*the Ibero-American Solidarity Movement published 10,000 copies of a pamphlet entitled "People First! Bankers and Speculators Can Wait," which warned that the attempt to impose such measures would provoke a crisis of the federal pact upon which the Constitution is founded. The centerpiece of that pamphlet, copies of which have circulated from hand-to-hand among nationalist networks throughout the country, was LaRouche's "What Each Among All Nations Must Do Now." It warned:*

1. In general, it must be recognized that this is not only the most explosive and dangerous financial and monetary emergency in modern history, but an immediate, and unavoidable threat. Only pre-emptive and immediate actions could prevent the present situation from bringing about the virtually immediate collapse of civilization world-wide. . . .

2. Each nation must assert the principle, that there exists no higher political authority on this planet, than a perfectly sovereign nation-state republic. . . .

4. Under present circumstances, this requires immediate measures of capital controls, exchange controls, international regulation of financial and monetary affairs, and terms of trade, by each and all individual sovereign nation-states. This must include the setting of protected prices for essential commodities of domestic consumption and export-import trade. In many cases, it will be necessary, at least temporarily, to introduce rationing of essentials of household consumption and production, to ensure the protection of the continuity of such essential trade in defiance of price-speculation against actual or perceived scarcities. It is by parallel and cooperative use of these methods, that national economies shall be defended against an already inevitable, early, sudden, and rapid collapse of fictitious financial instruments.

5. Each sovereign state must place its financial, monetary, and economic affairs under general financial reorganization, as in general bankruptcy. . . . The essentials of basic economic infrastructure, agriculture, manufacturing, international hard-commodity trade, and general social welfare, must be defended. Other financial claims are either nullified, or converted into long-term frozen assets at lowest interest-rates. . . .

6. In general, the practice of issuance of international financial loans shall be terminated, "for the duration of the period of the continuing state of crisis." Instead, state-backed credit shall be issued, chiefly long-term credit for basic economic infrastructure, agriculture, manufacturing, and world trade, at low discounts (below 1-2% per annum). This credit shall be issued by methods of national banking, using private "industrial-style" banking as the customary medium for issuance and supervision of state-backed credit issued as long-term and other loans. . . . It is to be acknowledged, that large-scale basic economic infrastructure investments funded largely by state-issued credit, will serve as the principal means for reaching break-even during an initial, medium-term period, and beyond.

# EIR warned that IMF bailout couldn't work

*In mid-November 1998,* EIR *released a video entitled "Economic Shocks: Why the World Needs Lyndon LaRouche as President Clinton's Economic Adviser." In it,* EIR *Ibero-American editor Dennis Small gave the following report on the Brazil debt crisis:*

As you can see from **Figure 1,** Brazil's real foreign debt will be approximately $481 billion by the end of 1998. That is the largest foreign debt of any so-called "emerging nation" in the world. It is two and a half times larger than the Russian real foreign debt.

Now, in addition to that, U.S. banks are far more exposed in Brazil than they are in the situation in Russia. U.S. banks have about $35 billion in direct exposure in Brazil. And that compares to their Russian exposure of about $7.7 billion. So their exposure in Brazil is four times larger (see **Figure 2**).

So, with a real foreign debt two and a half times larger than Russia's, and exposure for the U.S. banks four times larger, when Brazil goes, the shock wave of that debt explosion is going to have about 10 times the direct impact on

FIGURE 1
**Brazil: real foreign debt**
(billions of $)

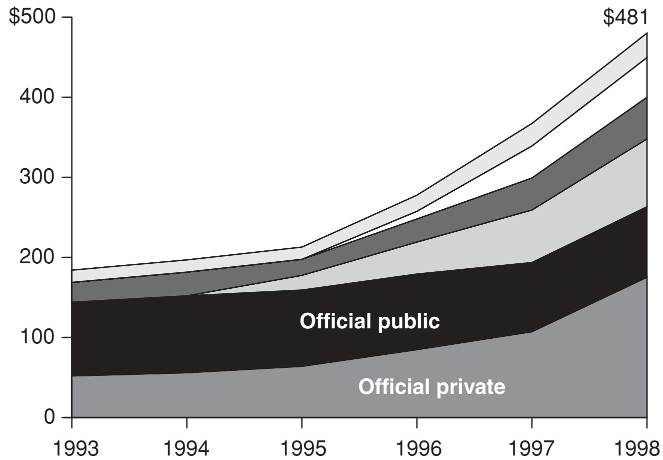


FIGURE 2
**U.S. bank exposure**
(billions $)

