

New statistics show Ibero-American economies are in free fall

by Dennis Small

What would you think of the scientific competence — let alone the moral standards — of a measurement of the economic health of your city which was based on surveying the quarterly sales of the corner grocer, the failing local widget plant, and the troubled downtown restaurants, and which then gave equal statistical weight to the booming business of ghetto and suburban crack and heroin dealers?

Sounds crazy? Yet that is exactly how the International Monetary Fund (IMF) and the World Bank — the ruling financial institutions of today's global world order — calculate the economic "growth" of every country around the world. The IMF has mandated that drug production and distribution be included in all official GNP statistics. No longer does GNP stand for Gross National Product; it now means Gross *Narco* Product (see Dennis Small, "The IMF and Wall Street Are Gunning for Drug Legalization," *EIR*, July 16, 1999).

And what would be your conclusion, were you to learn that even those drug-inflated GNP statistics have been plummeting across Ibero-America over the course of 1999 to date? Does this sound like the "recovery" that you keep reading about?

All in all, GNP is a thoroughly unscientific measure of an economy's growth. Even before drugs are added in, GNP includes all sorts of pointless and unproductive activities in its summation of what is called monetary "value added" — such as financial services, administrative overhead, and so on.

Keeping that in mind, consider **Figure 1**, which shows projected GNP growth or decline figures for 1999, according to a forecast issued recently by the Wall Street investment house Bear Stearns. It shows declines for most of the principal economies of Ibero-America, with Mexico being the major exception: Mexico's GNP, it predicts, will "grow" by 3.5% over the course of this year.

Don't believe a word of it. By this same GNP fraud, the Mexican economy has been steadily growing since 1981, and even grew by an average 2.5% per annum in the four years of crisis since Mexico's December 1994 debt blowout. But the fact is that, if you analyze Mexico's *physical economy* with Lyndon LaRouche's methodology — calculating changes in the economy's ability to produce standard market baskets of consumer, producer, and infrastructure goods, as measured in physical (not monetary) units per capita — an altogether different picture emerges.

FIGURE 1
GNP, 1999 projection
(% annual change)

