is also disappearing off the face of the earth, is the agricultural sector. The decline that we saw in beans and rice, characterizes the entire sector. Mexico has now turned into a major importer of agricultural goods. They're going to be importing 13 million tons of grain this year, although they don't have the money to pay for it. In 1998, Mexico will run a current account deficit, based mainly on a trade deficit, of something over \$20 billion.

In short, Mexico is in a mess. The bank bailout operation

FIGURE 8

Brazil: real foreign debt

(billions of \$)



Sources: World Bank; Central Bank of Brazil; EIR.

there was not a success for Mexico. It was only a success for the cancer. And if that's the model that's followed globally, we're going to see the same results on a global scale as we see in the case of Mexico.

The Brazilian bubble

Now let's look at the current hotspot: Brazil. Figure 8 shows Brazil's real foreign debt as of 1997, with our estimate of where it is heading for December 1998. The bottom two segments are the official foreign debt, which is made up of two components: the private sector's foreign debt, which has grown very rapidly in the last year, and the public sector foreign debt.

But, in addition to that, there are other areas of de facto foreign obligations, equivalent to Russia's GKO bonds, which we heard about from Rachel Douglas. These are actual obligations which Brazil has contracted, and must pay off out of its national wealth. The first of these is foreign investment in the Brazilian stock market, which has to be paid out as soon as the speculators decide to pull out. So, that's a foreign obligation of about \$25 billion.

The next segment is foreign-held government bonds. Now, bonds, according to the World Bank and other official statistics, are not considered "foreign debt," because they are issued domestically, inside the country. So, they are counted as domestic debt. But, if they are bonds held by foreigners, and there is free convertibility into the dollar, they are pretty much foreign obligations. When the foreign bond holders

cash them in, they will convert them into dollars, and so you effectively owe this abroad. We estimate that this category is approaching \$85 billion today.

The third segment is a special category of government bonds. This is where the lunacy really begins. These are dollar-denominated domestic bonds, which are like the famous “Tesobonos” in Mexico. Mexico issued \$30 billion of this stuff in 1994, denominated in dollars rather than pesos, and then, when it came due, they didn’t have the money to pay.

Well, in the case of Brazil, they are also issuing dollar-denominated domestic bonds, which are called NTN-Ds. Some say they really ought to be called “TNTs,” because that’s what is going to happen: they are going to completely blow up, like the Tesobonos. There are at least \$40 billion of these to date.

The final category of de facto obligations, is actually the most interesting, at least from an analytic standpoint. This is lending inside Brazil by Brazilian branch offices of foreign banks, which are increasingly moving into the country. The notorious Hongkong and Shanghai Bank, for example. If João in São Paulo borrows money from the HongShang Bank office in Brazil, he effectively owes that money to the home office of this bank, in London. So this is another form of disguised foreign indebtedness, which adds another \$50 billion to the total.

So, we are talking about a total real foreign indebtedness of Brazil, of about \$466 billion by the end of this year — which is getting up there pretty close to the half-trillion mark. The rate of growth of the official foreign debt alone is shocking: It stood at \$194 billion in December 1997, and in only three months it grew to \$212 billion — a 9.3% growth in one quarter. That is an annual growth rate of almost 43% — and again, that’s only the official part of the foreign debt.

Now, let’s look at the government’s domestic debt, the public domestic debt (see **Figure 9**). These are Treasury bonds, just like the GKO’s in Russia, or Treasury bills here in the United States. But in Brazil, they are, of course, denominated in the local currency, the real.

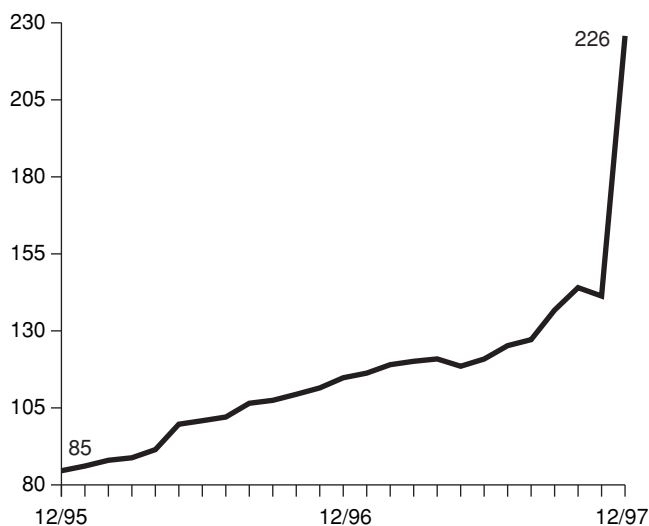
Now, for purposes of conversion, you should know that \$1 is worth about 1.1 reals. So, it’s pretty close to a dollar. Thus, 85 billion reals would be about \$78 billion: That was the total amount of Brazilian Treasury bonds outstanding, as of December 1995. In December 1997, they owed 226 billion reals — a near tripling in two years. And you can see what has happened in the most recent period: This is exactly the hyperbolic triple collapse function that LaRouche has been talking about.

