

# A Dialogue on the Bank of the South: It's a Time for Revolutionary Changes

*On Sept. 12, 2007, the following dialogue was held on Patrio Pillajo's Radio 530 AM program "Popular Opinion," in Quito, Ecuador, between Pedro Páez, president of Ecuador's Presidential Technical Commission for the Design and Creation of the Bank of the South, and Dennis Small, Ibero-American editor of Executive Intelligence Review.*

**Pillajo:** Greetings to Mr. Dennis Small, who is on the editorial board of the international magazine *Executive Intelligence Review* of the United States, and a member of a group of advisors to former Democratic Presidential candidate Lyndon LaRouche. We are also extending a welcome to Dr. Pedro Páez, who is president of the Presidential Technical Commission in charge of the new financial architecture. And with them, we are going to have an exchange of ideas on this very question of the creation of the Bank of the South, which is one of the issues which that commission is in charge of.

In light of what is happening internationally, Dennis, Sept. 11 left not only political-human wounds, but also economic ones. As various analysts have said, this has been the shadow of 9/11, part of a series of economic developments which are disturbing the economy of the United States, and which also has to do, in the final analysis, with the shake-up of the housing sector in the States. The figures are very disturbing—even the action of the U.S. Federal Reserve, injecting more than \$40 billion to address the crisis. What scenario are we facing, Dennis? And welcome.

**Small:** Yes, good day.

We indeed have a mortgage and real estate crisis in the United States, which is enormous, huge, which has received a lot of international news coverage, but which is simply a symptom of a systemic crisis, of the collapse of the entire international financial system. In a certain sense, the problem we are facing here with the mortgages is similar to the problem of the illegitimate debt that many countries in South America, and throughout the Third World, are facing.

It's straightforward. What has happened with this international system—which must be replaced by a new financial architecture—is that they have perpetrated a tremendous fraud in the generation of unpayable debt, which is then converted into assets for the next round of more unpayable debt. And a pyramid is thus being created, a huge international financial bubble, with leveraged loans on top of leveraged

loans. We've reached the point that, today, we have international financial instruments that exceed \$800 trillion—various kinds of speculation, including derivatives and whatnot—when the gross domestic product of all the countries of the world combined is not even 5% of that total. And the derivatives and the bubble are growing like a cancer, at a rate of about 20% per year, while the gross domestic product at best is growing at 2-3% annually.

The reflection of this, inside the United States, is that we have a situation in which the real estate market is dramatically collapsing, and a crisis is spreading throughout the entire banking system, not only in the United States but internationally. Between September and March of next year, more than 2 million foreclosures are expected in the United States—that is, mortgage loans that cannot be paid—and that could lead to some 7 million people evicted from their homes.

What Lyndon LaRouche is saying, in sum, is that a "fire-wall" must be put in place to stop all this. All foreclosures should be stopped, cold; no one should be thrown out on the street. And a situation also has to be created in which banks are protected from those unavoidable defaults, while the entire real estate market and the entire international financial system is reorganized down to a level that corresponds to real production.

**Pillajo:** Okay, Dennis, if you will allow us to now turn to Prof. Pedro Páez. Dr. Páez, welcome to the program.

How can the Ecuadorian economy, in general, be protected against these things? It is said that when the United States sneezes, Ecuador and the rest of the world catch a cold. But this is no sneeze. It appears to be much more serious. How to protect our interests? Is it possible?

**Páez:** Many thanks for the invitation and I am very happy to be here, in international contact with Dennis.

Our commission, if I may say so, is doing everything possible to strengthen and develop these contacts that allow for rigorous, responsible dialogue and debate with regard to the new international financial architecture, which is precisely the response to what you are saying. That is, the problem that we have now is something similar to what Ecuador experienced in the financial crisis that exploded in '98 and '99. In reality, the financial crisis was affecting us in Ecuador well before that. Already in '96, we had symptoms: the collapse of the Banco Continental, which was happening and being replicated more or less in all the banks. And with artificial respi-



Central Bank of Ecuador

*EIR Ibero-American editor Dennis Small (left) and Dr. Pedro Páez, a leading Ecuadorian economist, engaged in a dialogue, broadcast on a popular Quito radio program, on why Ibero-America needs the Bank of the South.*

ration, the bubble was rolled ahead, further ahead, and further ahead—but at the cost of compromising more and more massive amounts of the Ecuadorian economy, and compromising the savings of increasingly broad segments of the population.

