The West is technically bankrupt

by Kathy Wolfe

"We are ending once and for all the idea that credit is a sovereign instrument, regulated by individual countries. Credit is to be regulated and directed according to international arrangement and in no other way. . . . The United States will soon begin to be treated like a developing-sector country."

—Martin McLoughlin
Aide to World Bank President Robert McNamara
July 7, 1982

There has been a great deal of talk about the possible bankruptcy of the United States, but no one until now has dared to compile the actual financial statistics of U.S.A., Inc. Here compiled, the figures show that the United States now has a debt so large that the mere debt service (a small percentage of principal and interest) upon it cannot be paid out of current profits of U.S. production.

That is the literal, technical definition of bankruptcy.

Moreover, this situation has been *deliberately created* by Paul Volcker and his supporters in the present administration, including Donald Regan and James Baker, who seek to put the United States, like a Third World debtor, under an International Monetary Fund "surveillance" program.

Over the past ten years, the United States has bankrupted not only itself, but the entire Western alliance. As of the end of 1984, the United States had a debt of $6.7 trillion. The interest and principal payments on this amount were over $1 trillion per year. For the world as a whole, debt is just over $20 trillion (**Table 1**).

Of the industrial nations' total of $16.3 trillion in debt, the balance is made up of $5.5 trillion from Western Europe, and $3.4 trillion from Japan. Approximately $3.8 trillion is the portion of the thus-estimated world debt held by the so-called developing sector—that is, somewhat less than 19% of the whole.

Of this, only $500 billion (of countries appearing in the tables) is Third World foreign debt, an almost irrelevant sum considering the magnitude of the whole.

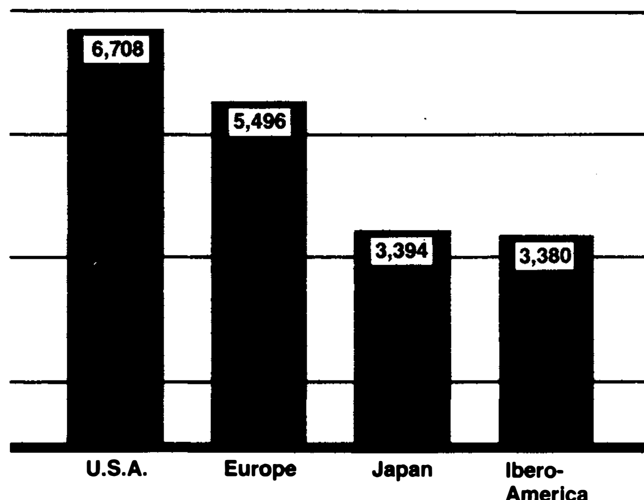
The interest on the total world debt is $2.4 trillion, if one assumes a 12% interest rate; assuming a debt maturity of eight years, then one-eighth of the debt must be repaid every eight years. On $20 trillion, that comes out to $2.5 trillion in debt repayment. *Total debt service—interest and principal repayment—is $4.9 trillion globally, greater than the monetary value assigned to the industrial output of all the nations of the West combined.*

The United States is the world's biggest foreign debtor by far. The foreign debt figures for the United States, which are official figures reported by the U.S. Treasury Department, show that the U.S. foreign debt of $850 billion at the end of 1984 was more than four times that of decrepit Great Britain, its nearest competitor, and eight times that of the feared Mexican and Brazilian foreign debts.

The much-feared Latin American debt pales into insignificance next to this. Ibero-America's foreign debt, $295 billion for the four largest debtors, $380 billion for the continent as a whole, is one-quarter of the U.S. foreign debt.

The figures, which any honest journalist could have compiled years ago, show that the IMF's screaming about Third World balance-of-payments deficits is a complete hoax. By attaining foreign debts of $100 billion or so, much decried in the financial press over the past five years, Mexico and Brazil have merely presumed to join the ranks of once-industrial countries such as Britain ($189 billion), Canada ($152 billion), and France ($87 billion). Even these figures for advanced-sector debt, published by the Bank for International Settlements, are very understated, because they do not include trade credits, which are included in Third World debt figures.

FIGURE 1.
U.S. debt is double that of Ibero-America
(Total domestic & foreign debt in billions of U.S. $)



Source: *EIR Spring 1985 Quarterly Economic Report.*

If trade credits were included, France and Germany might well have foreign debts of over $100 billion each.

The U.S. bankruptcy. . .

Of the total debt service and retirement, about 36% will fall to the account of the United States, in excess of $2 trillion. Of this, $500 billion has to be serviced and rolled over every quarter: A paper amount in excess of the deflated total of the goods-production segment of annual Gross National Product,

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must be serviced every quarter.

The annual service and retirement requirement is thus four to five times the deflated-dollar goods-production component of GNP. Or: On the U.S. side alone, four-fifths of the amount required in debt service and retirement alone, another nearly 1.7 trillion paper dollars, is unmoored from the physical economy and its diminishing wealth-producing capacities. That amount (for service and retirement alone) is *unsecured*.

Taking the United States as a case study, the non-existence of the Volcker recovery is seen most clearly by the fact that the U.S. workforce has replaced the Third World as the biggest debtor to the U.S. banking system, with over $2,175 billion in household debt, compared to the entire Third World debt of some $500 billion. The total U.S. household debt outstanding has doubled since 1977, the last year of stable postwar interest rates in the United States (**Table 2**).

The U.S. consumer used to be a net provider of funds to the banking system in the form of deposits, the which consumers gave to the banks at a much lower rate than the banks made loans back out to consumers. Much of the money would be loaned by the banks to the Third World. This has now shifted dramatically. Since 1982, a huge reversal in the global flow of funds has been organized. Entire chunks of the Eurodollar market are being brought back home, and loaned, no longer to the Third World, but to U.S. consumers.

In 1983, there was a total shutoff of U.S. and other banks' foreign lending. According to a Feb. 25, 1985 Salomon Brothers study, since 1983, for the first time since the war, American banks, instead of lending net funds abroad, are making net withdrawals of funds from abroad, sucking the Euromarkets into the United States. Total U.S. banks' new foreign lending fell from $111 billion in 1982 to $25.4 billion in 1983—to a mere $300 million for all of 1984. The year 1984 might even have been the first in which net U.S. bank foreign loans actually fell, says Lawrence W. Cohn at Dean Witter.

In 1972, the U.S. goods-producers' wage bill of $196.4 billion current dollars slightly exceeded the estimated debt-service requirements on total consumer indebtedness at $178 billion.

By 1984, the consumer debt-service yearly bill had risen to $780 billion, dwarfing even the nominal industrial wage bill of $492.3 billion. The $780 billion service requirements on consumer indebtedness alone, inside the United States, is three times the scary total of Ibero-American foreign indebtedness, and the principal on $2,175 billion is about 10 times the Ibero-American foreign debt. Yet, the consumer side represents only about half of total U.S. domestic indebtedness.

TABLE 1
Total world debt
(Billion $US)

	Domestic	Foreign	Total
North America			
United States	5,858	850	6,708
Canada	552	152	704
Total	6,410	1,002	7,412
Europe			
France	834	87	921
West Germany	1,292	77	1,369
Britain	418	189	607
Italy	869	55	924
Spain	350	31	381
Netherlands	310	16	326
Switzerland	260	15	275
Europe total*	5,005	491	5,496
Asia			
Japan	3,291	103	3,394
Korea	100	25	125
India	128	3	131
Philippines	50	30	80
Indonesia	50	20	70
Total	3,619	181	3,800
Ibero-America			
Mexico	714	100	814
Brazil	1,143	100	1,243
Argentina	602	45	647
Venezuela	300	40	340
Big 4	2,759	295	3,044
Total*	3,000	380	3,380
Grand total	18,034	2,045	20,088

*Includes nations other than those listed.

. . .Dwarfs Third World debt

The figures demonstrate what *EIR* has said since Britain's May 1982 Malvinas War against Argentina: that the current financial crisis is not a "Latin American debtors' crisis," but a bankers' crisis. As the figures show, the banks, using the Malvinas War as an excuse, made a one-sided decision to single out Ibero-American debtors and to pull the plug on them, to use the debt as a weapon to force these nations to reorganize their internal economies, halt development, and place them in IMF receivership.

The countries did not go bankrupt; in fact, Argentina and Mexico "were perfectly viable debtors," as one IMF official put it at the time. "But the banks have made a decision to cut off credit against every nation, bankrupt or viable, until they come to the IMF" and submit to the Fund's "conditionalities."

This can be seen quite clearly from foreign lending to Mexico and Argentina, which rose sharply throughout the 1970s, into the second quarter of 1982, then actually fell between June and December 1982 (**Table 3**). As *EIR* documented in a study published in our Dec. 13, 1983 issue, this was a unilateral lending decision taken by the Ditchley Group

Table 2

U.S. debt, domestic and foreign

(Billion US$)

	1972	1976	1980	1981	1982	1983	1984
Total	2,046	2,906	4,606	5,043	5,433	6,034	6,708
Foreign	$162	200	330	487	619	750	850
Domestic	1,884	2,706	4,297	4,556	4,814	5,284	5,858
Household		1,044	1,654		1,741	1,938	2,175
Mortgage		635	1,101		1,101	1,204	1,334

TABLE 3

Ibero-American foreign debt

(Billion US$)

	1976	1980	1981	6/82	1982	1983	1984
Mexico	22.8	54	70.0	86.2	82	97	100
Brazil	29.6	61.1	70.0	78	84	92	100
Argentina	5.1	31	35	39	37.7	46.7	45

TABLE 4

Ibero-American domestic debt and debt service

(National currencies)

	1972	1976	1980	1982	1982	1983	1984
Mexico (bn)							
Total	625	875	2,437.5	3,730	8,517.5	12,810	17,500
Interest	75	105	675	1,238	4,889	6,789	8,470
Debt service	150	210	968	1,686	5,877	8,326	10,570
Brazil (bn)							
Total	194	235	8,470	16,657	35,956	97,374	132,846
Interest	31	77	2,998	14,775	39,552	163,588	255,064
Debt service	52	103	3.981	16,657	43,866	175,273	265,692

TABLE 5

Foreign debt and industrial output

(Billion US$)

	1972	1976	1980	1981	1982	1983	1984
Mexico							
Debt	23	54	70	86	82	97	100
Cement (mn mt)	8.8	12.7	16.4	18.2	19.3	17.0	18.1
Autos (thousand)	170	229	316	369	324	226	241
Brazil							
Debt	29.6	61.1	70	78	84	92	100
Cement (mn mt)	11.4	18.7	25.9	24.9	25.4	20.9	18.5
Autos (thousand)	437	527	629	605	686	576	515

bankers' cartel, which was formed in London in May 1982 for the specific purpose of cutting off credit to Ibero-America.

After December 1982, not a single "new money" loan has gone to any of the nations of Ibero-America. The entire, and huge, rise in the debt of these countries since December 1982, has been due to the countries' having to borrow more in order to pay their $10-13 billion annual interest bills—the borrowings themselves at 13% interest!

Meanwhile, the total cutback in international lending forced these countries to massively expand their internal debt structures just to stay alive (**Table 4**).

The process of destruction of these countries' imports was the kind of economic austerity that the IMF and the banks who cut off the loans were really after. Brazilian, Mexican, and Argentine imports were cut $5-10 billion a year, per country, for each of the years 1982, 1983, and 1984, until each had swung from a $5-10 billion annual trade deficit to a $10-15 billion annual trade surplus.

In fact, regarding production in these countries, it is possible to assert that prior to 1982, the year that what is called "the debt crisis" was being unleashed, these developing-sector nations were outperforming the decrepit advanced sector.

Though Mexico and Brazil registered higher growth than did India in the production of raw steel and cement, for example, the growth of all three has to be contrasted with the concomitant declines in the advanced sector.

India is exemplary. In 1972, that country produced about 17,000 tractors, against the 220,000 produced in the United States. By 1982, India was producing 68,000; the United States was producing 67,000! India's economy was being developed to meet a national commitment to produce food for the population. Such efforts were matched by attempts to build up industry and infrastructure in the cited countries, and elsewhere.

Table 5 shows that production in the Third World was actually strangled by the rigged debt crisis.

Mexico's cement production rose spectacularly, from 8.8 million metric tons in 1972 to 19.3 million metric tons in 1982; that same year, the debt plug was pulled, reducing Mexico's foreign debt as bankers pulled in credit, from $86 billion in June 1982, to $82 billion in December 1982. Mexican cement production plummeted thereafter, in 1983 to 17.028 million metric tons, and never recovered fully in 1984, coming in at only 18.1 million metric tons. Similarly, Mexican steel and auto production peaked in 1981, fell sharply in 1982, and never recovered.

If physical output alone were a criterion in these matters, the currencies of these nations would have appreciated against the dollar, and against the currencies of other advanced-

The Recovery That Never Was

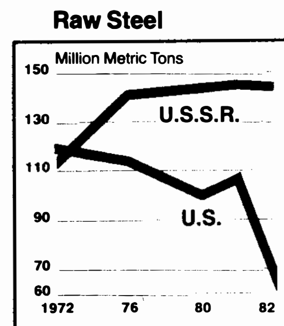
Find out what the White House should know . . . but doesn't

The EIR Quarterly Economic Report, prepared under the personal direction of Lyndon H. LaRouche, Jr., presents a devastating picture of the current economic crisis—a crisis with profound implications for the national security, as Moscow is only too well aware. The study demonstrates:

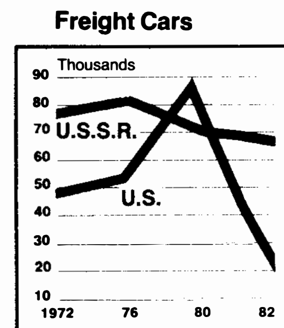
- Unless President Reagan replaces his present, foreign and domestic, monetary and economic policies, the U.S. economy will continue to describe an accelerating downward trend in output of goods and in balance of trade.
- The potential for a 1931-32-style deflationary blow-out or new skyrocketing of dollar exchange-rates, is approaching certainty. Either alternative would be associated with an acceleration of the rate of collapse of goods-output in both the world market and the U.S. economy; under either alternative, the federal budget deficit would soar.

