Debt crisis reaches the breaking point

by Chris White

Thursday, March 2, it turned out, was the day that Treasury Secretary Nicholas Brady chose to tell the American Bankers' Association conference that the administration has completed its review of the debt crisis. He went on to say that they haven't decided yet, which solutions are the ones to adopt.

The review of the debt situation was mandated under the Omnibus Trade Act, known as the new Smoot-Hawley Act, in honor of the measures which in the 1930s were held responsible for unleashing the trade war which was supposed to have plunged the world into depression. The new administration's debt review was undertaken, additionally, with the assistance of Brent Scowcroft's National Security Council staff, on the grounds that U.S. security interests are involved.

As usual with Bush administration reviews of anything, there is a certain conjuror's sleight of hand involved. Their debt policy, after all, happens to be well established. Its foundation is the Schachtian looting of the developed sector economies which has been standing U.S. policy since 1982, when Lyndon LaRouche's "Operation Juárez" hemispheric financial reorganization and economic recovery package was rejected by the Reagan administration in favor of the genocidal approach associated ever since with Henry Kissinger and his cronies like Brent Scowcroft.

Now, the point is fast being reached where that standing policy has to be junked, if a financial and economic debacle on a scale unparalleled in human history is to be avoided. Time is fast running out for the bankers and their representatives, like Brady et al., to get their minds in shape to assimilate workable solutions. And, since the one man in the world who does have the solutions worked out, and knows how to implement them, languishes in a Virginia jail, the only policy on the U.S. agenda is the one they are actually implementing right now, and have been since 1982: namely, the blood and bayonets policy that's being rammed through in Venezuela. This is also the commitment which will ensure that the crisis now reaching a new breaking point turns into the biggest debacle mankind has yet been through, one from which the species may not recover.

This was emphasized by both Bush and Quayle, speaking on Friday, March 3, as markets were roiled by the news that President Carlos Andrés Pérez ("CAP") had announced the suspension of Venezuela's principal and interest payments, effective immediately, for an indefinite period. After much behind-the-scenes scrambling around, that statement was retracted, five or six hours after initial reports came out. The source of the retraction was the head of Venezuela's debt negotiation team in New York City. Venezuela, it seemed, needed commitments of about \$2 billion to avoid default, and was prepared to take the world to the financial brink to get those commitments.

Bush and Quayle, not surprisingly under the circumstances, launched into fulsome support for CAP, while the world trembled on the brink: Bush, in a call to CAP, hailed the "democratization" under way, offering U.S. economic aid; Quayle offered full support for the "necessary" austerity now being implemented in Venezuela. And, meanwhile, financial commitments were being drummed up from West Germany, Japan, Spain, and private banks to raise the funds to keep up appearances until the first tranche of Venezuela's new IMF package comes on line sometime in April.

Meanwhile, sources inside the country report that 3-5,000 have been killed in the last days of riots, looting, and street-fighting that Bush calls "democratization." Even while U.S. newspapers on March 3 were reporting quiet returning, battles were raging in three districts of Caracas in which heavy weaponry was being employed.

U.S. interest rate hikes

Shocking as what has happened may be to some, the point is that what is going on in Venezuela is part of the process of economic collapse, and symptomatic of the reality that in the Third World, as well as Eastern Europe, the debt crisis manifestation of economic bankruptcy is reaching a new breaking point, which won't be subject to rational solution as long as LaRouche remains in jail. Like Venezuela, Argentina, Brazil, and Mexico are being brought rapidly to the breaking point.

Interest rate increases in the United States since the elections have put each of these economies, especially Argentina and Brazil, up against the wall, by encouraging the resumption of capital flight, forcing the devaluation of currencies, and promoting internal hyperinflationary tendencies. Before the developments in Venezuela, Brazil's President José Sarney had announced that his country lacked the currency reserves to make its March scheduled interest payments. Since then, Mexico's government has requested that the United States see its way to reducing the net capital outflow from Mexico by $7 billion per annum. This was refused out of hand, prompting the resumption of discussion of the need for debt moratoria inside Mexico. Argentina, too, has been declared out of compliance with requirements imposed by the World Bank, at the moment that its internal anti-inflation plan has collapsed on the ruins of the economy.

Are we now to expect a succession of Friday afternoon crises, like the one of March 3, as each of these countries pushes the world financial system to the brink, to extract the promises which will only keep things going for a few more weeks? This would simply be to buy time for more of the vicious blood-letting that was unleashed in Venezuela this week in the name of "financial restructuring."

LaRouche's 1982 financial reorganization package was a set of economic recovery measures: a renegotiation of sovereign debt, to sort out what was performing and legitimate from what was not; the executive reorganization of banking, based on the extension of gold-backed treasury notes into the banking system, to save the bankers from the consequences of their own stupidity, and create the basis for new credit extension. The physical economic side of the process is the one the powers-that-be, together with their bureaucratic managers, refuse to address, except in the way a butcher does a side of beef with meat axe and handsaw.

Each of the countries concerned, including the deficit-ridden United States, is operating below the physical breakeven levels needed to sustain human existence. The once-powerful United States appears to bridge the gap with imports ripped out of the bodies of its trading partners, up to a level of about 25% of its internal consumption. The others are left to do without, and thus to die. LaRouche's financial reorganization proposals of 1982 were premised on the changes needed in economic policy to bring the country back to a pattern of growth based on meeting and surpassing physical breakeven costs. This way, no one has to die, capacity built up over decades doesn't have to be destroyed, and banking systems don't have to be reduced to wreckage. LaRouche's opponents of 1982, who also happen to represent the same combination responsible for his frame-up jailing now, insist that they know better.

They are about to find out what the consequences of such arrogance are. And not just as a result of what they have unleashed in Ibero-America.

The same kind of development is also under way in Eastern Europe: in Poland, where the government and the Solidarity trade union are negotiating to come together on a common basis vis-à-vis the West for debt relief, because anticipated hard currency earnings from exports this year will not cover more than half what is owed in debt service; in Hungary, where the same earnings crunch applies; and most explosive of all, in the Balkan cockpit, around what is unfolding in the Yugoslav province of Kosovo.

It is IMF-mediated imperial looting which has brought Yugoslavia to the boiling point, just as it has Venezuela. But here, of course, the point is that such policies also contain the seeds of world war, the more so when the centuries-old blood vendettas of the region are inflamed by genocidal austerity recipes. No more than Argentina, Brazil, Venezuela, Poland, or Hungary, can Yugoslavia generate the revenues which will permit continued servicing of its debt. The effort to do so has plunged the country into a crisis represented by 300% inflation rates and worse, tripling since last summer.

For each of these countries the minimal 3% increase, since this time last year, in the interest rates employed to calculate debt service, merely makes what was already impossible out of the question.

Paul Volcker, Helmut Schmidt, and others of their ilk have identified the March-April conjuncture as a likely timeframe for new financial shocks. The combination of U.S. interest-rate increases, threatened competitive interest-rate war among the world's principal central banks, and the beginning dissolution of the larger debtor nations, signal that the threshold is being reached for the destabilization of some portion of that outstanding $20 trillion or so of unsupportable dollar indebtedness.

LaRouche warned that this was coming. He was right about it, and the others, from Bush and Kissinger on down—the crowd who put him in jail—were wrong. LaRouche was right about the problems, and right about the solutions that will work. And the rest, like dope addicts, insist on coming back, again and again, to the same old pile of junk. Their way ensures that the crises accumulating presently become the biggest debacle mankind has known. And pretty soon, the addicts are going to find that it's not just a debt crisis they have to deal with, but rather the question of war and peace.