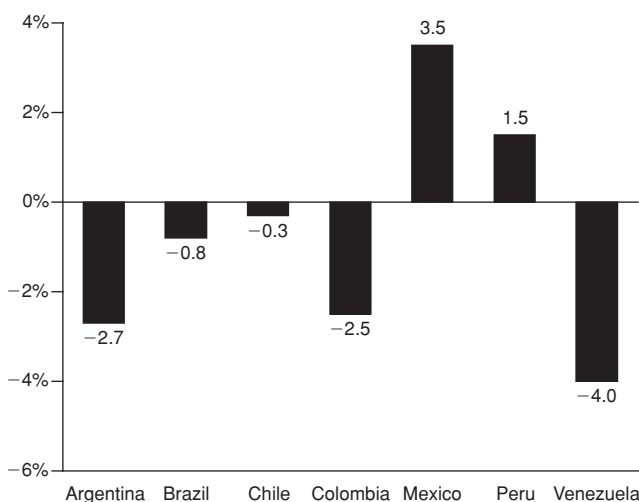


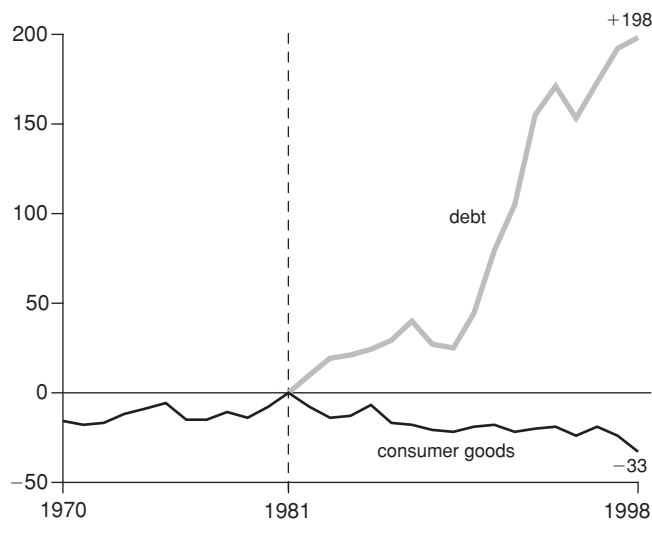
Figure 2 shows what has happened in Mexico to such a physical market basket of consumer goods, contrasted to the geometric growth of the country's real foreign debt. Consumer goods production did in fact rise modestly from 1970 to 1981, but, starting in 1982 — the year that IMF policies were forcibly imposed on Mexico — per-capita physical output of the market basket of consumer goods has consistently *declined*, contrary to the GNP hoax. By 1994, it had fallen almost 20% in real terms from its 1981 high point. Moreover, between 1994 and 1998 — the same four years where the GNP crowd would have us believe that Mexico's economy grew by over 10% — the consumer goods market basket plunged an additional 17%.

1999: The bottom falls out

But this is only the beginning of our story. Because, as destructive as the IMF policies of the 1980s and mid-1990s were in Mexico, as in all of Ibero-America; and as devastating as the effects of the global financial crisis of 1994-98 have been in this region; they are as nothing, compared to what is

FIGURE 2
Mexico: typical collapse function

(index 1981 = 0)



now happening to Ibero-America's physical economy over the course of 1999 to date.

In Mexico, for example, the first 20% decline in the consumer goods market basket took some 13 years to happen—from 1981 to 1994. The next nearly 20% drop occurred more quickly, in only four years time. But, available figures for the first quarter of 1999 show yet another 20% plunge in the consumption of basic food staples, this time in a *one-year* period.

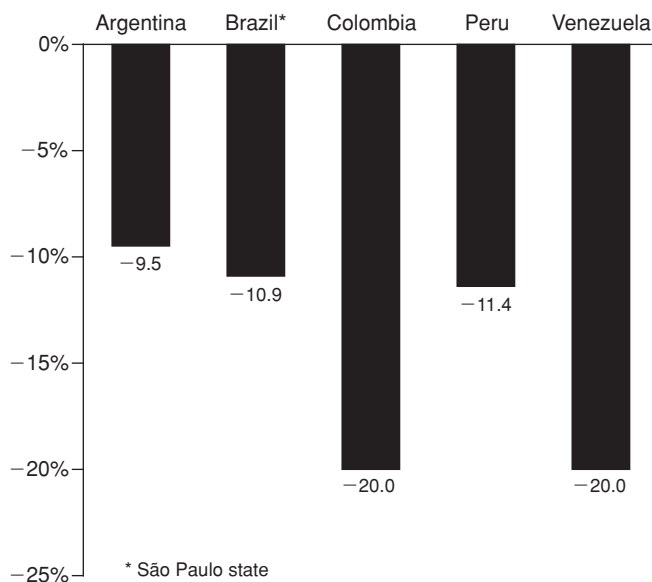
The Mexico consumer goods case is merely symptomatic of a broader pattern. *Across Ibero-America, the first quarter of 1999 witnessed completely unprecedented rates of physical economic collapse of 15-20% per annum, in both food consumption and total industrial output*, as we shall demonstrate below. And, everything indicates that the second quarter of 1999 was even worse than the first, and that there is no end in sight to the plunge.

In other words, what we are witnessing is more than a simple acceleration of the decay under way for nearly 20 years in Ibero-America. Rather, it is a drastic, non-linear free fall, an implosion which will have wide-ranging economic, political, and social consequences unforeseen by most observers and participants in the process. Because the continent is not only financially bankrupt; it is now also being "Africanized," as *EIR* has been warning for years.

Nor will these consequences be limited to Ibero-America. Consider the fact that German exports to Ibero-America as a whole were down 5.1% in the first quarter of 1999, compared to a year earlier; German exports to Brazil fell 9% in the same period. As for the United States, some 20% of all U.S. exports

FIGURE 3
Industrial output

(first quarter 1999)



currently go to Ibero-America. Can the United States continue to export into a market that is plunging into this kind of a depression?

