Credit System

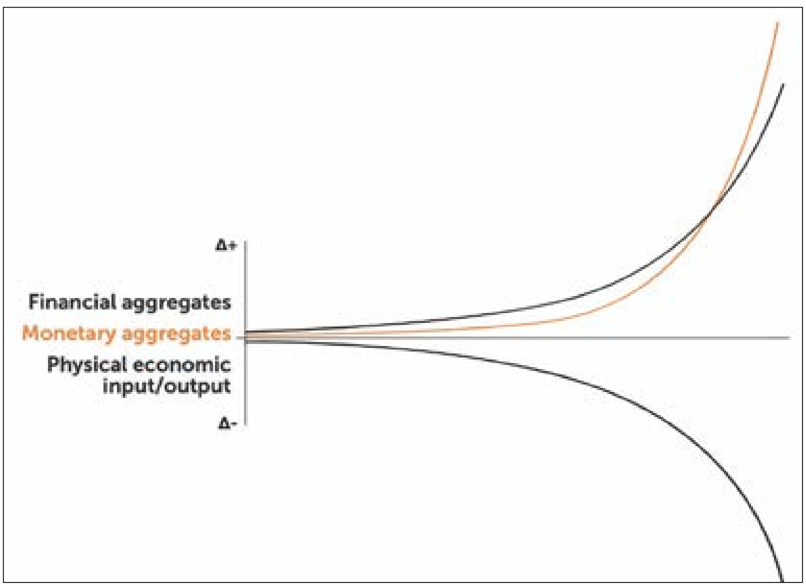
An 'International Development Bank' for World Industrialization

Nov. 24—When the transformational projects of modern infrastructure needed in the developing nations are clear, as they are now, what is needed is the political will to cooperate in using credit for the better future of billions of people in those nations. This means that the leading nations of the "West" should lend, in cooperation with the BRICS nations, the long-term, low-interest credit which these major new infrastructure investments require. The same process can, and should, lift the record-worst burden of unpayable debt, which has pushed down on developing countries since the global financial crash of 2007-08. There has never been a global recovery from that crash, and will not be without a revolution in the credit practices of the major nations of the West, in particular.

After the 2007-08 crash, worldwide development lending fell below the 2008-09 levels for a decade—excepting only China's Belt and Road Initiative loans, which partially sustained it. When World Bank and other development lending finally recovered at the end of the last decade, severe commodity price inflation and the U.S. Federal Reserve's sudden triggering of a worldwide interest rate spike of five percent and more, heaped debt and devaluation burdens on developing nations.

The situation today has come to resemble what American System economist and statesman Lyndon LaRouche represented in his famous "Triple Curve" pedagogy (see **Figure 1**).

FIGURE 1
A Typical Collapse Function



Diverting investment into speculative trading in financial aggregates such as derivatives dries up investment in the productive physical economy. When monetary aggregates eventually increase more rapidly than the financial aggregates, at the same time that the physical economy is plummeting, the accelerating collapse process only accelerates more rapidly.

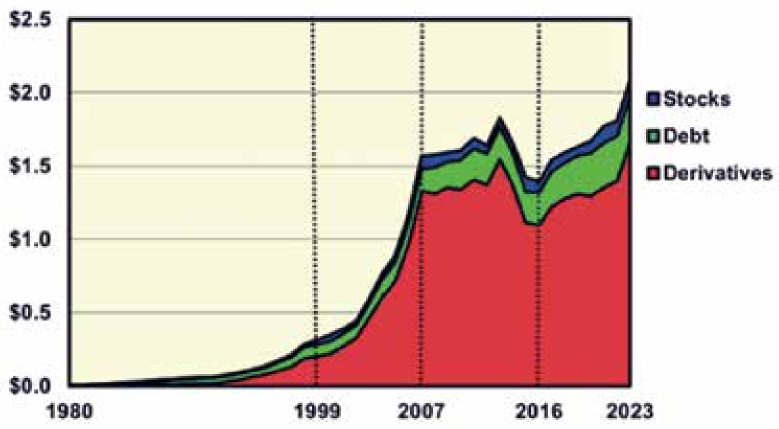
According to a new report published July 31, 2024 by Debt Relief International and the Norwegian Church Aid organization, the burden of debt service on developing nations' budget spending in 2024 had reached an all-time high, consuming 42.2% of their total spending. Annual debt service is now 8.4% of GDP *on average for all developing nations*; it is 2.5 times their spending on education, and 4.2 times their spending on healthcare.

On top of the debt per se, there is the totally speculative derivatives bubble—which brings world financial aggregates above the $2 quadrillion mark (see **Figure 2**)—and simply needs to be written off.

