A new monetary order: LaRouche's 1982 plan

Part 31
Ibero-American integration

This installment continues 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.

[*In his 1982 book-length proposal,* Operation Juárez, *Lyndon LaRouche gave detailed indications of the monetary and fiscal means to be adopted by an Ibero-American Common Market. What follows is quoted from that book.*]

Collective negotiation of debt restructuring

"We propose to establish a mutually agreed cut-off date for further accruals of existing contracts of indebtedness of Ibero-American republics. After that date, no further interest-payments will accrue on those contracts. Effective that same date, each of the debtor-nations will deliver to the creditor-banks a portfolio of bonds equivalent in total value to the accrued value of the previous debt contracts up to the cut-off date.

"Naturally, it is not quite so simple as that, but that is the crux of the matter.

"The portfolio of bonds delivered by each debtor to each creditor will have the following most notable features:

"**1.** The interest-rates on the bonds will be nominal, approximately 2% per annum.

"**2.** The final date of payment of principal on the total indebtedness will be significantly later than the schedule indicated by the canceled contracts.

"**3.** In some cases, there will be a grace period before payments mature—a deferred-payment provision.

"**4.** Maturities of debt-payment will be determined by maturity-dates of each of a series of bonds issued.

"Unfortunately, more or less inevitably, some among the bankers of lesser intelligence will howl with protest: 'We are being cheated out of the interest-income we would have received under the old contracts.' Such imbecilic gentlemen need to have matters explained to them in very basic terms: 'Try to collect the old contracts, and you force us to default, in which case your banks cease to exist.' The advantages of the new arrangement may then begin to be apparent even to the most stupid among New York bankers.

"There are other important advantages, which require explanation here. We identify some of these advantages first, and explain how these advantages are developed in a later part of our analysis of this matter.

"The new bonds will have low yield, but they will be discountable for certain categories of issuance of new medium- to long-term loans. The new bonds will be a negotiable asset in that way, and should be a very high-grade variety of asset for these bankers, provided they behave sensibly.

"Through a combination of debt-rescheduling and correlated economic measures, the bankers involved will have a very important market for new lending on very sound terms throughout much of Ibero-America. This lending may be not significantly profitable in terms of income on the loans themselves; however, this lending will be very rewarding to the banks' clients among U.S.A. capital-goods exporters, and, consequently, to the banks themselves.

"Unfortunately, the rotted condition of both the American dollar and the commercial banks is so advanced, that the commercial banks could not dispose of such a debt-reorganization by their own independent resources. If the problem were merely need for debt-reorganization in foreign accounts of those banks, what is proposed could be accomplished through negotiations with them. What is proposed would work to the advantage of the banks and the U.S.A., as well as Ibero-American republics, but this would require coordinated implementation of an already overdue monetary and banking reorganization in the United States.

"We are not insisting that acceptance of these proposals by the United States, is the only hope for the Ibero-American economies. It is the best alternative to be considered, and by a wide margin. Were the U.S.A. to refuse, for a period of time, the tasks of Ibero-American republics would be much more difficult, but the alternatives are both workable and indispensable. Moreover, as we shall show, the steps to be taken by those republics toward bringing about successful negotiation with the United States, are the same steps to be followed should the U.S.A. refuse that proposed debt-reorganization. . . ."

The three alternatives, viewed up close

"We will rapidly review the main aspects of this alternative, to then move on to examine the two that would remain were the United States to continue to lack the maturity for acting in the proposed manner. . . .

"The United States should negotiate with developing-sector nations a collection of high-technology infrastructural projects most urgently needed by those nations, including nuclear-energy projects. The U.S.A. should agree to provide 2% per annum financing for medium-term to long-term construction and operation of such projects, covering some percentage of the total investment in each. This is translated into demand from U.S.A. capital-goods producers.

"It would be sensible, and probable, that a number of exporting nations, such as Japan and the Federal Republic of Germany, would wish to join the United States as partners in a multinational division of labor in such undertakings. If we added to Ibero-America, India, the ASEAN nations, and merely a few more sections of the developing sector, we are identifying a reasonable potential for $200 billion annually or higher, of increased capital-goods imports per year from capital-goods exporting nations. Mexico alone, for example, fully justifies $20 billion a year or more of increased capital-goods purchases. An additional $40 billion a year increase in selected capital-goods imports by Brazil, a $10 billion increase by Argentina, and up to between $50 and $100 billion by India, are illustrative of the general order of potentiality.

"Although $100 billion annual increased capital-goods exports by the United States may appear to be a small percentage of U.S.A. reported GNP, remember that the goods-producing portion of the U.S.A. labor force today has fallen below 30% of the total, that this less than 30% of goods-producers is carrying an overhead burden of 70% of the labor force, plus such parasitism as drug-usage, pornography industries, and a massive looting of the economy and people of the nation by ground-rent and usury. One hundred billion dollars of increased annual exports from the U.S.A.'s capital-goods industry represents a qualitative improvement in the national economy as a whole. This means not only a significant increase in goods-producing employment, but a substantial rate of increase of capacity-utilization and rate of capital-turnover in machine-tool and related categories of industry.