This is really an amazing curve; and the rate of growth is expected to take the total at the end of ’98 to about 340 billion reals. In other words, it will have grown another 50% over the course of this one year. This is a pyramid scheme. Why is the government issuing these bonds? Because they are *des-*

FIGURE 9

Brazil: treasury bonds outstanding

(billions of reals)



Source: Central Bank of Brazil.

perate to get their hands on money which they can then use to roll over and pay the existing debt.

This is a cancer that must grow, just to feed itself. It cannot long survive. You cannot accept the laws of existence of a cancer, and expect your nation to survive. You cannot have democratic respect for a cancer; cancers don’t have equal speaking rights; cancers don’t have equal voting rights. Cancers must be extirpated, or zap them with chemotherapy. Zap them with a New Bretton Woods proposal. That is what’s required here.

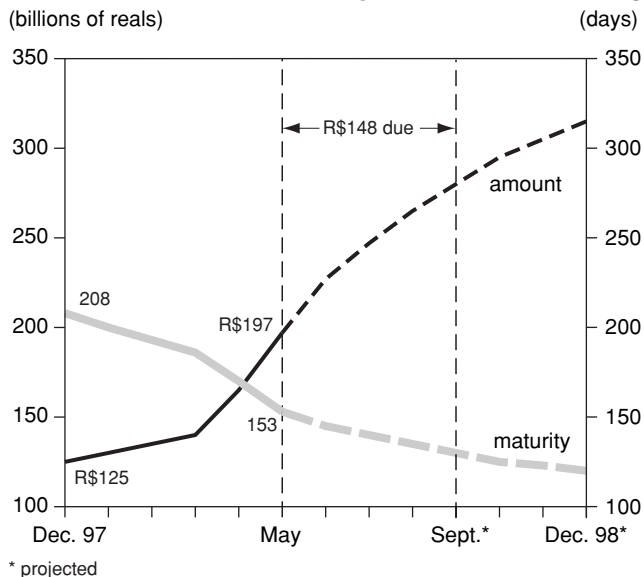
As bad as the foreign debt is, as bad as the domestic debt is, what comes next is worse. Figure 9 takes the public domestic debt picture up through December 1997. Now, let’s look at what has happened to the short-term component of that total domestic public debt, from December 1997 through May 1998, which are the last figures that we have available, and then project what is going to happen by December 1998.

Figure 10 presents both the amount of that short-term bonded debt, and its average maturity, or due date. In December 1997, the amount stood at 125 billion reals, which is about \$114 billion. By May, that had already grown to 197 billion reals. And at this same rate of growth, more or less, by the end of September and the Presidential elections in Brazil (the elections are on Oct. 4, if they make it to then), the total amount will have grown to about 280 billion reals.

Meanwhile, the average maturity of this short-term debt has been dropping, as the amount outstanding has been in-

FIGURE 10

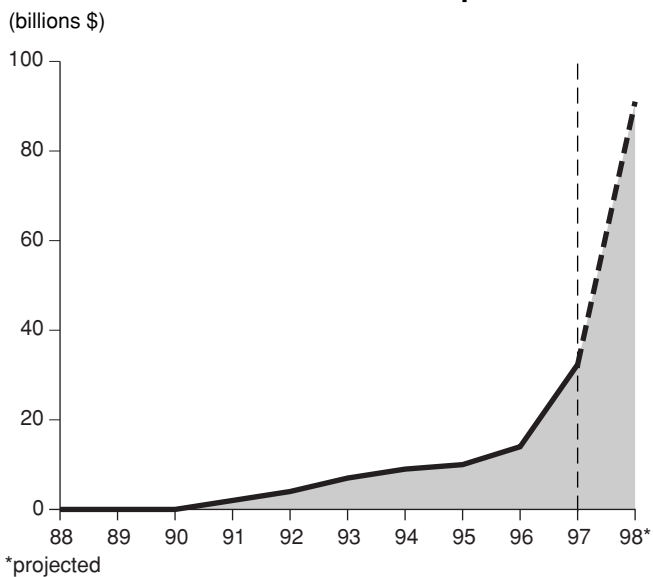
Brazil: short-term treasury bonds outstanding



Sources: *Folha de São Paulo* (Brazil); *EIR*.