For information about the Quarterly Report and a new feature, EIR's *1985 statistical yearbook, please contact your local* EIR *representative or Richard Freeman,* EIR *News Service, P.O. Box 17390, Washington, D.C. 20041-0390.*

Raw Steel



Freight Cars



sector nations, perhaps to the present day. They were increasing the productivity of their economies, while the so-called advanced-sector nations were sliding into decline.

In fact, the production figures should hike Ibero-American currencies, in real terms, way up against the dollar. The dollar's artificial exchange rate against Third World currencies has been massively rigged, in order to force the Third World nations, when paying their debts, to ship 10-20% more produced commodities, such as steel and food, by volume, to the United States and other industrial nations, in order to earn the same amount of foreign exchange.

NATO-area bankruptcy

Table 1 is suggestive of the buried disaster of domestic debt, especially throughout the advanced industrial sector. The much feared $295 billion foreign debt of Ibero-America's Big 4, for example, is only 10.7% of their $2.76 trillion domestic debt, and *only 5% of the domestic debt of the United States alone*.

The domestic debt of the United States, according to the Federal Reserve's own "Flow of Funds" figures cited here, mushroomed from $1.8 trillion in 1972 to $5.86 trillion in 1984.

In most cases, the internal debt-bubble piling up inside countries, especially in the advanced sector, is shockingly large. The rate of growth of domestic debt in France and Germany, in their own currencies, is mushrooming, from DM985 billion to DM2.9 trillion in Germany during the 1972-84 period, for example. These countries have expanded debt in an attempt to keep their economies afloat, printing domestic money to make up for huge amounts of flight-capital being looted from them through the dollar exchange rate.

It is also clear that West Germany, France, and Italy, for example, have domestic debts more than ten times their foreign debts, and the United States comes close.

The growth in domestic debt in Ibero-America, it turns out, is far more important than that of their foreign debt. This debt can be almost entirely blamed on the manipulation of the dollar exchange-rate.

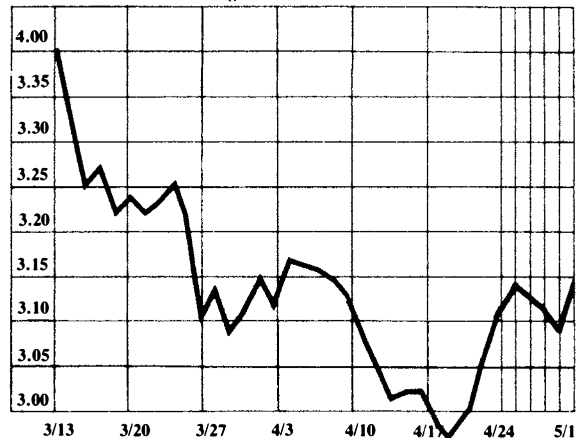
Most ominous, the figures show that the current debt service of $4.9 trillion cannot be paid out of current world production. The domestic interest bill of, for example, France for 1984, at FF543.6 billion, is almost as large as the country's industrial wage bill of FF654 billion. The entire annual debt service bill in France, assuming 8 years average repayment of principal (i.e., 12% of principal repaid annually plus interest) rose from FF199 billion in 1972 to FF1.1 trillion in 1984, twice the country's industrial wage bill.

If the industrial workforce cannot produce enough goods, even in inflated currency, to meet the debt service, then the difference is being made up by the banks printing money, and lending out more to pay standing debt-service obligations.

Currency Rates

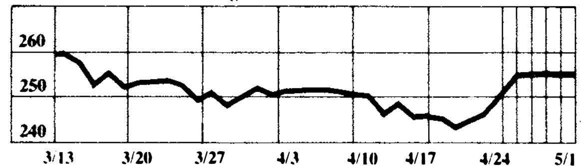
The dollar in deutschemarks

New York late afternoon fixing



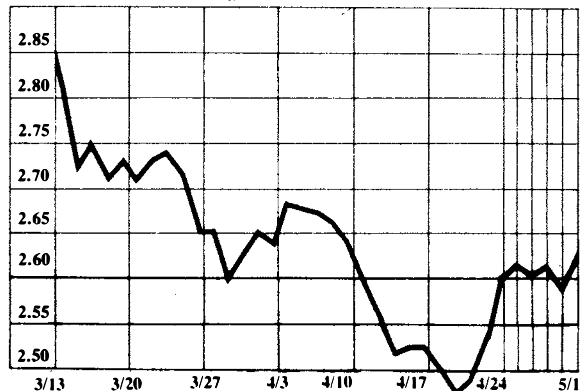
The dollar in yen

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing