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Bankers looted a half trillion from Ibero-America in the '80s

by Dennis Small and Peter Rush

Ibero-America was forced to export nearly a half-trillion dollars in capital over the decade of the 1980s, according to official statistics now available from the World Bank and the Inter-American Development Bank. As a result of usurious pyramiding of its foreign debt, Ibero-America was driven to issue *interest payments* on its debt cumulatively totaling $321 billion from 1981 to 1990. And an additional $157 billion was extracted from the region during this same period, in the form of *capital flight* deliberately induced by the international financial community, according to new calculations made by this magazine and cross-checked with other available studies. A combined total of $478 billion in capital was thus exported from Ibero-America over a ten-year period—a rate of looting averaging almost $50 billion per year.

Yet despite this massive looting and payments on the foreign debt, that debt *rose* dramatically from $243 billion in 1980, to $429 billion in 1990—a 77% increase (see **Figure 1**).

This is usury; it is genocide.

Usury, because it has meant propping up the crumbling Anglo-American financial empire of Wall Street and the City of London to the tune of a half-trillion dollars over the decade. Without such imperial tribute, along with similar looting of other Third World areas such as Africa and Asia, the financial centers would have long since collapsed. Now, without a new round of even more rapacious theft, of the kind envisioned under Bush's New World Order, the Anglo-American financial structure will crumble in the immediate future.

Genocide, because it has meant the creation of conditions of de-industrialization and immiseration in Ibero-America in which millions of people will die of starvation and epidemic diseases. The current wave of cholera sweeping the continent is only the most visible, and immediately dangerous, of these results. In the five short months since the first cases were detected in Peru, the cholera epidemic, according to official statistics, has already infected over a quarter-million people, killing more than 2,500. It has spread into at least eight Ibero-American countries, the latest being Mexico, from where it threatens to spread into the U.S. on a massive scale. So far, there are officially already more than a dozen cases of cholera in the United States.

The conditions which encourage the spread of cholera are principally a lack of potable water and basic sanitation services, conditions which characterize the vast majority of Ibero-America's 440 million people. The World Health Organization and the Pan American Health Organization have officially warned that up to 120 million Ibero-Americans—over a quarter of the total population—are potential victims of cholera.

WHO and PAHO officials have also reported that the epidemic could be readily contained with modest investments in basic water infrastructure, in particular the provision of potable water. Dr. Carlysle Guerra de Macedo, the head of PAHO, told an early May conference in Spain that $80 billion in investment would guarantee potable water to the entire continent, and thus contain the epidemic. An additional $120 billion, he noted, would provide full sewerage and sanitation services to the entire Ibero-American population. "The cholera epidemic has its origin in the investments [in this infrastructure] that should have been made, but which were not, year after year," Dr. Guerra stated.

But one can be even more specific.

Eighty billion dollars is about 18 months' worth of Ibero-America's average capital exports over the past decade! If a debt moratorium were declared on all interest payments, and if strict exchange controls were imposed to stop all illegal capital flight, the cholera epidemic could be brought to a dead stop. What holds for the continent as a whole, holds even more so for individual countries: Peru, the epicenter of the Ibero-American cholera epidemic, with over 220,000 cases, could repair and construct the minimal water infrastructure needed to contain the cholera epidemic, with a mere $80 million, according to one official estimate. But not one cent has gone for this, because the Fujimori government in Peru has been paying $50 million per *month* in debt service since coming to office in mid-1990.

Every day that a single dollar is paid on the foreign debt, means another Ibero-American child dead of cholera, sacrificed on the altar of Bush's New World Order.