FIGURE 11

Brazil: cumulative revenue from privatization



Sources: BNDES (Brazil); *EIR*.

creasing. The average maturity was 208 days for this packet of debt, back at the end of 1997. By May 1998, it had already dropped to 153 days. And it's heading down toward 130 and 120 days.

Again, as of May, the total amount outstanding was 197 billion reais. Over the next four-month period, from May through September, between now and the elections, 148 billion of that total of 197 billion reais of debt, comes due. Seventy-five percent of the outstanding short-term Treasury bonds of Brazil come due in the next four months. Do you think the government is going to be able to cover that?

If you do the calculations, the average amount coming due each week between now and the elections, is just over \$1 billion per week. That compares to about \$1.5 billion in GKO's coming due per week in Russia. So, Brazil and Russia are in the same situation. Same crisis; same cancer; same mess.

Now, what is the Brazilian government planning to do about this? Well, their problem is that, in addition to having to pay off 148 billion reais in short-term bonds in this period, there is another \$60 billion in foreign debt that has to be rolled over this year. Plus, Brazil is going to have a current account deficit in 1998 of about \$40 billion. So you are talking about a pretty monumental problem, a gaping hole in the range of \$250 billion worth of obligations of one form or another coming due. This is indeed a very demanding cancer.

So what will they do? The Fernando Henrique Cardoso government has come up with a very simple solution: They are going to sell off everything, including their grandmother.

They are going to turn the country over to the creditors. It's called "privatization."

"Privatization" means that you take everything that you own to the hock shop, to the pawn shop. That is exactly what privatization is. Except in this case, it is the IMF, the international speculators, and the creditor banks that are out there with their three golden balls hanging out, like pawn shops. And governments, like Brazil's, take them their entire country, and they say: "What will you give me for Companhia Vale do Rio Doce, the third-largest mining company in the world? What will you pay me for that?"

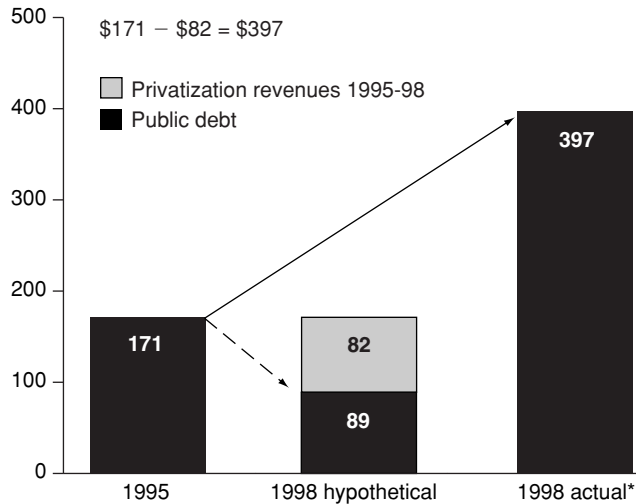
And George Soros says, "Well, how about \$3 billion? Or \$3.3 billion—such a deal!" Which is precisely what Soros and company paid for control of Brazil's Vale, the third-largest mining company in the world. And Vale now no longer belongs to Brazil. The government is also selling Telebras, the national phone company. This is a country of 160 million people. In area, Brazil is larger than the continental United States; this is a big country. It's not as big as Russia, but it's pretty big.

In **Figure 11** we show how Brazil is handing everything over. The cumulative revenue that Brazil had gotten from privatizations, up through 1997, was about \$32 billion. Over the course of 1998, they're planning to hand over to the pawn shop another \$60 billion worth of national assets. So, the whole country is being handed over. To do what? To pay off a very small portion of the amount of the speculative bubble which is coming due. It doesn't even cover a significant part

FIGURE 12

Brazil: public debt, privatizations, and bankers' arithmetic

(billions \$)



*projected

Sources: BNDES, Central Bank (Brazil); EIR.

of it. For example, the sale of Vale in 1997 covered only the interest payments on the government's Treasury debt, *for about one month*. For the third-largest mining company in the world, they got one month of interest payments.