And then, at a moment in which it was no longer possible to keep postponing the explosion of the crisis, the big bankers had already strategically organized their withdrawal, to leave the poor people in the country, the millions of Ecuadorians, to bear the burden.

Something similar is happening on an international level. The roots of the crisis have been growing for a long time and, as Dennis correctly noted, what is now happening is symptomatic of much, much deeper processes. That is, the problem of the crisis is not exclusively in the housing market. The housing market doubtless has all sorts of ramifications, but that is just the tip of the iceberg of much more complex processes that are taking place in the international economy and, specifically, in the dynamic of the U.S. economy.

So, the problem we have now is that a series of mechanisms have been developing all this time, which are now accelerating, to make the rest of the world, the dominated nations, the dominated, subordinate social classes, bear the burden, pay for the mess. The new financial architecture that we are proposing, the Bank of the South, for example, would, in the first place, serve as part of the armor with which we would be able to defend the interests of Latin America, to respond in the best way possible under these international circumstances.

**Pillajo:** But this armor is going to be set up over the long term.

But, in the meantime, what can be done? Dennis, you say—explaining the views of former candidate LaRouche—that is it necessary to put up a firewall. The President of the United States, George Bush, announces aid for mortgage-indebted families, among other measures. The intent—they say—is to make the functioning of the Federal Housing Administration more flexible, so that it can guarantee the debt of homeowners in trouble. Is that a barrier that could work? And moreover: Is there still time to put on armor in the middle of this worsening situation?

**Small:** No, what Bush is proposing would in no way serve as armor or a firewall. What he is doing is simply talking about a means to inject more liquidity into the real estate market—not to bail out the homeowners, but to bail out the hedge funds, which own those mortgages.

What must be done is to completely freeze payments on mortgages, because they are rising dramatically with rising interest rates here.<sup>1</sup> You can't keep making those payments. The hedge funds, the same vulture funds that tried to destroy Argentina and that now want to destroy Ecuador and all the countries of the Third World, cannot be refinanced nor bailed out. *They* are the ones that must sink. The basic functions of the banking system, in the sense of providing credit for development and not credit for speculation, that is what must be protected.

And so the legislation proposed by Mr. LaRouche—which right now is under consideration by a number of U.S. Congressmen—is to create a Homeowners and Bank Protection

1. Small is referring to rising adjustable rate mortgages, and other subprime mortgages, many of which are set to go up this Fall.

Act that will ensure that people are not evicted, and that mortgage payments are frozen while the entire speculative bubble is reorganized, that is, dramatically reduced.

What Bush is proposing is exactly the opposite: to further feed the cancer, and destroy the patient. What LaRouche proposes is to save the patient by extirpating the cancer.

And I see a parallel between this and what has been proposed—what Dr. Páez is saying and what the Argentines, the Venezuelans and others have said—regarding the functioning of the Bank of the South, which is a proposal that, for that very reason, Mr. LaRouche has supported.

**Pillajo:** But the architecture, the re-engineering proposed, is medium- to long-term. What about now?

**Small:** No. What we believe is not only that this *isn't* long term, but that it *cannot be* long term. We are at a moment in which the entire financial system—not only the postwar system, but in fact the system going back 200-300 years—is sinking. We are in a systemic crisis. We are at a point comparable to that which happened with the collapse of the Soviet Union in '90-'91. And we are going to have, perhaps by September or October, a systemic banking crisis that is going to require dramatic short-term measures, whether we like it or not.

**Pillajo:** That's really serious! What impact will this have on the economy, that is, instances of tangible impact on our society, in our countries, Dr. Páez?

**Páez:** Well, part of the problem is uncertainty itself. Your question, in fact, brings up a fairly dramatic situation regarding what is going to happen. It all depends; we don't hold the reins of our destiny, because everything depends on what's going to happen in the United States, how the United States decides to resolve "its crisis," or decides to try to fix things with band-aids, as Dennis mentioned, right?

The problem is that it is crucial for countries like ours to organize themselves, not necessarily with medium- or long-term solutions (there could be more immediate solutions), to improve or to raise their degrees of sovereignty. That is, their capacity to make decisions about their destiny and to have relative autonomy with regard to the course of events of the international markets, above all, the international financial markets. It is suicidal to continue to be subject to the dictatorship of the international financial markets, all the more so when those financial markets are in total collapse.