Dissecting the usury

Let us first consider interest payments alone (see **Table 1**). For the case of Ibero-America as a whole, $320.8 billion

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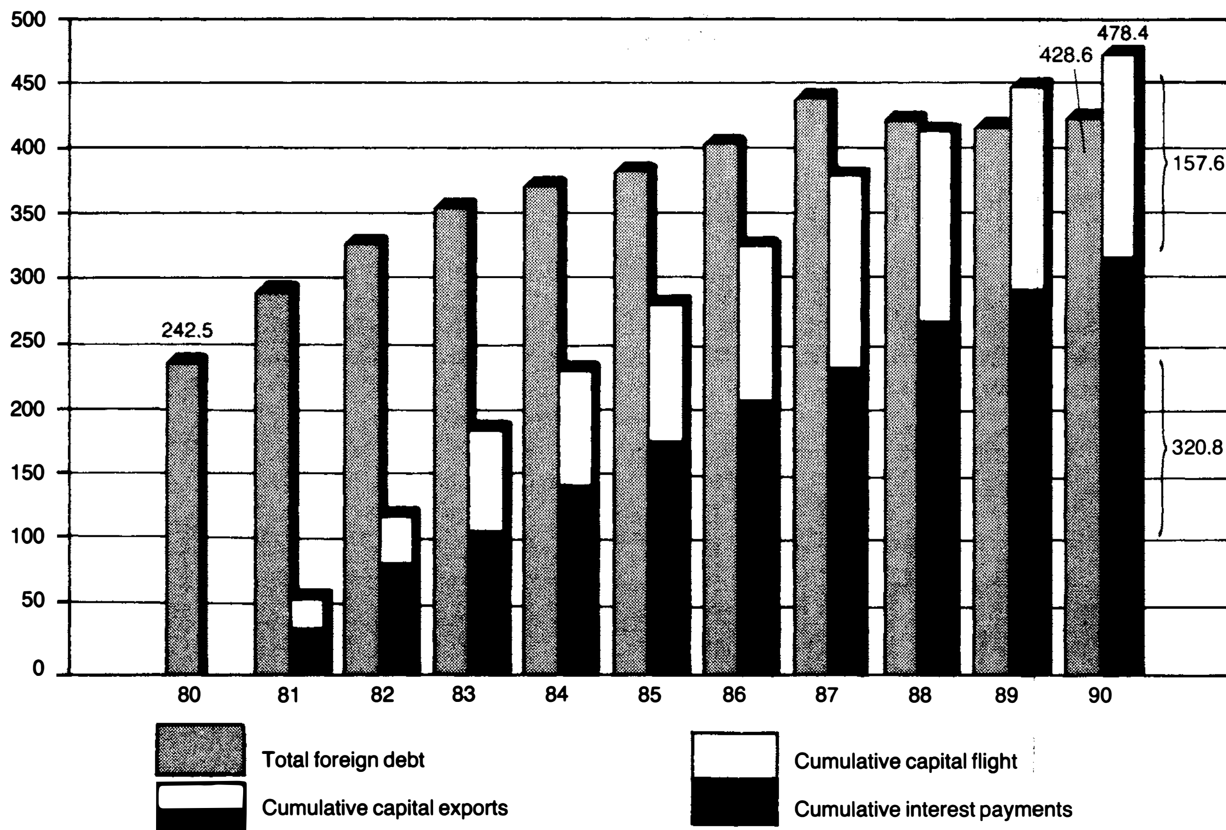
FIGURE 1
Ibero-America: Foreign debt and cumulative capital exports
(billions of dollars)



Sources: World Bank; Inter-American Development Bank.

was paid out cumulatively over the decade, 32% *more* than the total debt of $243 billion at the beginning of the period. In other words, the entire 1980 debt was paid off, *plus* another third. In the case of every individual nation, with the sole exception of Peru, the cumulative interest paid was more than the original debt owed.

How were these payments made? In part, by borrowing more money, in the classic loan shark fashion. This totaled $186 billion, the amount by which the total debt grew between 1980 and 1990. It is likely that a very large percentage, if not all, of these new loans, went directly into the payment of past due interest: the economies of the region never saw a penny of these "new loans," as they reverted directly back to the lenders.