One additional point that should be noted: like the pawn shop, privatizations today are a buyer's market. Brazil tried to sell off an electricity company earlier this year, but they couldn't sell it: They had to come back with a lower price. It's like the pawnbroker who says: "Nah. That's too much; I can't pay you that." The same thing happened with Rosneft, in the case of Russia, the second-largest oil producer in Russia. The asking price was too high. They were told: "Nah. Too much. We'll give you half that; or a nickel on the dollar. What do you say?" So, this is a buyer's market. Countries are going up for grabs, cheap.

Figure 12 gives you an idea of how this process actually works. The argument from the IMF and the bankers is that revenues from privatization can go to pay off the government's public debt, and countries can put their financial house in order. Well, if you look at Brazil, its combined domestic and foreign public debt was the equivalent of \$171 billion in 1995. From 1995 through the end of 1998, they will have privatized about \$82 billion. So, presumably, according to the IMF's logic, Brazil could use that \$82 billion to pay down the \$171 billion in public debt, and, everything else being equal (i.e., no contracting of new debt), the debt should be down at about \$89 billion by the end of 1998. Seems simple enough: you owe \$171, you sell off \$82 to the pawn shop, and you pay

off that much of your debt. So it should drop to \$89.

But that's not how it works: This is, again, bankers' arithmetic. The public debt will instead rise to \$397 billion by the end of 1998. It's a cancer.

Meanwhile, what has happened with Brazil's physical economy? Let's look at beans and rice, as we did with Mexico. In the case of Brazil, the price of beans has risen in the last six months by 180%. In the case of rice, the production in the country in 1998 will be 7% lower than it was in 1997. The national stocks of each of these, beans and rice, are at about one week's consumption. It's considered safe to have a minimum of two months' stocks. So, they're holding barely one-eighth of what they should.

Brazil is a country that was self-sufficient in most major agricultural products in the late 1980s. For example, wheat: Brazil is now the world's second-largest importer of wheat. Rice: It is the world's third-largest importer of rice. Cotton: Brazil is now the world's third-largest importer.

The handwriting is on the wall

As in Russia, and as in other parts of the world, and as is evidenced in this meeting and others that we've had across the United States, there is a groundswell of recognition that the world financial crisis is indeed serious, and that something drastic has to be done about it. The old axioms do not work.

In Brazil, even establishment luminaries who have defended the Establishment for a long period of time, such as Rubens Ricupero (he was Finance Minister, then Foreign Minister, and he's now the General Secretary of UNCTAD) are starting to speak up. Ricupero recently wrote an article saying that Brazil has to adopt a Hamiltonian, or protectionist, economic system. He argued for following the example of China, to develop self-sufficiency. China is saying "We're going to do it our way," Ricupero noted, so why shouldn't Brazil, too? So, when someone like Ricupero can talk that way, you know that the Earth is moving. And they are at least looking at the wall, to see if they can read the handwriting on it. Many are not yet scared enough to let Lyndon LaRouche help them figure out what to do, but that will come.

The real issue was indicated by the Prime Minister of Malaysia, Mahathir, a number of months back, when he said, and rightly so, as far as he went: How can it be, that in three months of speculation, 30 years of progress and development are being wiped out, just like that?

Mahathir is right, except that the crisis is even more serious than he indicates. It is not 30 years of development and progress that are being wiped out. What is being wiped out, unless we stop it, is *500 years* of the growth and development of Western civilization, and everything that is most vital about it. The concepts, the ideas, the value of human life, and the very concept of man which has allowed human society to exist, it is that which is under assault by the cancer of the IMF's global monetary system.

I say, it is time to rid ourselves of the cancer.

Bankers' arithmetic makes the cancer grow

Dennis Small here answered a question from the audience: "What made the debt go up so rapidly? How can you owe \$171 billion, pay \$82 billion, and end up owing way more?"

You must be from the old school of thought, where $2 + 2 = 4$. I hope there are no schoolchildren in the audience, because they will get a very strange idea of arithmetic, from the way the bankers do it.

