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EIR Operation Juárez

Monetary policy of the Common Market

Part 30
Ibero-American integration

This installment begins Chapter 11, the final chapter of *EIR's* exclusive translation of the Schiller Institute book, *Ibero-American Integration: 100 Million New Jobs by the Year 2000!* published in Spanish in September 1986. It was commissioned from an international team of experts by the Schiller Institute's Ibero-American Trade Union Commission, to elaborate the 1982 proposal by Lyndon LaRouche for an "Operation Juárez" that will transform the huge foreign debt problem into the springboard for a regional economic boom.

The "García solution," to politically break with the IMF and not pay more than 10% of export revenues for debt service, is a step toward forming a "debtors' club" and an Ibero-American Common Market. Since the book was written, Brazil's government has followed Peru's President Alan García, with its courageous declaration of a debt moratorium on Feb. 20, 1987.

Numbering of the tables and figures follows that of the book.

What the reader is naturally asking himself or herself at this point in our presentation is: How are we going to finance all these projects? Where is the money going to come from?

Those readers who have suffered formal training in economics will be particularly disturbed by the fact that we have said nothing up until this point on the monetary side of the economic plan we propose for Ibero-America.

This is true, and for good reason. Monetary policy, correctly understood, is the simplest aspect of a national or regional economic development plan. It is only necessary to follow the guidelines provided nearly 200 years ago by the economist of the American Revolution, Alexander Hamilton: Monetary and credit policy should be molded to the development needs of the real physical economy. Whether a monetary policy is good or bad is determined solely by its effect on the real economy.

One good approximation of the measures required is the solution adopted in Peru by President Alan García. To definitively halt the looting of his country and help it to grow again, President García announced upon assuming the presidency in July 1985 that Peru would pay only 10% of its export earnings to service the foreign debt. In addition, he cut back imports of luxury items and took preliminary steps to retain internal savings within the country. The combination of these three measures meant that the foreign exchange reserves of Peru increased by several billion dollars in the last year.

This increase in net national savings allowed for the generation of new, non-inflationary internal credit, whose investment in the productive economy produced notable results in a mere 12 months. If we compare the first six months of

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1986 with the first six months of the previous year, we see that the Peruvian gross national product (GNP) grew by 8.3%; some four times more than the rest of the region. The construction sector experienced a 12.3% expansion; manufacturing and electricity grew by 7.1% and 7.3% respectively; and the fishing sector, always key to the Peruvian economy, dramatically recovered with 61.2% growth.

As important as these technical measures, has been President García's determination to politically break with the International Monetary Fund. This has created an environment of political mobilization in the country, in which the Peruvian population has developed a renewed sense of optimism regarding its potential for development.

Measures like these can be adopted by any country in Ibero-America, on its own and with results comparable to those of Peru. But if the entire region takes them in a coordinated way, the results will be qualitatively superior.

For example, if all of Ibero-America were to adopt the "García solution" of only paying 10% of its exports to service the debt, the region would save more than $27 billion each year. And if all were also to eliminate luxury imports, there would be a minimum additional savings of $2.7 billion. As can be seen in **Table 11-1,** luxury imports at the beginning of the 1980s added up to more than $11 billion. With the generalized collapse of all imports between 1980 and 1985, many of the luxury items were also eliminated, but these still constitute a considerable portion of the total. It is worth emphasizing that we have used a rather lax criterion for our definition of "luxury imports," considering only those final goods which have no connection to the productive apparatus or with those basic areas of consumption and investment expenditure. Therefore, our figures represent a real minimum of what this category might contain, and it is a quantity that can be abandoned without affecting in the slightest the functioning of the continent's productive apparatus.

If to these two categories of savings we add what would happen if flight capital from Ibero-America's countries ($4.8 billion in 1985) were halted, we could calculate that the total savings would be $34.7 billion per year (see **Table 11-2**). Mexico alone would have in hand nearly an additional $10 billion, money that today is sent abroad as pure tribute to the international financial system.

There is a second way, aside from Alan García's, of calculating what the annual interest payments of the countries of the region should be. Basing ourselves on the method elaborated by Lyndon LaRouche in his study *Operation Juárez,* 1977 interest rates—that is 6.8%—could be paid on the total *legitimate* debt of the continent, as we calculated it in Chapter 2, giving us a figure of $20.5 billion. This would mean paying some $1.4 billion a year, six times less than the generous figure of $9.2 billion implied by the "García solution." With these calculations, we can see that from one year to the next, Ibero-America could generate an "investment fund" of $42.5 billion, simply by adopting the described sovereign measures.

This new "investment fund"—whether it comes from the "García solution" or *Operation Juárez*—would serve as the necessary reserve base to back up a new non-inflationary issuance of credit in Ibero-America, directed toward the expansion of the continental economy.

Until now we have analyzed the negative side of the monetary question: how to stop the current looting of the continent and achieve some form of development. But the real problem that we face is how to design a *positive* monetary policy appropriate to the large-scale development tasks that the Ibero-American Common Market outlined in previous chapters will demand. This question we will deal with briefly, after first clearing up whatever doubts the reader may still have regarding the two other proposals on the debt that have been the center of so much publicity.

Neither Kissinger nor Castro

Henry Kissinger periodically issues pompous pronouncements on the question of the foreign debt, which are picked up and distributed to the four winds by the international media. Each time that he does so, he is praised for "realistically" proposing an "in depth" solution to the debt problem.

But the secret of Kissinger's proposals resides not in its content (pathetic enough), but rather in the *dates* of their repeated publication. For example, Kissinger wrote an article on the issue in *Newsweek* in January 1983, just as the terror began to spread among his political patrons in the international banking community that the debtor nations were ready to form a debtors club and declare debt moratoria. Kissinger's

TABLE 11-1
Ibero-America's luxury imports 1980 and 1983
(billions of dollars)

	Imports 1980			Imports 1983		
	Total	Luxury	% of total	Total	Luxury	% of total
Argentina	9.4	1.0	10.5	4.1	0.3	6.2
Brazil	23.0	1.3	5.6	15.4	0.4	2.3
Colombia	4.3	0.3	7.9	4.8	0.2	4.1
Mexico	18.9	1.6	8.6	7.7	0.4	5.3
Peru	3.1	0.3	9.3	2.7	0.2	6.4
Venezuela	10.9	0.9	8.4	6.4	0.4	6.1
Other countries	23.5	1.9	8.1	18.3	1.0	5.2
Ibero-America	**93.0**	**7.3**	**7.9**	**59.5**	**2.7**	**4.6**

TABLE 11-2

Projection of investment fund generated by García and Operation Juárez proposals

(billions of dollars)

GARCIA SOLUTION

	Actual interest payments* (1)	Interest payments García style† (2)	Interest savings (3=1−2)	Capital flight (4)	Luxury imports* (5)	Investment fund (3+4+5)
Argentina	4.9	0.8	4.1	1.0	0.3	5.4
Brazil	10.2	2.5	7.7	0.4	0.4	8.5
Mexico	9.7	2.2	7.5	1.9	0.4	9.8
Ibero-America	36.4	9.2	27.2	4.8	2.7	34.7

*Figures corresponding to 1985.
†10% of exports.

OPERATION JUÁREZ

	Actual interest payments* (1)	Interest payments Operation Juárez‡ (2)	Interest savings (3=1−2)	Capital flight (4)	Luxury imports* (5)	Investment fund (3+4+5)
Argentina	4.9	0.4	4.5	1.0	0.3	5.8
Brazil	10.2	−4.0	14.2	0.4	0.4	15.0
Mexico	9.7	2.7	7.0	1.9	0.4	9.3
Ibero-America	36.4	1.4	35.0	4.8	2.7	42.5

*Figures corresponding to 1985.
‡6.8% annually, paid on legitimate debt of $20.5 billion.

message was, "Don't do it; calm down. We can negotiate this."

A second Kissinger article appeared in June 1984, during the same days that Lyndon LaRouche was in Buenos Aires speaking with Argentine President Raúl Alfonsín, again on the question of a debtors' club. The U.S. State Department and the Soviets did their utmost to prevent that meeting, because they feared that if the Peronist trade unions could sufficiently pressure Alfonsín, he could decide not to go down on his knees to the IMF. The Kissingerian message: "Don't do anything drastic, gentlemen; I am on the verge of convincing my banker friends to make some concessions."

And then a third article appeared in July 1985, precisely as the Trade Union Commission of the Schiller Institute was holding its first continental meeting in Mexico City. In view of the threat to the banks that the Ibero-American masses should organize in favor of integration, Henry was again trotted out.

The content of the three articles is the same, more or less as follows:

1. Under current conditions, Ibero-Americans are frankly unable to pay their foreign debt.

2. The austerity crisis, the result of trying to force them to pay what they cannot, could provoke explosions of "populism," "mercantilism," and "dirigism," and uncontrollable social explosions.

3. It were better to "politicize" the debt question: We will discuss the idea that the IMF must relax its conditions a bit, and that the banks should reduce their interest rates a bit.

4. Above all, the *illusion* must be communicated that there will be improvement. It matters not if economic conditions truly improve or not; what is important is to create the illusion that things are going to get better, so that people will demobilize.

5. Regarding specific economic measures, one must continue to follow IMF dictates.

The Kissinger Plan as such, at times wrongly dubbed the "Marshall Plan" for Ibero-America, is reviewed in **Table 11-3.** The reader can see that Kissinger at no time proposes providing the continent with new credit for development; rather, he seeks to impose a strategy of exchanging debt for equity in the Ibero-American economies, or the idea that Ibero-America should pay its debt with the national patrimony. The sharp reader will further observe that the Kissin-

ger Plan is fundamentally no different from the global plan of the International Monetary Fund, nor from the famous "Baker Plan."

Another well-known proposal to "resolve the debt crisis" is that of Fidel Castro. One might well ask why the Cubans and their Soviet friends are suddenly showing such interest in the foreign debt problem, when all the world knows that for 10 years Moscow has not moved a finger against the International Monetary Fund in Ibero-America. Also one tends to doubt Castro's sincerity when he presents himself as representative of all the indebted peoples of the world, when Cuba has almost no debt with the West! In 1974, Cuba owed \$3.4 billion to Western banks; in 1984, it owed exactly the same, per capita indebtedness inferior to that of any other Ibero-American country, which the Cuban regime—despite its anti-imperialist rhetoric—was careful to pay punctually. It is true that Cuba is indebted up to its eyeballs—to *Moscow*. Best estimates put that figure at some \$40 billion.

But we will put aside Fidel Castro's questionable motives, and look at what he proposes. Although some aspects of the *description* that he offers of the debt problem are correct, the *solutions* that he poses are essentially identical to that of Kissinger (see **Table 11-4**). First, he says that the way to resolve the foreign debt problem is simply to eliminate payments on that debt, and then to save the creditor banks from the consequences of that measure by taking money from the U.S. military budget, and particularly from the Strategic Defense Initiative. In this, he is echoing Kissinger, who also suggests that "the arms race" is the cause of the economic crisis. According to Castro, the creditor banks would then renew their loans to Ibero-America at the same interest rates currently charged.

Not only that. In a June 2, 1985 interview with the Brazilian daily *Folha de São Paulo,* Castro says that "the IMF itself should be rescued as a forum for discussion among governments." No difference from Kissinger here, either.

There is a particularly noxious additional element in the plan of Castro and his Soviet friends. They propose that not only the United States, but all the countries of Ibero-America as well, should sharply reduce their military budgets and eliminate all programs of advanced technology, arguing that these programs are linked to "the arms race." For example, in Soviet publications such as *América Latina,* one can read their proposals for suspending the Argentine nuclear program, and for Brazil to dismantle its military industrial sector. Were this policy to be applied, it would be the equivalent of a strategic bombing run against the most important and sensitive aspects of the Ibero-American economy, and would cause a dizzying economic collapse.

How similar the Kissinger and Castro plans are in their consequences can be seen in **Figure 11-1.** We have projected what would happen with the total debt and the payment of interest on the Ibero-American debt between now and 1990, under these two options. The assumptions upon which these projections are based faithfully reflect what the two authors propose in their respective writings. The Kissinger Plan presumes that:

1) Ibero-America recognizes the current "official" foreign debt of \$370 billion;

2) the banks will reduce by approximately three percentage points the interest rates they collect on that existing debt, but this reduction would be capitalized and added to the total amount of the debt;

3) the banks would make no new loans to Ibero-America.

TABLE 11-3
The Kissinger Plan

1. To create an "Institution for Development of the Western Hemisphere" for 5-7 years.
2. To finance it with U.S. budget cutbacks, including reducing the U.S. defense program based on beam weapons to pure "research."
3. The "institution" would issue no new credit, but would use its resources to refinance Ibero-America's current foreign debt, at an interest rate of approximately 3 percentage points below the current one.
4. To capitalize this reduction in interest, adding it year by year to the total foreign debt.
5. To pay up to 20% of the Ibero-American debt with the currencies of each country.
6. To permit the creditor banks to use these national currencies to purchase assets in Ibero-America, preferably in the state sectors.
7. To continue imposing IMF adjustment programs, but with greater political subtlety.

TABLE 11-4
The Castro Plan

1. To deny Ibero-America's "illegitimate" debt (estimated at 40% of the total official debt).
2. To reduce the interest rate on the remaining debt to 6%.
3. To rescue the creditor banks from the consequences of reducing debt payments, by using money taken from the U.S. defense budget, in particular the beam weapons program, which would be eliminated in its entirety.
4. The banks thus rescued should renew their loans to Ibero-America at a rate approximate to that of 1980-82 (\$45 billion a year).
5. Save the IMF as an institution.
6. Cut the military budgets of Ibero-America, and thereby terminate the region's defense capabilities.
7. Eliminate all nuclear and laser programs, and advanced technologies, from Ibero-America, because of their supposed links to "the arms race."

The Castro Plan proposes:

1) to only consider as "legitimate" 60% of the official foreign debt, and to disavow the rest;

2) to receive new loans from the international banks at the rate of approximately $45 billion a year; and

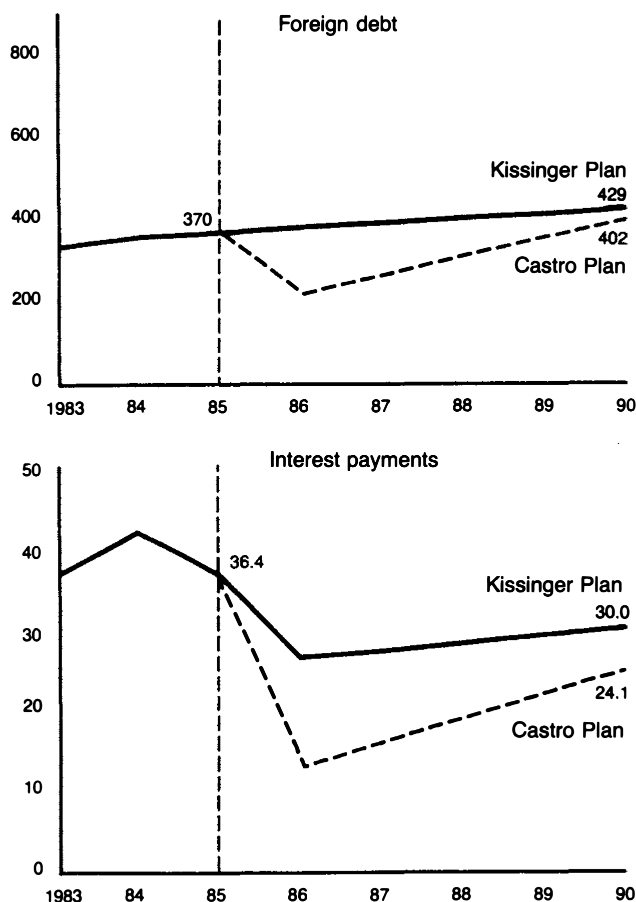
3) to pay 6% interest on the entire debt, old and new.

As can be seen in Figure 11-1, after a relative reduction both in the total debt and in interest payments as a result of the Castro Plan, the two plans by 1990 would have nearly identical results. With Kissinger, Ibero-America would have a total foreign debt of $429 billion; with Castro, of $402 billion. Annual interest payments in 1990 would be, with Kissinger, some $30 billion; with Castro, $24.1 billion. As one can see, the differences are minimal; and both agree fundamentally with the International Monetary Fund's plan for Ibero-America.

FIGURE 11-1

Projections of the Ibero-American foreign debt and interest payments: Kissinger Plan and Castro Plan 1985-1990

(billions of dollars)



Operation Juárez

Whatever Ibero-American monetary system is adopted will have to eliminate the three principal looting mechanisms which characterize the present situation:

- excessive interest charges;
- deterioration of terms of trade; and
- capital flight.

Our new system not only has to put an end to these looting mechanisms, but must facilitate lending for development; encourage just trade relations; and motivate investment of resources within the region. We will take a look at these three aspects, one by one.

1. Excessive interest charges

This is a looting mechanism which has been imposed on Ibero-America through blackmail by the banks and the IMF; either their rules of the game (and interest rates) are accepted, or no loans. But with an Ibero-American Common Market, as we have documented in Chapter 5, 80% of financing needs between 1985 and 2000 could be supplied by the continent itself. Only 19% would have to come from abroad. Our problem is divided, then, into two parts:

Internal credit. This part of the financing, which is the vast majority of what Ibero-America will need, could be resolved with relative ease, once sovereign control passes to the Ibero-American nations. All that is missing is to establish some kind of "Ibero-American Development Bank" (similar to the Latin American Reserve Fund proposed by Alan García), which would centralize and facilitate financing of the indicated development projects. It could operate without any need of dollars, using a common currency of account for transactions, and would give long-term, low-interest loans to member countries.