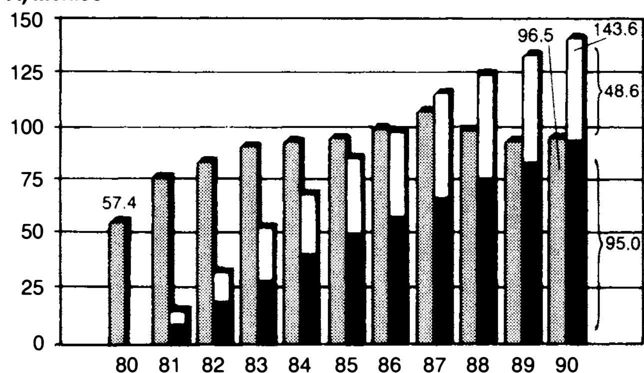
If one subtracts this apparent flow of new loans ($186 billion) from the total interest payments made ($321 billion), the remainder ($135 billion) can be described as Ibero-America's *net* debt payments during the decade—generated principally by running a huge balance of trade surplus for most of the 1980s (more on this below).

Table 1 and **Figure 2 A-G** show this classical picture of usury on a country-by-country basis. *Brazil,* for example, paid $86.8 billion in interest over the decade, which is more than 122% of its 1980 debt . . . and yet the foreign debt grew to $117.8 billion. *Mexico,* the bankers' favorite success story, is perhaps the most scandalous case: It paid $95 billion in interest over the ten-year period, more than any other country in Ibero-America in absolute terms. This amount equals over 165% of its 1980 debt, *and nearly 100% of its 1990 debt! Peru* is interesting by comparison, because it shows the lowest interest payments, in percentage terms, principally because of the policy proclaimed by President Alan García in 1985, under which Peru paid only 10% of its foreign exchange earnings as interest on the foreign debt.

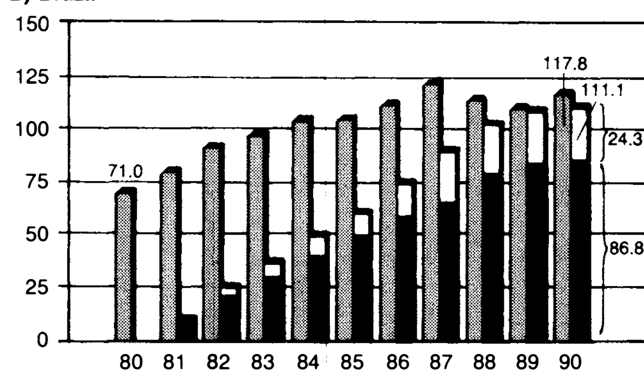
Additional insight is gained by looking at the cumulative interest payments made by the different countries, in per capita terms (see **Figure 3**). This uncovers the shocking truth

FIGURE 2
Foreign debt and cumulative capital exports
(billions of dollars)

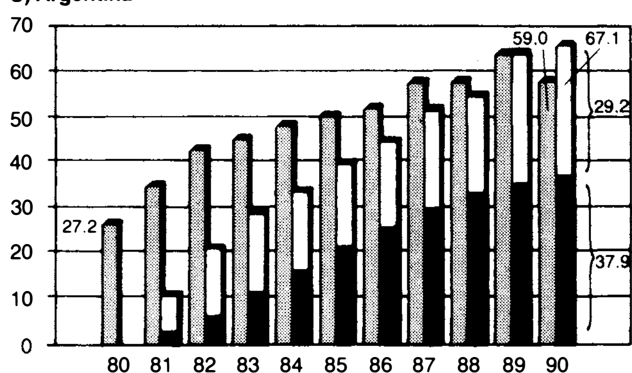
A) Mexico



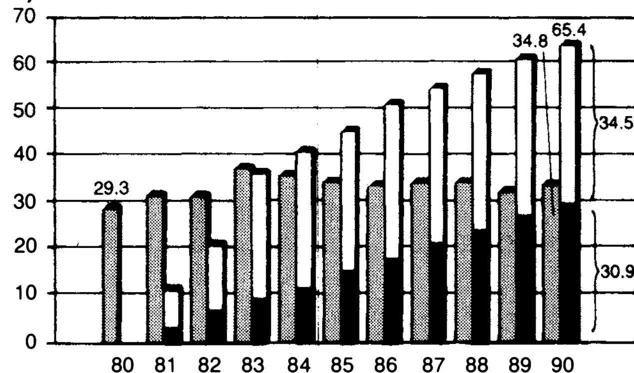
B) Brazil



C) Argentina



D) Venezuela



about the so-called *Chilean model*. Contrary to the myths perpetrated by Wall Street and other proponents of liberal economics, there is no Chilean "success story"—except for the country's "success" in paying the banks phenomenal amounts of interest. In per capita terms, Chile runs a close second to oil-rich Venezuela, having paid the banks over the 1980s some $1,366 in interest for every man, woman, and child in the country. This is nearly twice as much as the average for Ibero-America as a whole—$727 per capita.