This debt prostration kills productive and/or skilled employment and drives mass migration out of nations in all areas of the developing sector outside East Asia.

Lending cooperation, to generate investment in infrastructure and industrialization, is absolutely urgent among nations with capacity to export capital

FIGURE 2
World Financial Aggregates
(quadrillions of dollars)



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goods. Their development banks are key to this cooperation.

An International Development Bank

The model for this development lending was published nearly 50 years ago by Lyndon LaRouche. This was an International Development Bank (IDB), which he proposed to the Non-Aligned Nations and was discussed at their conference in Colombo, Sri Lanka in 1976. His design still works.

A moratorium freezes the unpayable debt of a developing nation which needs to borrow for project development—provided the project investments will elevate economic productivity over time, shrinking the unpayable debt and tying its repayment to industrial development. "Conditionalities" should be eliminated in IDB lending; IMF-type conditionalities are used today as a weapon to destroy nations' sovereignty along with their physical economies.

LaRouche specified:

"Major categories of unpayable carried-forward indebtedness are placed in a moratorium 'deep freeze,' and negotiations for future liquidation of that debt conducted separately from day-to-day operations of the new institution.

"To this end, we have identified … major, specific development projects which can readily (over a five- to ten-year period of development) yield a massive increase in the output and social-productivity of world agriculture, and thereupon premise the infrastructural basis for massive industrial development…. Hence, credit issued for the realization of such programs is secure and liquid.

"The proposed International Development Bank is therefore essentially an international treaty organization of the participating national economies (states). It acts as a planning forum for the negotiating of extended treaties of economic cooperation…."

To solve the current international economic crisis—with spreading wars, billions in "informal," low-wage semi-employment, and chaotic mass migrations—such an International Development Bank is needed, to be able to issue several trillion dollars in infrastructure and agriculture development credit each year, to the end of this decade and beyond.

Thus, LaRouche wrote of treaties of development lending cooperation, among nations' national banks and multinational development banks—of the BRICS nations, and of the major nations of the West—to generate such volumes of lending. And thus, the need to concentrate on the really transformational, multinational projects which are presented in this report.

A Potential for Cooperation: The 'BRICS Bank'; the U.S. DFC

Two existing, and important, potential constituents of such an International Development Bank are the New Development Bank (NDB) of the BRICS nations, and the U.S. International Development Finance Corporation (DFC). Both are capitalized on too small a scale for the world's need—the NDB up to a maximum $100 billion by charter; the DFC at $60 billion by the 2018 BUILD Act of the Congress—but their capital can and should be immediately enlarged. Neither one imposes formal "conditionalities," as NDB loans have member-country guarantees and DFC direct loans have U.S. Treasury guarantees.

Unfortunately, the DFC is currently actively competing with Chinese state banks which are funding transport infrastructure in Peru, and in Southern Africa's "Lobito Corridor"—the competition increasing the costs and delaying timely completion of the projects.

These two investment platforms—one representing the BRICS nations, the other an accomplishment of the first presidential administration of Donald Trump—can and should make agreements for cooperative financing to aid in "showcase" infrastructure projects which can transform and industrialize nations or regions friendly to both.

The "Lobito" rail corridor across Africa through Angola, Zambia and Tanzania is one example. A second "transcontinental" is another example: the long urgently needed Bi-Oceanic Railroad from Peru to Brazil. A third would be Vietnam's projected high-speed north-south rail line from Ho Chi Minh City to Hanoi, a $70 billion transport breakthrough which Vietnam plans to finance with its own budget revenues plus new government bonds.

A China-France Example

Another existing potential: In 2016, France's Caisse des dépôts et consignations International Capital (CDC IC) and the China Investment Corporation (CIC) signed an agreement creating the Sino-French Third-Countries Investment Fund.

The fund has an initial capital of €300 million, supplied 50-50 by CDC IC and CIC Capital. Its ambition is to reach €2 billion in the coming years. One-third of its lending will be invested in Africa. Laurent Vigier, Director of CDC IC, explained: "This new type of alliance, sealed through this fund, aims to promote economic cooperation between our two countries. Rather than competing head-on in Africa, we'll be investing in partnership." Former Prime Minister Jean-Pierre Raffarin declared: "The Sino-African Fund in third countries would amount to €2 billion and would enable us to finance joint projects on the continent."

China wanted to create a much more ambitious fund, on the order of €50 billion, a CDC representative has reported. But French public finances wouldn't allow it.

Cooperative agreements between such investment platforms, to uplift economies of developing nations, are the constituents of an IDB prophetically proposed by LaRouche a half-century ago. And they are the *only* way to draw migrants back to their home countries as productive citizens, rather than make them become refugees.