In the case of Ecuador, we are in a particularly dangerous situation—in the Latin American context—because if all of Latin America gets pneumonia when the United States catches a cold, in the case of Ecuador, it is worse, because we are tied to the dollar. And thus, we have renounced mon-



Courtesy of the World Bank

*The economy of Ecuador, like that of other Ibero-American countries, dependent on the U.S. When the U.S. sneezes, Ecuador, which has a dollarized economy, catches cold. Without the Bank of the South, the people of Ecuador will be condemned to unending poverty and back-breaking labor, like this sugar-cane cutter.*

etary policy, we have renounced exchange policy. We pretty much have a ruined fiscal policy, and so our ability to be able to respond to any exogenous blow, any external blow, is minimal.

It is fundamental to accelerate our efforts, in a serious and responsible way, to build institutions that will enable us to defend the country's situation, the situation of the lives of the people, the production of the people, for the immediate future, but also for the longer term.

**Pillajo:** What can and should the Bank of the South do as an institution, or any other proposed institution that is created in the framework of this so-called financial architecture? What could an institution established by so-called financial re-engineering do, Dennis, to protect not only Latin America, but we're speaking of global interests in the sequels of this crisis?



**Small:** Well, I began with a discussion of the nature of the systemic crisis, because you have to start with the diagnosis in order to know exactly what measures are the right ones to prescribe: It's the same in medicine as it is in economics. The fact is that the countries of South America not only must defend themselves—as we were discussing a moment ago—but they must also simultaneously link up with those international forces that are in the process of working for a total change of the international financial system.

If we don't achieve that broader change, if we don't manage to resolve the problem of the dollar, adopting measures like those adopted by Franklin Delano Roosevelt, for example, in 1933—he also stopped foreclosures and evictions, in the same way that LaRouche is proposing. So, those international changes have to be brought about.

What I believe is extremely important regarding the Bank of the South is that it is, simultaneously, a step to defend and armor the economies of South America so that they can develop, and not continue to be looted through the payment of an illegitimate leveraged debt; but it is also a step in the direction of a new international financial architecture.

Now, concretely, I think it is very important that there *not* be free convertibility of Ibero-American currencies, or of any monetary unit that might be created, with the dollar. There have to be exchange controls, there have to be capital controls, and you have to establish, not only in South America but internationally, a fixed-exchange-rate system. We have to return to the original idea of the Bretton Woods system.

Now, I recognize, and it is a fact, as Dr. Páez just said, that Ecuador has a very special problem, due to the dollarization that was imposed on the country through a horrible looting process. But allied to other countries of South America, and with that group allied in turn to forces in Russia, China, India, and within the United States itself, which are organizing to bring about this international change, then there *is* a way to defend the economies and living standards of the population, while at the same time achieving that new international architecture or re-engineering.

**Pillajo:** Is the question of currency, the international environment, let us say, central to this kind of response, Dr. Páez? Because many people are frightened that even the political system has become the hobby horse for a lot of people: “We are going to defend the dollar by putting it in the new Constitution, because we all want the dollar.” In fact, let me tell you, Dennis, it is a proposal for a referendum that economic sectors in the province of Guayas are calling for: “defend the dollar”—they say—“at any cost, since we are going to change the Constitution.”

But, is the issue of the currency the essence of the question facing our country?

**Páez:** Well, anecdotally, it turns out that here we are more Catholic than the Pope. There are those who want the Con-

stitution that is going to be drafted in the upcoming Constituent Assembly to state that the dollar is the national currency. But the funny thing is that not even in the United States itself does the Constitution state that the dollar is the national currency.

The real problem, I repeat, is that there are different kinds of measures that can be implemented, obviously each country at its own pace, its own opportunities, shall we say. On the specific issue of currency: First, it is necessary to emphasize the fact that the creation of this unit of account is linked to the establishment of a system of parities, to a system of terms of payment, and that it doesn't necessarily have anything to do basically with the accounting management of the central banks, in its first phase. It doesn't necessarily have anything to do with the circulation of currency. That is, it will leave the Argentine peso in Argentina, the real in Brazil, the bolívar in Venezuela, and, if it's wanted here, the dollar in Ecuador. That is, it doesn't have anything to do with this.