It should be noted that this looting process is by no means exclusive to Ibero-America. The same essential mechanism has been operating vis-à-vis the nations of Africa and Asia as well. This can be seen in **Figures 4** and **5** which present the case for Nigeria and Malaysia, respectively. In the latter case, $12.3 billion in interest was paid over the period of the 1980s, nearly double the 1980 debt of $6.6 billion . . . and here, too, the debt rose regardless, to $18.6 billion in 1989.

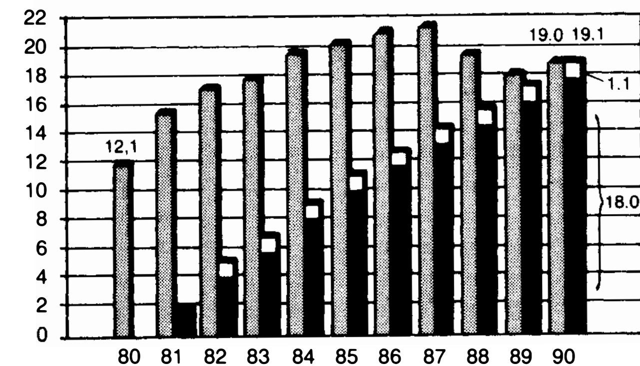
The need for exchange controls

A Third World nation can declare a total debt moratorium, and still be looted to the bone by the international financial establishment. That is because capital is taken out of the debtor countries both *on the books,* in the form of official interest payments, and also *off the books,* illegally. This second form of looting is called capital flight: the conversion of debtor nation assets into U.S. dollars, which are then spirited out of the country—in suitcases, through bank wire transfers, and so on. By definition, such capital flight never shows up as such on the nation's balance of payments accounts, but it is no less real for it. There are, however, ways of indirectly calculating the amounts involved, although the findings are necessarily only approximate (see box on methodology, page 16).

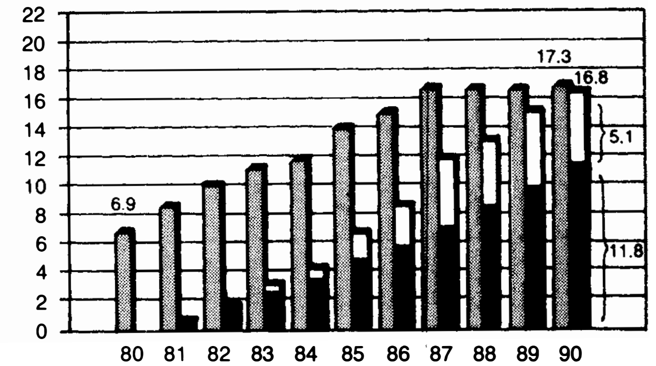
The quantities in question turn out be gigantic: $157 billion for Ibero-America as a whole over the course of the 1980s—and this is a conservative estimate. This is an additional amount equal to about half of the cumulative on-the-books interest payments made ($320.8 billion).

In this area, too, Mexico leads the pack: $48.6 billion in capital flight, according to our calculations, which we believe may *understate* the actual capital flight by as much as a third to a half—i.e., $75-80 billion may have actually fled Mexico. The bulk of this occurred in the early 1980s, as a part of