The economic free fall of 1999 in Ibero-America is a direct consequence of the latest stage of the global financial crash ushered in by the combined Russian debt default of August 1998, and the September 1998 bankruptcy of the giant Long Term Capital Management hedge fund. These events led to a global liquidity crunch and a financial stampede out of all "emerging markets"—i.e., former East bloc and Third World nations—emphatically including Ibero-America. One prominent result of this was the Brazilian debt crisis and maxi-devaluation of January 1999, which in turn became the immediate trigger for the first quarter blood-letting across Ibero-America.

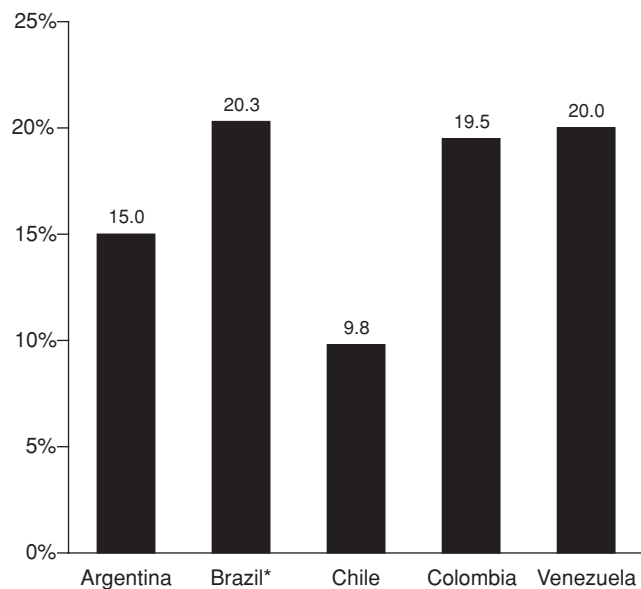
Brazil, it should be recalled, is the economic giant of the continent, representing half or more of Ibero-America's total economic activity, in most categories. With Brazil plunging into deep depression in early 1999, the rest of Ibero-America began to feel the knock-down effects immediately. Most vulnerable is Argentina, about 30% of whose exports go to Brazil. The combination of the Brazilian devaluation and the contraction of its economic activity as such, has meant that the market for one-third of Argentina's exports has dried up overnight. There are tens of thousands of newly unemployed Argentines who are the shocked victims of this process today.

But, the depression is not limited to Argentina and Brazil, as **Figure 3** shows. Industrial output for the first quarter of

FIGURE 4

Official unemployment

(first quarter 1999)



*São Paulo state

1999, compared to the same period of 1998,¹ is down by about 10% in both Argentina and the Brazilian state of São Paulo, which is the economic powerhouse in that country, representing almost a half of total national output. But Colombia and Venezuela are collapsing at twice that rate—by about 20% per year. In Colombia, this is the sharpest rate of decline that the country has seen since such statistical records began to be kept there, in the middle of this century.

(It should be noted that Figure 3 uses *monetary* values for total industrial output. If one were to look at output in *physical* units, such as tons, per capita—data which are generally not made available by the respective national economic authorities—the collapse would unquestionably be far worse. The same point applies to Figure 5 below.)

A human catastrophe

The sharp slowdown in economic activity has translated into wave after wave of layoffs. **Figure 4** shows that official unemployment rates now stand in the 15-20% range in most of Ibero-America, and this is rapidly worsening. For example, Colombian unemployment in August 1998 was 15.2%, but had risen to 19.5% by March 1999. In the state of São Paulo,

1. The data used in **Figures 3, 4** and **5** correspond to slightly different months of 1999 for the countries in question, because of the unavailability of identical time series for all the countries. For example, in **Figure 3** Brazil/São Paulo, Colombia, and Venezuela are first-quarter data; Argentina refers to the first five months of the year; and Peru to February.

Brazil, unemployment was at 17.8% in January 1999, but had increased to 20.3% by April. Since the physical economic downturn has worsened in the second quarter of this year, it is certain that unemployment rates will continue to skyrocket. Countries such as Colombia and Venezuela—especially given their notorious involvement in the drug trade—cannot hold together as viable nation-states with 20% unemployment rates.

Note that the above are *official* unemployment figures; *real* unemployment (including massive under- and misemployment in the so-called services and “informal” sectors, including the drug trade) is significantly higher in all cases. Mexico is a good example of this: whereas official unemployment figures are in the single digits, *EIR* has published detailed studies of Mexico’s real unemployment rate which placed it at 49% of the labor force at the end of 1996. It is certainly well more than 50% today.

If you want a job in Mexico, your only sure bets are the drug trade, or the slave labor *maquiladora* plants along the U.S. border. Thanks to George Bush’s North American Free Trade Agreement atrocity, *maquiladora* employment and output continue to boom, most recently growing at 10.2% in April 1999 (compared to April 1998), while the employment and output of the rest of Mexico collapsed. Wages for even these slave-labor jobs have steadily declined, and are now 23% lower than the miserable levels of five years ago. The average *maquiladora* wage today is about 70¢ per hour.

Overall poverty in Mexico is reaching alarming proportions. More than 40% of Mexico’s 100 million people live in poverty; 26% of them (i.e., 26 million souls) suffer *extreme* poverty, which means that they go hungry most of the time. Back in 1994, it took 1.6 minimum wages for a family to purchase the government’s definition of a minimal market basket of food items: a small amount of tortillas, beans, rice, cooking oil, and other staples, with no milk or meat included. By 1998, it took 2.5 minimum wages to buy the same basic market basket—a 56% decline in the real purchasing power of the minimum wage. Since 67% of the population earned less than two minimum wages in 1998, it is obvious that close to two-thirds of the population cannot even afford this meager market basket of food items. In 1998, the official minimum wage in Mexico was 30 pesos (about \$3) *per day*.

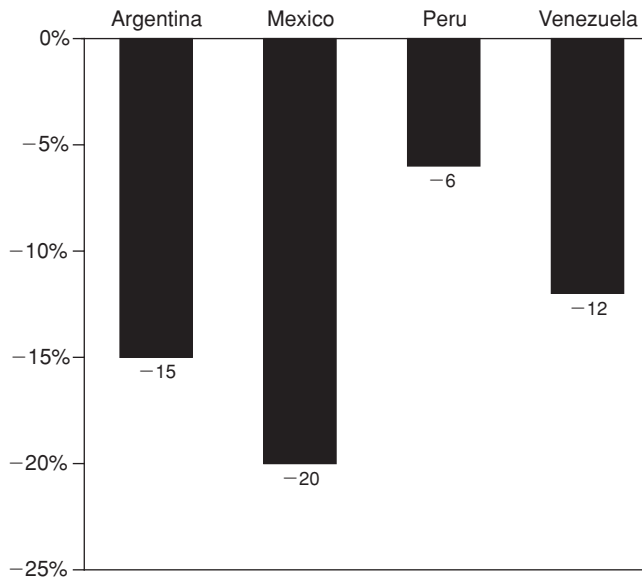
And what happened in 1999? It all got worse, much worse.

Figure 5 shows the consumption of basic food staples in four countries of Ibero-America. In Mexico, as we noted above, food consumption in the first quarter of 1999 dropped 20% over the same period of 1998. In other words, on average, the Mexican population—26% of whom are already enmired in extreme poverty and endure daily hunger—are today eating one-fifth less tortillas, beans, and rice than they were one year ago. Milk and meat have virtually disappeared from their diet. Under these conditions, hunger will not only spread, but in growing numbers it will pass over into outright starvation, and the epidemic diseases attendant upon such conditions will increase. It is for this reason that we insist

FIGURE 5

Drop in consumption of food staples

(first quarter 1999)



that Ibero-America is being “Africanized.”

Mexico may be the most dramatic case, but food consumption is also plummeting in Venezuela (by 12%); in Argentina, a former breadbasket and agricultural powerhouse (by 15%); and in Peru, by 6%.

Banking systems disintegrate

The banking systems in almost every country of Ibero-America have also cracked under the pressure of the ongoing international financial crisis. They are all completely bankrupt, and they are now beginning to vanish from the map altogether.

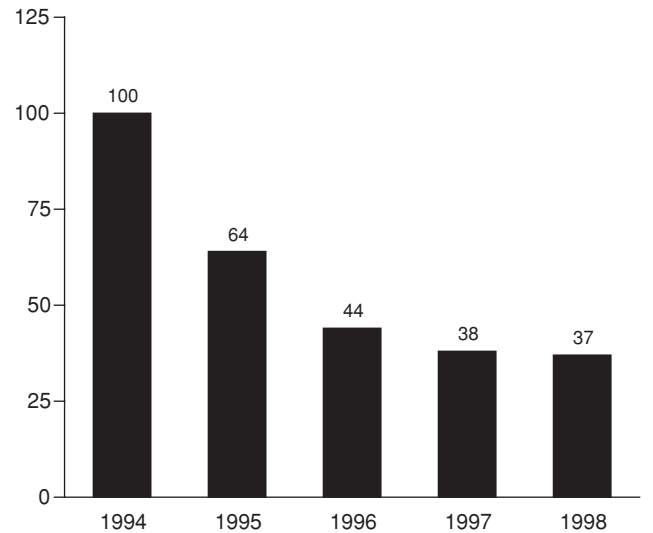
Again, the case of Mexico is exemplary. Mexico’s private banking system went belly-up in the aftermath of the December 1994 debt blowout, when the IMF forced Mexico to jack up interest rates to over 40% — supposedly to “attract foreign [speculative] capital.” This, along with the economic collapse described above, led to massive defaults on business and personal loans owed to the Mexican banks.

In 1995, rather than carry out the kind of bankruptcy reorganization that Lyndon LaRouche has repeatedly called for, the Zedillo government chose instead to bail out the banks to the tune of \$65 billion — an amount close to two-thirds of their total loan portfolio at that time. But that money didn’t go to stabilize those banks, so that they could resume domestic lending. It went instead for the Mexican banks to pay off their own foreign creditors, and to make good on their various bets in the global derivatives market. Today, there is talk in Mexican and international financial circles that *another* \$25 billion is needed to “save” Mexico’s banks — pushing the

FIGURE 6

Mexico: commercial bank loans

(index 1994 = 100)



total bailout up toward the \$100 billion mark.

In fact, while the Mexican government has been pumping more and more taxpayer money into the insolvent banks, they have been lending less and less to Mexicans. As **Figure 6** shows, lending by Mexican commercial banks has dropped by almost two-thirds from the levels of 1994. For all intents and purposes, Mexico no longer has a banking system — at least not one of any use to Mexicans.

So, where did Mexican companies turn for credit to keep operating? To foreign lenders, in droves. Mexico’s private sector foreign debt had grown to \$62 billion at the end of 1998; and \$42 billion of it comes due between now and the end of the year 2000. Already, a number of major Mexican corporations — such as AHMSA steel and Bufete Industrial — have defaulted on their international payments, and have been forced to file for bankruptcy. More, many more, will soon follow.

The banking systems of Colombia, Peru, and Ecuador are in similar straits, with numbers of major banks in each of these countries going bankrupt over the course of this year. A late June 1999 edition of the London *Financial Times* reported that the banking systems of these three countries are in danger of collapse in the short term, and it added that, whereas Mexico’s \$65 billion bank bailout in 1995 amounted to 17% of the country’s GNP, Ecuador’s required bank bailout could gobble up as much as 33% of its GNP. As for Peru, with its second-largest bank, Banco Wiese, going belly up this year, there has been widespread talk about a possible collapse of the whole system. “If the banking system collapses,” an official at Peru’s Foreign Trade Society (Comex) told a local paper in early May, “it will drag all other activities with it.”