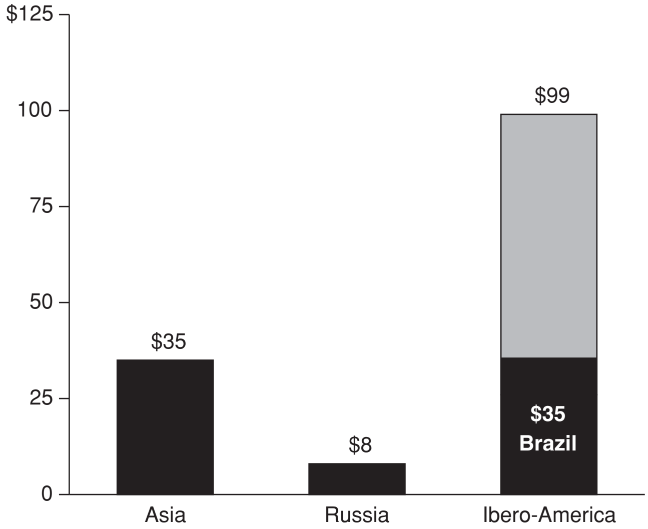
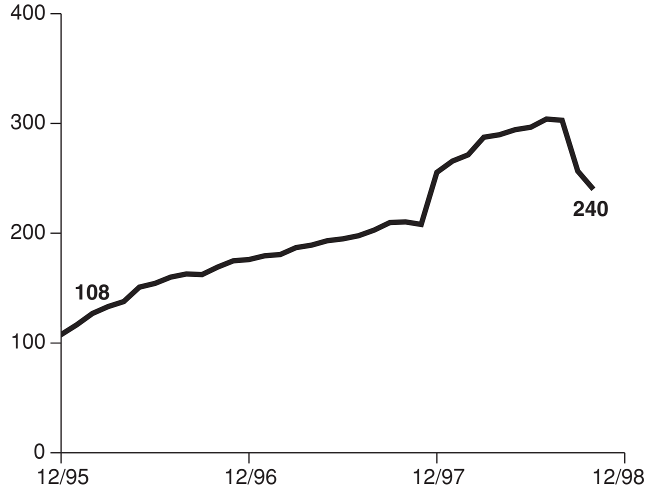



FIGURE 3
**Brazil: treasury bonds**
(billions of reals)




U.S. banks as the Russian debt bomb explosion.

In addition to the problem of the foreign debt, there is the broader issue of the public debt of the government of Brazil, both foreign and domestic. That debt has grown astronomically: It was growing at the rate of 40% per year until late 1997 (see **Figure 3**). But over the first half of 1998, it grew by about 100% per year, up until the month of September, when they were hit by the effect of the Russian debt moratorium, of Aug. 17, 1998—that date which is burned in the memory of bankers around the world. When, on that date, the Russians declared a partial debt moratorium, neither the Brazilians nor any other government in the world were able to roll over any of the debt that the bankers were holding. And therefore, the Brazilian public debt outstanding plummeted—it had to be paid off. It fell by more than 40 billion reals, or about $35 billion, in the month of September alone.

Over the coming month of November 1998, another $40 billion or more in government debt comes due, and it is quite likely that that will not be able to be rolled over, either. Much of the money is fleeing the country in the form of capital flight: reals converted into dollars, and simply leaving the country. In fact, over the months of August and September, $25-30 billion out of Brazil's reserves of $75 billion fled the country in panic.

## The bailout package

In the face of this, the International Monetary Fund (IMF) and various Group of Seven governments, are putting together a package of some $30 billion [it ultimately turned out to be $42 billion], which is supposedly going to save Brazil, or rather save Brazil's creditor banks, in the face of this type of speculative assault. Except, it's not going to work, for two reasons.

First of all, it's not enough money. Brazil would need 10 times as much money, $300 billion or more, as back-up to face the kind of speculative debt assault that they will be seeing.

Second, politically, President Fernando Henrique Cardoso will not be able to implement the IMF austerity package inside the country. Although Cardoso, unlike Prime Minister Yevgeni Primakov in Russia, has agreed to go full-steam ahead with IMF policies and total austerity, major political forces in the country do not agree with him.

For example, a typical quote is that of the head of the São Paulo industrialists federation, the largest and most important business federation in the country, who said: "President Cardoso is gambling, double or nothing, on a bet he has already lost." In fact, after the announcement of the big $30 billion-plus bailout package, capital has continued to flee Brazil at the rate of some $1 billion per day. Brazil's foreign reserves will not stand up to this for very long, and it is a very good likelihood that the Brazilian debt bubble will blow out in the few remaining weeks and months in 1998.

When that happens, the rest of Ibero-America—Mexico, Argentina, and other countries—will follow shortly down the path of disintegration. And when all of that occurs, it will be a shock heard around the world.