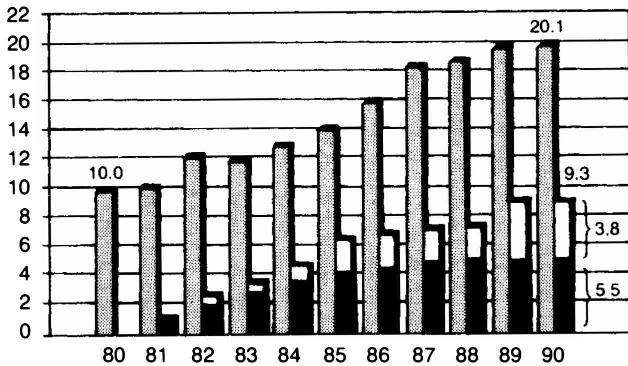
E) Chile



F) Colombia



G) Peru



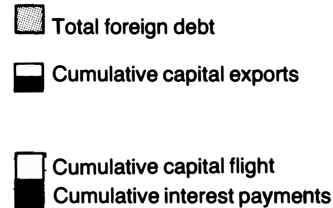
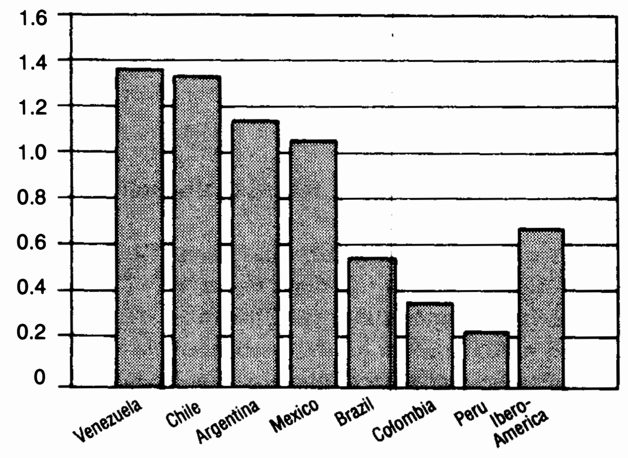


TABLE 1
Ibero-America paid and the debt kept growing
(billions of dollars)

	Debt in 1980	Debt in 1990	Growth of debt 1980-90 (%)	Cumulative interest payments, 1981-90: Total	As % of the debt in 1980	As % of the debt in 1990
Argentina	27.2	59.0	117.3	37.9	139.5	64.2
Brazil	71.0	117.8	66.0	86.8	122.3	73.7
Chile	12.1	19.0	57.6	18.0	149.2	94.7
Colombia	6.9	17.3	148.8	11.8	169.4	68.1
Mexico	57.4	96.5	68.3	95.0	165.5	98.4
Peru	10.0	20.1	101.0	5.5	55.0	27.4
Venezuela	29.3	34.8	18.8	30.9	105.5	88.8
Ibero-America	**242.5**	**428.6**	**76.7**	**320.8**	**132.3**	**74.8**

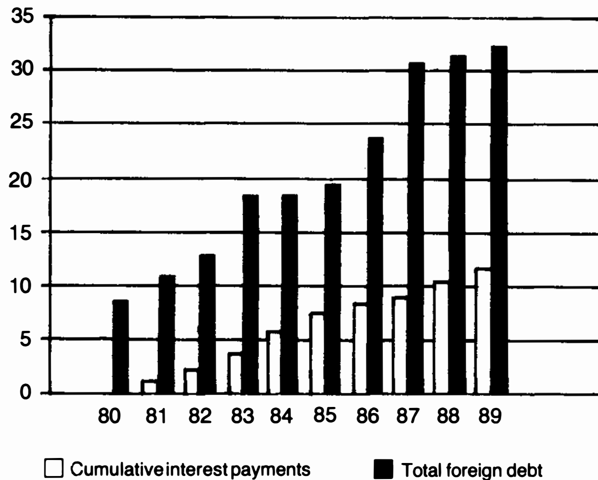
Source: World Bank.