It is a real question. How in the world can you start with \$171, pay off \$82, and end up with \$397? (See **Figure 12**.) That's a very good question; and it is, unfortunately, the reality of the situation that Brazil is in.

Think of yourself in the following situation: If you're a person who owes \$171,000, and you go to the pawn shop and sell off \$82,000 worth of something or other that you own, and you use that to pay your creditor, what could be going on, that you would end up owing \$397,000? Obviously, there is some process going on here, through which more and more debt is being piled up on you, no matter how fast you pay it off. The more you pay, the more you owe. There is something rigged about the game.

If we look at the other example of bankers' arithmetic, the case of all of Ibero-America (see **Figure 2**). They owed \$259 billion in 1980, and they paid off \$488 billion in 16 years. They really did: They paid \$488 billion in interest payments alone, not in amortization of the principal. That was additional. And yet, the debt grew from \$259 billion to \$657 billion. So, you ask yourself, how in the world can this be? How can you owe a certain amount, pay it off one and a half times over, and when it's all over, you owe more?

I'll tell you what is happening: They are *cheating* on the countries. It's not more complicated than that. How do they cheat? They cheat in two main ways. First, by forced devaluations of their currencies. Let's say you are the nation of Mexico, and you have an exchange rate of, say, 5 pesos to the dollar. Now, if you owe \$100, you have to sell enough of your goods to earn 500 pesos. Then you go to the bank and exchange the 500 pesos for \$100, and you pay your \$100, because the exchange rate is 5:1.

But, let's say the IMF, George Soros, and other people come along and force a devaluation of your currency, as just happened in Indonesia, Thailand, etc. All of a sudden, they tell you: "You know what, Mr. Gómez? The peso is not worth 5 to the dollar any more; the peso is now worth 10 to the dollar." Why? "Because we say so."

Wait a minute! That means that to pay \$100 in debt, you

now have to sell, not 500 pesos worth of goods, but 1,000 pesos worth. You have to sell, or export, or hand over from your country, *twice* the physical amount that you did the day before. Why? Because your currency was just devalued. You protest: "Wait a minute. That's not fair!" And the bankers and the IMF say: "What do you mean it's not fair? That's neo-liberal economics. Didn't you study at Harvard?"

That's one of the ways they cheat, but there's another. They have backups, you know, in case one doesn't quite work, they use the other, or the two work better together.

The other way they cheat, is called "the terms of trade." What does that mean? Again, say you are a Mexican, and you are selling whatever you export from Mexico. Let's take oil. The terms of trade means that the price of your oil exports drop, and the prices of your imports — machinery, consumer goods, and so on — increase. Let's say that when you first borrowed the money, in order to import one machine tool, you had to sell ten barrels of oil. Let's say that was the price equivalent. Well, what happens if the price of oil goes through the floor, and the price of the machine tool rises? That is called deteriorating terms of trade — otherwise known as robbery. It's like when you go to the pawn shop, and you want to sell them your gold watch, which is worth \$100, and they say, "Oh, I'm sorry, if you'd come yesterday, you would have gotten \$100, but the price just dropped. It's now worth \$50." And you say, "Hey, wait a minute. That's not fair!" And they say, "What's the matter? Didn't you study at Harvard?"

So, the deteriorating terms of trade means that the price that the Third World country gets for what it sells, is falling. And so, they have to run faster, just to stay in the same place. And the price of what they are buying is rising, so they have to run twice as fast just to stay in the same place. There are other tricks that they use, but devaluations and the terms of trade are the two main ones — you have to export more, and more, and more physical wealth, not just to stay even, but you fall further and further behind. You owe more and more, no matter how much you pay. And, there's no way you can win, because the game is rigged.

The only thing that can be done, is you've got to say, "Stop this, I'm getting off. I'm not going to do this anymore. We're not going to play the IMF game. We're going to set up a new monetary system. No devaluations. Fixed currencies. Your currency is worth what it's worth, predictably. In terms of trade, we're going to have fair prices for products and commodities, so that a profit can be made, so that you can invest and have physical economic growth."

The point on the bankers' arithmetic, the reason it is so ludicrous, is that the unit of measurement changes. And the unit of measurement is changing because the IMF and the bankers run the casino gambling house, they run the game. And it's a fixed game, and they *cheat* on you, and they say, if you don't like that, you are obviously a dummy, you didn't study economics at Harvard.

And, that's how bankers' arithmetic works.