"The exporting-nation partners would find it very much in their interest, to ensure that the debt-service-payment levels of developing nations were kept sufficiently low, and at sufficiently low interest-rates, to permit most-desirable levels of capital-goods purchases by those nations.

"What the U.S.A. government would do, were it sensible enough to do so, would be to agree to make the new bond-issues of debt-reorganization of Ibero-American republics discountable assets within the facilities of the reformed Federal Reserve System. . . .

"If the debt-reorganization bonds lie in the bank's vaults, they have a certain value, a fair value. However, if the U.S.A. is engaged in increased volumes of capital-goods exports, and if those debt-reorganization bonds are discountable for hard-commodity classes of export-loans within a gold-reserve-based U.S.A. credit-and-banking system, those bonds are now functionally as good as gold.

"If the officials of the government of the U.S.A. have anything worth reporting on above the levels of their shoulders, they would grab such a debt-reorganization arrangement in an instant.

"Alas, this writer knows his government and his nation's leading bankers all too well. A nation which considers a David Rockefeller a political figure and leading banker shows that it does not desire to consider itself distinguished by geniuses among its bankers or government.

"In that case, that the U.S.A. government is too stupid or cowardly to reorganize its affairs as proposed we have the second option: the banks are rescued to the extent their debtors are able to assist them, with the alternative of debt-reorganization bonds. That is the second option.

"In the worst case, in which the bankers proved themselves to be fanatically stupid, the Ibero-American debt would be temporarily suspended until such time as someone in a leading position in the U.S.A. brought that nation back to its senses. That is the third option, the worst case.

"In the third case, the worst case, the Ibero-American republics work together to exploit the potentials for South-South cooperation, in cooperation with such trading-partners as can be found from among North-South trading-partners. The benefits of either the second option or of this worst-case option are far less than would be the case if the U.S.A. acted as we have proposed. Modest or not, it probably represents the margin for potential survival of the economies and populations of Ibero-America."

Ibero-American monetary order

"In any case, the cooperating republics of Ibero-America, must each and collectively effect reforms of their credit, currency and banking institutions. . . .

"This entails:

"**1.** In no republic must any other issues of credit be permitted, as a matter of a punishable violation of the law against immoral usury, excepting: *a*) deferred-payment credit between buyers and sellers of goods and services; *b*) banking loans against combined lawful currency and bullion on deposit in a lawful manner; *c*) loan of issues of credit created in the form of issues of national currency-notes of the treasury of the national government.

"**2.** Loan of government-created credit (currency-notes) must be *directed* to those forms of investment which promote technological progress in realizing the fullest potentials for applying otherwise idled capital-goods, otherwise idled goods-producing capacities, and otherwise idled productive labor, to produce goods or to develop the basic economic infrastructure needed for maintenance and development of production and physical distribution of goods. This is, at once, an anti-inflationary policy, and also a steering of limited national resources into those choices of governmental and private-entrepreneurial ventures most beneficial to the nation as a whole.

"**3.** In each republic, there must be a state-owned national bank, which rejects in its lawfully permitted functions those private-banking features of central banking associated with the Bank of England and the misguided practices of the U.S.A.'s Federal Reserve System over the period from the latter's establishment into the present date of writing.

"**4.** No lending institution shall exist within the nation except as they are subject to standards of practice and auditing by the treasury of the government and auditors of the national bank. No foreign financial institution shall be permitted to do business within the republic unless its international operations meet lawful requirements for standards of reserves and proper banking-practices under the laws of the republic, as this shall be periodically determined by proper audit ('transparency' of foreign lending institutions).

"**5.** The treasury and national bank, as a partnership, have continual authority to administer capital-controls and exchange-controls, and to assist this function by means of licensing of individual import-licenses and export-licenses, and to regulate negotiations of loans taken from foreign sources. . . .

"**6.** The policies of taxation of the national government must be designed to expropriate ground-rent and usury income, to foster well-being of households, and to give preferential treatment to those classes of ventures which are established to be in the relatively greater national interest. Economic-development policies must inform taxation policies.

"**7.** In a number of instances, it is simply desirable, or even indispensable, that a severe currency-reform be implemented immediately.

"Tax-evasion and the related problems of 'black economy' are endemic problems of nations today. The curse of Italy, for example, is that more than one-quarter of its national income is sequestered in a black economy. Ibero-America suffers infection with the same disease. . . .

". . . The proper execution of a currency-reform—the purchase of old lawful currency with new—can demolish a 'black economy' in the process. The essential thing, is that the amount of currency presented for purchase by residents or foreigners must not be in violation of capital-controls, exchange-controls, and import-export licensing. Often, the holder of 'black economy' gains would prefer burning the old money, rather than having it largely confiscated, and himself sequestered in prison for offenses against the law. . . .