FIGURE 3
Cumulative interest payments, per capita (1981-90)
(thousands of dollars)



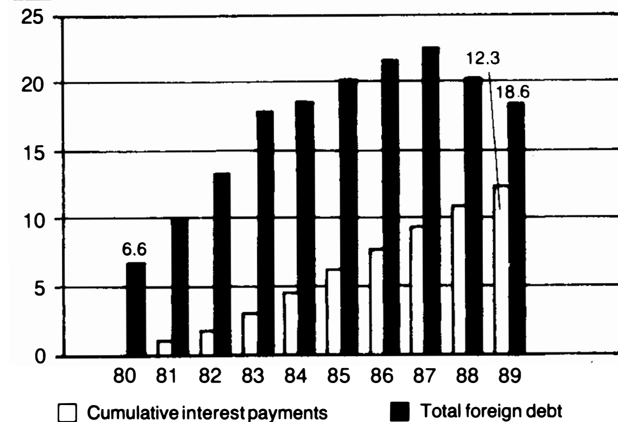
Source: World Bank.

FIGURE 4
Nigeria: cumulative interest payments
(billions of dollars)



Source: World Bank.

FIGURE 5
Malaysia: cumulative interest payments
(billions of dollars)



Source: World Bank.

the bankers' warfare against the nationalist policies of then President José López Portillo.

In the case of Brazil, there has been $24.3 billion in capital flight, according to our calculations. This, too, is probably an understatement: the Brazilian government debt negotiator, Ambassador Jorio Dauster, recently told Brazil's House Foreign Relations Committee that he estimated $40 billion had left Brazil over the last five years, in order to avoid paying taxes.

The only way to stop capital flight is by imposing strict exchange controls: There can be *no* free convertibility between each of the national currencies and the dollar. This means that the main source of extra-official dollars in Ibero-America—the international drug trade—must be dried up.

There can be no end to the looting of Ibero-America unless these two steps—debt moratorium, and full exchange controls—are unilaterally adopted by every debtor nation.

The next stage: drug legalization

As horrid as this looting process has been over the course of the 1980s, it is nothing compared to what is on the agenda for the 1990s, if George Bush and his Anglo-American financial sponsors have their way. They must maintain, and in fact increase, the rate of looting from Ibero-America and other Third World sectors, in order to keep their international financial speculative bubble intact even for additional weeks and months. As we have described in other locations, the North American Free Trade Agreement (NAFTA) with Mexico, and its extension to all of Ibero-America via Bush's

How capital flight was calculated

The flight capital figures used in this study were calculated using the generally accepted methodology employed by the World Bank and Morgan Guaranty bank, with minor modifications, and based on basic balance of payments statistics as published in the Inter-American Development Bank's annual *Economic and Social Progress for Latin America,* 1990 edition. For the World Bank and Morgan studies, the reader is referred to a useful book published in 1987 by the Institute of International Economics, *Capital Flight and Third World Debt,* by Donald R. Lessard and John Williamson.

For this *EIR* study, we have updated these figures through 1989 for the four countries they covered (Argentina, Brazil, Mexico, and Venezuela), and applied the same procedure to calculate figures for the other three countries in our study, and for the whole of Ibero-America.

The approach could be called the "missing capital flows" method. The current account balance, plus the change in net reserves of a country, indicate the minimum amount that, by definition, had to come into the country in foreign exchange on the capital account. That is, if a country ran a current account deficit of $1 billion, and did not draw from or add to reserves, at least $1 billion had to come in on capital account, either borrowed or as foreign investment. (All other possible sources of inflow, such

as remittances from abroad, are already included in the current account balance.)

However, since the mid-1970s, the combined inflow of money to the countries of Ibero-Amerca from loans and foreign investment, has far exceeded the net balance of payments requirement. This money came in, and in effect, disappeared. The assumption is that it left again, as flight capital. That is, flight capital is defined as the difference between the increase in total debt plus annual inflows of direct foreign investment, and the current account balance (adjusted for changes in reserves).

It should be pointed out that this figure far exceeds the reported capital inflow figures as captured in official capital account balance figures, which are notoriously unreliable.

Our figures differ from the World Bank and Morgan numbers only in minor modifications of the Venezuelan and Peruvian figures, and in the handling of negative (putative "reverse capital flight") values. For Venezuela, a detailed calculation performed by *EIR* in 1987 revealed a one-time $3 billion increase in reserves in 1982, based on a revaluation of gold stocks, which had to be added into the calculations. Plus a sudden enormous jump in "tourism" expenditures abroad for several years in the early 1980s was determined to be flight capital—money leaving in suitcases, legally, but nontheless flight capital.

