Kissinger and Shultz created the crisis

by Christian Curtis

Approximately $200 billion of Latin America's $310 billion foreign debt is the result of usury, capital flight, and declines in terms of trade, a study being prepared by *EIR* shows. Roughly two-thirds of all Latin American debt has nothing to do with "excessive spending" or "overly ambitious development," or, indeed, with any spending at all. Most of the debt is a penalty paid by Latin American countries for the incompetent policies introduced in the early 1970s by Henry A. Kissinger, Paul A. Volcker, and George Shultz.

The American decision to float the dollar and suspend gold backing for U.S. foreign payments in 1971, taken by then-Treasury Undersecretary Volcker and enforced by George Shultz, Treasury Secretary after 1972, created an unregulated banking pool of $2 trillion, larger than the American domestic banking system. The so-called Eurodollar market put a permanent floor on interest rates, siphoned credit into speculative channels, and provided means for looting of "flight capital" from the economies of developing countries."

In 1972, under Kissinger's direction, the Rambouillet economic summit meeting acknowledged floating exchange rates, i.e., the absence of any criteria of value for the dollar other than gains available through speculation, and thus ruined what chances remained to rescue the world economy from a series of monetary shocks and world depression.

The study shows that most of this illegitimate debt was imposed after October 1979, when U.S. Federal Reserve Chairman Paul Volcker began increasing interest rates from 8 percent to over 20 percent. Latin American economies paid $114 billion in interest alone between 1979 and 1982.

Volcker's pretext for raising interest rates to the highest level in recorded history was the collapse of the dollar's value on foreign exchange markets during 1979. In fact, Volcker's policy of uncontrolled Eurodollar expansion under the floating-rates "gold-demonetization" regime had ruined the dollar's value. To compound his original blunder, Volcker attempted to stabilize the dollar's value at the expense of both the American and other industrial economies, as well as those of the Third World.

Had Volcker left interest rates at the 1978 levels, *EIR* demonstrates, these interest payments would have been no more than $65 billion; $49 billion of total Latin American debt is therefore the result entirely of actions by the Federal Reserve chairman.

More than 80 percent of all short-term debt contracted since that time, and an increasing share of long-term debts, have been solely for the purpose of rolling over past obligations and meeting the service costs of the Volcker policies. The remainder is ostensibly for financing trade, but this share, too, is rapidly collapsing, as Latin American countries have all but stopped imports during 1983.

Shift to short term

In 1979, Volcker's first year as Fed chairman, annual interest payments soared by 54 percent to $17 billion, and by last year they totaled $34 billion. Interest payments were less than $8 billion until 1978, when they reached $11 billion.

In addition to the $49 billion stemming from interest rate increases, the composition of the total debt has shifted markedly toward unproductive short-term obligations, in a self-feeding spiral. Ten years ago, the short-term portion of Latin America's total foreign debt was about 11 percent of the $42 billion total. By 1982, short-term debts had ballooned to a third of the total. In 1978, Latin American short-term obligations comprised less than 19 percent of the total. After Volcker began increasing interest rates, this proportion over the next four years increased to 21 percent, 25 percent, 28 percent, and 33 percent, respectively.

Less and less credit at increasingly higher prices was available for long-term productive projects. And as countries reached bottlenecks in the short-term commitments, they converted many of these into medium- and long-term loans, yet only for the purpose of "feeding" a debt monster. *EIR* estimates this process added between another $20 billion to Latin America's debt bill.

The drain on these economies by systematic looting of capital padded the debt figure by at least $103 billion since 1979. The Mexican government documented $54 billion of this over the period of 1980-82, and Venezuela lost $16 billion to capital flight in 1982 alone. Brazil and Argentina easily account for the bulk of the remainder.

As for trade, results indicate that although Latin America had a total trade deficit of $40.8 billion between 1973 and 1982 in nominal terms, the real deficit was only $12.8 billion, if that trade is measured in a volume index at constant dollars. The difference, $28 billion, had to be financed primarily with short-term loans, thus running up the total debt by that amount.