"A currency-reform is a necessary measure in the worst cases of inflation; it serves as one of the indispensable weapons needed to bring inflation under control.

"**8.** Sovereign valuation of the foreign exchange value of a nation's currency must be established for Ibero-American nations. The first approximation of the value of a nation's currency is the purchasing-power of that currency within the internal economy of that nation. What are the prices of domestically-produced goods and services, relative to the prices of the same quality of goods and services in other nations. The emphasis must be upon domestically produced categories, almost exclusively, at least for first-approximation.

"By this standard, many Ibero-American currencies are presently monstrously undervalued. The result of artificially depressed valuations of national currency, is that the nation is being massively, savagely looted by foreigners, especially foreign debt-holders.

"The determination of exchange-rates by the IMF, etc., has often represented, during recent years especially, nothing more nor less than pure and simple theft, on a massive scale, by foreign lending institutions and others.

"This commonplace swindle of developing nations is premised on the fallacious argument, that the value of a currency in international markets must be determined by 'supply and demand' for that currency, rather than the intrinsic value of that currency as a medium of purchase of domestically-produced goods and services in its country of origin. By manipulating international exchange markets, to artificially rig 'supply and demand' in a currency, a 'case' for devaluation is presented as a demand upon the targeted victim-nation.

"How much less domestic purchasing power does the Mexican peso have today, at one-third its nominal exchange-rate valuation, than a short time ago, at 24 pesos to the U.S.A. dollar? The devaluation has been an outright swindle of the nation and people of Mexico, almost at the point of a gun.

"A nation must fight financial and economic warfare against those institutions which attempt to loot it and its people by such improper forced devaluations of currencies. A nation can fight such necessary warfare to defend its currency better, if it has faithful allies sharing the same enemy and the same cause for themselves."

An Ibero-American 'Common Market'

"We propose that, such Ibero-American republics as may choose to do so should form a 'common market.' This 'common market' would be based chiefly upon these institutional features:

"**1.** Bringing their respective, internal institutions of credit, currency, and banking into order, as specified here, earlier.

"**2.** Establishing a common banking institution to facilitate exchange of credit, currency, and trade among them, and as an institution of common defense of the financial and economic interests of the member nations and the continent as a whole.

"**3.** To make more effective use of the limited resources at their common disposal, to the equitable advantage of each and all. . . .

"The keystone institution of the proposed customs union is the inter-republic bank. This bank is established by treaty, to function as the common facility of the national banks of the participating sovereign republics. Its functions are, categorically, inclusively, these:

"**1.** *Inter-Republic Banking Functions: a)* to serve as a central clearing-bank among the participating republics' national banks; *b)* to mediate exchange of credit and currency among the national banks; *c)* to act as a clearing institution for settlement of multi-national agreements among members respecting tariffs and trade.

"**2.** *Monetary Functions More Generally:* to facilitate maintenance of parity of exchange-values among the currencies of the member republics, and to defend those currencies as a bloc against external manipulations.

"**3.** *A Development Bank (Investment Bank):* The bank serves as a coordinating agency for planning investments and trade-expansion among the member-republics. To aid in implementation of such agreements, the bank coordinates the mobilization of money-capital needed to ensure that all aspects of the agreed programs are adequately supplied with investment-development capital.

"There are two principal sources of money-capital for expansion: intra-system and foreign. . . .

"The establishment of a customs union of the type proposed, means that the currency-notes of each republic can be issued as medium-term to long-term export-loans-capital to fund exports of its capital-goods production within the customs union. We have eliminated the need for a third-party lender among those republics. We have established a greatly enlarged autarkical development-potential among the members of the customs union. . . .

"This is not a dilution of the sovereignty of the member-republics. In negotiations for lines of medium-term to long-term credit, to implement multi-member-republic projects, the representatives of each republic will negotiate sovereignly, but with backing from the common banking institution, and, thus, implicit backing from other member-republics of the bloc.

"However, respecting financial relations with nations outside the bloc, the sovereign member-republics seek to negotiate loans for capital-goods through the facilities of the common bank, and to clear payments against such loans through that same common bank. This strengthens the bank's power to maintain a common defense of the currencies and credit of the member-republics. Not only are the members better defended, but the creditworthiness of each nation is increased; the creditworthiness of each and every nation of the customs union is greater than it could be outside that customs union.

"To aid this, a common currency of account should be established for the customs union. Loans negotiated through the common bank will be denominated for payment in this common currency of account.

"However, the bank will not be responsible for the debt of sovereign republics. Rather, the sovereign republic will settle its debt through its account with that common bank, and will settle in denominations of the common currency of account.

"This bank will soon become one of the most powerful financial institutions in the world, especially in the opinion of capital-goods exporting nations."