For 1987 and 1988, most countries registered apparently negative numbers, i.e., return of flight capital. In the case of Mexico, this was nothing but the write-down of debt under the Brady Plan, which accounted for over half of the total negative sum. However, in the absence of any direct evidence of returning flight capital to countries like Argentina, Venezuela, and Brazil during these years, it seems unlikely that it was, in fact, returning flight capital. Part of the explanation might be the change in valuation of a nation's debt as the value of the dollar fluctuated, which certainly affected Brazil during this period. Also, drug dollars filtering into the domestic economy would have the same effect. Consequently, we considered a negative value to signify merely zero capital flight, not capital inflow.

We also regarded the putative increase in Peru's debt during the Alan García presidency to represent merely paper debits on Wall Street. Since no money was disbursed—the banks merely capitalized the unpaid interest they were due—the increase in official debt on the books was not a flow which had to be balanced by a corresponding outflow of funds.

While the results are approximate, we consider them to be a reliable guide to the *minimum* likely figure for capital flight. Furthermore, our estimate of $157 billion over the course of the 1980s corresponds closely to estimates derived by other studies, such as a recent document issued by the Catholic Church's Latin American Bishops' Council (CELAM), which stated that $140 billion had fled Ibero-America over the last decade.

Intrinsically uncapturable by such statistical methods, but large and no doubt growing, is the total of dollars entering most economies from drug trafficking. If these funds could be known, and added to the total of debts and foreign loans, our calculations would yield a correspondingly higher figure for capital flight. Thus, we believe the figures used are a highly conservative estimate of actual capital flight.

Enterprise for the Americas Initiative, is the operant policy for establishing Auschwitz-style looting through cheap-labor "Free Trade Zones." But the question remains: Under these conditions, how is the foreign debt to be paid in the 1990s?

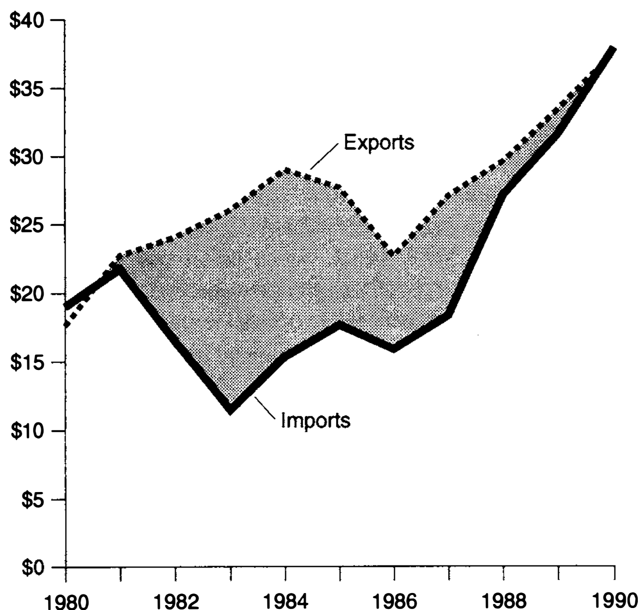
First of all, unlike the 1980s, it is unlikely that any significant new loans will be issued to Ibero-America. This trend is already visible in the late 1980s, where the total debt declines and no new money comes in (Figure 1). So, in the 1990s, interest payments on old debts will not come, in any significant degree, from new loans.

The second main source of interest payments during the 1980s, the balance of trade surplus, will also have a diminished role in the 1990s. One reason for this, is that one of the premises of Bush's "free trade" mania is his demand that the countries of Ibero-America eliminate all tariff and other barriers to imports from the U.S. and other developed nations. This has already led to a sharp rise in imports, as local producers are destroyed by the flood of cheap foreign imports; and it has generally not been matched by a similar rise in total exports. As a result, the trade surplus is shrinking.

This is starkly apparent in the case of Mexico, where a trade surplus of nearly $15 billion in 1983 has steadily dropped to the point where, in 1990, there was a slight balance of trade *deficit* for the first time in nearly a decade (see **Figure 6**). Although less evident, there are similar trends under way in other Ibero-American countries, including Brazil and Venezuela.