Foreign credit. As we have indicated, this corresponds to less than one-fifth of total financing needs. However, one must distinguish between the form in which these new loans are to be managed, and their position with respect to the old debt.

Regarding the old debt, the first step is to form a "Debtors Club" to be able to negotiate under equality of conditions with the already existing "Creditors Club." The debtors will offer a new series of bonds on the part of the Ibero-American countries, which will be used to "buy" the old debt and will be payable on a long-term (30 years) and low-interest (2%) basis. Thus the payment of interest will be substantially reduced, to $7.4 billion a year.

Of course, if the creditors are so foolish as to refuse to accept the Ibero-American offer, the debtors could then issue a sovereign declaration by which only interest payments on the *legitimate* debt of $20.5 billion would be made, and this at the 1977 interest rate of 6.8%, which would result in an annual payment of $1.4 billion. As this calculation of the legitimate debt already discounts the massive flight capital there has been, it is just that should some of this return, the interest payments would increase proportionally. Further, the

debtors club would give the creditors the option of collecting *all* their foreign debt from flight capital, given that this capital, in every case, is in protected accounts in the same creditor banks.

A third option on how to manage the old debt is proposed by Alan García; fix a maximum percentage of export income allocated to payment of the foreign debt. If this 10% Peruvian formula were extended to the entire continent, the level of annual payments would be $9.2 billion; that is relatively the most generous of the various options under consideration.

Regarding new loans, the same debtors club estabished to handle collective negotiation of the old debt, would be the perfect instrument to guarantee just conditions for the new loans. For example, new loans for more than $100 billion a year should be negotiated at approximately 30 years, with interest rates of 2%, and with a grace period of some 15 years applied to both capital and interest.

2. Deterioration of terms of trade

Here there is a division similar to the previous case, given that with the Ibero-American Common Market, nearly 80% of the foreign trade of the Ibero-American countries will be intra-regional—that is, within the continent itself—and only 20% will be with countries outside of the common market.

Internal trade. This great majority of the total trade can be perfectly protected from the damaging effects of the deterioration of terms of trade by simply establishing a customs union. This union would give preference to intra-Ibero-American commerce, and would establish just prices-not prices dictated by the international market—for all exported and imported products. The concept to follow in this sense is that of "guaranteed prices," which means adding all the real economic costs of producing a product, and adding to this a just margin of profit to facilitate reinvestment and technological advance in that sector. Obviously, the details for each product and each nation would have to be negotiated, taking into account the need to give preference to the lesser developed nations of the region.

This customs union would require some type of "Ibero-American Bank of Compensation" to facilitate intra-regional trade and to cover the balance of trade deficit from nation to nation, preferably with a common Ibero-American currency. It is also imperative to establish a continental insurance and reinsurance company, given that without these services—which today are the absolute monopoly of the developed sector—modern international trade is impossible.

Foreign trade. Only one-fifth of the total trade will be with countries outside the region, and the negotiating power of the Common Market could be used to guarantee equitable conditions of trade in this area. An Ibero-America in full economic expansion could potentially constitute a highly desirable market for the different countries of the world, and preferential access to this market could be granted to only those countries or groups which offer acceptable trade conditions.

3. Capital flight

If the two previous problems can be 80% solved relying exclusively on internal Ibero-American measures, leaving only 20% to international negotiation, the case of capital flight can be resolved 100% within the confines of the continent itself, without help from abroad. What is required is simply that each sovereign nation apply strict exchange and capital controls, absolutely prohibiting the use of dollars in operations abroad for purposes not defined by the government as priority for the accelerated development of the continent. There will not and cannot be free currency exchange in any member-country of the Ibero-American Common Market. Any banker, exporter, or drug trafficker who tries to violate these regulations will be severely punished, losing the money involved in the illegal negotiation, and serving a long prison term.

With these three kinds of measures, the financial looting which has destroyed Ibero-America and can be eliminated virtually entirely, and the seeds of new monetary institutions to facilitate the development of the Ibero-American Common Market will be sown.

What kind of institutions should there be, and how to structure them? Already in August of 1982, in his work *Operation Juárez,* U.S. economist Lyndon LaRouche had described in detail the monetary and fiscal measures to adopt. In the next installment, we will reproduce the appropriate paragraphs from that historic text.