The pace that is being proposed, the impetus which Ecuador is pushing in terms of the need to integrate the different pillars into a single effort, into a single qualitative leap in the process of Latin American integration, is the need to link the problem of the development bank—that is, the Bank of the South—with the creation of Latin American central bank functions, and with the function of this regional currency, that would allow us to have alternatives to the falling dollar.

On a global level, the international organization of credit is changing. And even if they don't say it, even the closest allies of the United States are taking precautionary measures against a process that could prove to be similar to a bank run in the case of the dollar. In other words: The countries that were part of the old Soviet Union, which, after the fall of the Berlin Wall became very close allies of the United States, are thinking very seriously about Russia's proposal to turn the ruble into a reserve currency, for example. There are oil-producing countries that are already beginning to ask their buyers to not pay them in dollars, but in other currencies—yens, euros.

**Pillajo:** Something a little stronger. . .

**Páez:** Of course. So, the artificial world demand that the dollar has enjoyed, stemming from the privilege of being the world's hegemonic power in terms of currency, is beginning to deflate. What is deflating is the artificial demand that allows the United States to have the luxury—for example, you just mentioned a moment ago the fact that the Federal Reserve, the Central Bank of the United States, injected the equivalent of one year's GDP in Ecuador, more than \$40 billion. That's the equivalent of one year's GDP for Ecuador! They injected it in the past month to bail out—as Dennis has correctly said—not the people, the homeowners, the people who produce things, the workers of the United States—but to bail out the vulture



*Lyndon LaRouche's proposals for legislation to protect homeowners and banks, and for a Eurasian Land-Bridge are being carried to nations throughout the world. Here, members of the LaRouche Youth Movement organize for the "World Land Bridge" in Buenos Aires, Argentina.*

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funds—right? To avoid a collapse on the stock market of those kinds of speculative mechanisms and speculative bubbles that have been operating, and that have sustained such artificially high levels of profit.

And so, as the indications of problems begin to worsen on the international markets, then we have to be careful to not be the last in line, and have them tell us that there's no more money.

It is important that there be a process in which there is a reorientation, for example, of reinvestments of Latin America's international currency reserves, which today are also basically financing the war in Iraq, for example.

**Pillajo:** Professor, what Mr. Small recommends is that there not be free convertibility between the regional currencies and the dollar. What are the implications of this suggestion? What would the objective be?

**Páez:** Well, look, it is indispensable to re-think the whole international monetary scheme, without a doubt. The market itself is spontaneously generating a reorganization of the distribution of credit internationally, in that the role which Manhattan and the City of London played before, as hegemonic banking powers, is shrinking in the face of the rise of the European financial markets and the Asian financial centers. And therefore it is important that Latin America also have its own financial market that can establish its own rules. Within that effort, it is very important to consider other sound

exchange-rate measures that will permit the recovery of sovereign macroeconomic management of a country.

**Pillajo:** Who else, Dennis, could join that grand accord, that international re-engineering, that New Bretton Woods?

**Small:** In fact, right now, three days from now, a conference is going to be held in Germany with Mr. LaRouche and representatives of various Eurasian countries—China, Russia, India, European countries—and the U.S. itself, and Mexico, to discuss this bankruptcy reorganization of the international financial system and the need to organize a New Bretton Woods, a new international system, around the idea of credit generation *not to pay the cancer*, but rather to generate development and especially great infrastructure projects.<sup>2</sup>

Mr. LaRouche's proposal is that an alliance of four powers, in particular, could be the axis around which the rest of the countries of the world could ally in order to force through this change. And those four powers are Russia, China, India, and, necessarily, the United States. But not a United States on the policy-line of George Bush and Dick Cheney, but rather a U.S. oriented along the lines of Franklin Delano Roosevelt, which is what Lyndon LaRouche represents.

What is required, indeed, is a dramatic international change. This is not something for the distant future. It is some-

2. This is the Sept. 15-16 conference of the Schiller Institute in Kiedrich, Germany. See *EIR*, Sept. 28, and this issue's *Feature* for more.

thing which, whether we like it or not, is already on the agenda at this time, because of the crisis. And a reorganization has to be brought about, such that the world dollar system is put through a process of bankruptcy reorganization. That is, all of these \$800 trillion in speculative financial instruments will be frozen, and the financial and banking system will be reorganized so that it can fulfill the requirements around which the United States was originally founded, in other words, the American System of economy.

In fact, this is a subject about which Ecuadorian President Correa has written quite a bit. We, in the United States, were founded *against* the British colonial system of speculation. And if the U.S. can return to this original path of the American System of Washington, of Lincoln, and of Franklin Delano Roosevelt, that will greatly help the very positive efforts underway in other regions—the Bank of the South in South America, some of the efforts we were just discussing in Russia, China, India, and elsewhere—and it would create an international force strong enough to put an end to this disastrous system of globalization, once and for all.

We cannot continue to pay over, and over, and over again, on a debt which is illegitimate, and which is destroying the productive economy. We have to reorganize it all, to strengthen the economy and the great infrastructure projects. This is Mr. LaRouche's intention in his political activity in the United States. And we are pleased, therefore, to be able to have this kind of exchange with people who are thinking about and addressing very similar problems in their respective nations.

**Pillajo:** We now turn to listen to our guests' concluding remarks. Dennis, since we have run up against a time limit, your synthesis and conclusion, please.

**Small:** We are at a time of great changes and of national and international financial earthquakes. Whether we like it or not, this is what is happening with the U.S. and the world crisis. Such revolutionary moments require revolutionary changes. The current system is going to sink. If we all sink with that system, we are going to have a New Dark Age, a horrible economic depression, and situations very similar to those that brought Hitler, Mussolini, and Franco to power in Europe. We cannot allow that to happen.

What is required is an international financial reorganization, a New Bretton Woods, such as that proposed by LaRouche. And within that, the steps taken towards the Bank of the South—with an important contribution being made by Ecuador—are extremely positive and important internationally.

Within Ecuador as such, those who propose that dollarization is the answer—well, it's a bit laughable. Speaking from the United States, I can tell you that that's like supporting cancer, and saying that we have to vote for cancer. Dollarization is a problem; it is not beneficial to Ecuador, in my view.

**Pillajo:** Well, many here see it from the standpoint of the activation of consumption, that it's nice to have dollars, that it has given us stability. And we were saying this week, that we should instead look at the ends, rather than the means. We should choose—with the dollar, with the yen, with the euro, and with the new sucre—to have stability, to have certainty regarding our economic management, our monetary management. Thanks, Dennis, for your conclusions.

Finally, we ask Dr. Páez: And when, when will we have the Bank of the South, if that is a valid alternative to face these problems.

**Páez:** Well, we're moving forward. And not only are we moving forward with the construction of the Bank of the South, but the mere presence of the serious, technical negotiation groups for the construction of the Bank of the South are moving the other institutions of the financial system under the old financial architecture, to hurriedly show that they are trying to change. We have seen how the World Bank is quickly making internal changes. For the first time, the International Monetary Fund, the candidates of the International Monetary Fund, are tripping over themselves to campaign for the posts and to say, "I am the candidate of reform; with me, things will change." Why? Because those paradigmatic institutions of the old international financial architecture are bankrupt. Not only is there a *moral* bankruptcy, because of the generalized rejection of neoliberal policies and the failures of what those neoliberal policies have produced, but because of the fact that their assets have collapsed: no one is borrowing from them.

At the same time, Mr. Bush himself was recently in Montevideo and he offered \$50 million, and promised to raise another \$150 million from his oil-producing Arab friends, to inject resources precisely into areas which have been publicized as the priorities of the Bank of the South: food sovereignty, micro-businesses, energy sovereignty, and other social issues that have been ignored by the existing banks.

Therefore, we should be optimistic. There are a number of problems, and there are various pressures for the Bank not to come into being, obviously, because we are threatening truly very powerful interests. There are going to continue to be pressures. One can't know exactly what political path things are going to follow. But at the technical level, the commissions are at work; the structure of the Bank of the South, the design of the Bank of the South, and the new international financial architecture, continue to develop. And, beyond political decisions and political pressures, the force of events requires that our people have these instruments, which will allow them to defend themselves in such a volatile international financial setting.

**Pillajo:** Thank you very much, Dr. Páez. . . . Dennis, thank you very much. Have a good day.

**Small:** Good day.