The next stage of debt repayments and capital exports will come in the form of directly handing over title to national production facilities to the international creditors. This goes by the name of the "privatization" of state sector companies, under which ownership of various companies—ranging from airlines, to banks, to high-technology steel companies, to arms producers—is transferred to foreign creditors, in lieu of debt repayment per se ("debt for equity" exchanges, etc.). This is most advanced in the case of Mexico where, for the past couple of years, the country's annual interest payments of over $9 billion have been met, not by a foreign trade

FIGURE 6
Mexico's total trade, 1980-90
(billions U.S. $)



Sources: USDC; USITC; Banco de Mexico (BdM); Instituto Nacional de Estadísticas, Geografía y Informática (INEGI), Mexico; own elaborations.

surplus, but by precisely such "foreign investment" flows.

The stock market bubbles occurring in Mexico, Brazil, and elsewhere, are a direct result of this inflow of international capital, which is taking over chunks of the domestic asset base.

But there is only so much direct equity available in the economies of Ibero-America. It is hundreds of billions of dollars worth, to be sure; but how will the debt be paid when that begins to run out?

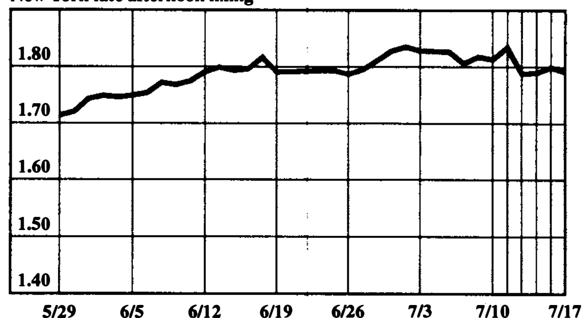
The answer is simple: by handing over title to *actual portions of national territory as such*. The day will shortly come, and it will be far sooner than most readers of this magazine dare to imagine, when Mexico will be driven by its creditors to hand over the state of Baja California in payment of the debt; when entire portions of Brazil's Amazon rain forest will be seized; when Venezuela's oil rich Lake Maracaibo will be owned outright by Chase Manhattan Bank.

To all of this must be added the vast, and growing, flows of drug dollars which are already being illegally laundered into the Wall Street and City of London banking houses. As of 1990, the size of the drug trade stood at $558 billion per year, according to *EIR* calculations (see *EIR*, Feb. 8, 1991). An essential component of Bush's New World Order is to increase, *and legalize*, this vast flow of narco-dollars, as the crucial prop under the failing Anglo-American financial empire.

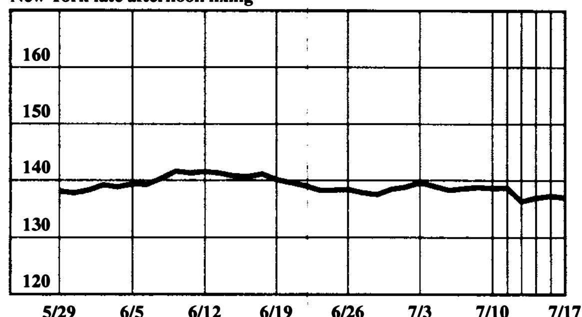
All of this, and more, will occur, if Bush's New World Order and its looting policies are not derailed.

Currency Rates

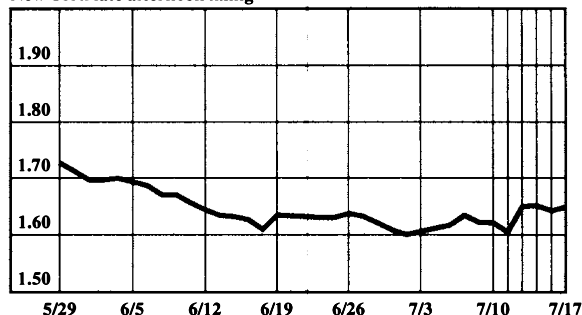
The dollar in deutschemarks
New York late afternoon fixing



The dollar in yen
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing