Ibero-America's debt: the looting of a continent

Part 6
Ibero-American integration

By the year 2000 there will be 100 million jobless in Ibero-America, unless the countries of the continent repudiate the policy of "adjustments" and "conditions" of the International Monetary Fund and World Bank.

In this book the reader will encounter a scientific program to meet the crisis. Prepared by an international group of specialists of the Schiller Institute at the request of the institute's Ibero-American Trade Union Commission, it is a study of the urgent means that will free Ibero-America of its economic dependency. The formation of a "debtors club," the physical integration of the continent by great infrastructure projects, and the creation of a Common Market are the first steps toward shaping an virtually self-sufficient economic superpower.

Released in September 1986 in Spanish by the New Benjamin Franklin House of New York, the book is being made available exclusively in English through *EIR*'s serialization.

This installment completes Chapter 2, which was begun in last week's issue of EIR.

The big three debtors

Mexico: Despite a net $17.0 billion inflow from the rise in petroleum prices in 1979, Mexico suffered heavily due to usurious interest rates and capital flight. Adjusting these factors in 1977 terms, inclusive of the positive effect of terms of trade (as a result of oil price rises) in Mexico's case, total Mexican foreign debt today would be a mere $11.5 billion, compared to what it officially is: almost $100.0 billion. One may say that the sacrifices of the Mexican people would have been rewarded by eliminating about 60% of Mexico's debt burden under an equitable international financial and economic regime. **Figure 2-3** shows the legitimate versus illegitimate debt for the Mexican case.

Brazil: In an equitable environment, Brazil today would have no debt at all. More than any other country, Brazil is a heavy importer of petroleum and exporter of products whose prices have declined. It therefore suffered greatly from the collapse in relative terms of trade. Without the disproportionate increases in the prices Brazil paid for imports, Brazil would have saved $12.5 billion. The income it received for exports would have been $78.5 billion higher, if prices had corresponded to their relative 1977 values. Its total term of trade loss was therefore $91 billion. Adding to this the savings Brazil would have accrued from stable interest rates and elimination of flight capital, would have enabled Brazil to pay off its entire debt by 1983. By 1985, it would have enjoyed a $58.5 billion surplus (see **Figure 2-4**).

Argentina: Besides 1980, in the years before 1982 Argentina never ran a trade deficit. During the 1977-82 period, while the foreign debt was rising $34.0 billion, the country ran a trade surplus of more than $5.0 billion, a surplus which widened further in 1983, 1984, and 1985. As with Venezuela, whose debt mushroomed despite a very large annual trade surplus, Argentina incurred its debts without any tangible return to its economy. **Figure 2-5** shows the legitimate versus the illegitimate debt for the Argentine case.

The decline in production and consumption

This build-up of fictitious debt has been used by the International Monetary Fund (IMF) and creditor banks to impose stringent austerity conditionalities on virtually every Ibero-American nation. The true cost of the IMF "adjustment" measures implemented over the past five years is almost beyond calculation. The number of jobless is going up by more than 3 million every year. At least 15 million workers are unemployed who were not in 1980, or are functionally unemployed doing useless "service" jobs epitomized by the street-vendor phenomenon pervasive in every Ibero-American city today. The number of unemployed is rising by more than 3 million every year. These 15 million "new unemployed" are more than 12% of the entire labor force. Almost 35% of the entire labor force is today effectively jobless or underemployed.

The social cost of these tendencies is seen in the rise of open beggary, soaring crime rates, and the demoralization of entire populations which are being driven to drugs and the black economy.

Since 1980, Ibero-America's gross domestic product (GDP) has stagnated. On a per-capita basis, it has fallen 11.4%. GDP fell 3% in Brazil, 3.6% in Mexico, 14.6% in Peru, 17.7% in Argentina, and 20.8% in Venezuela.

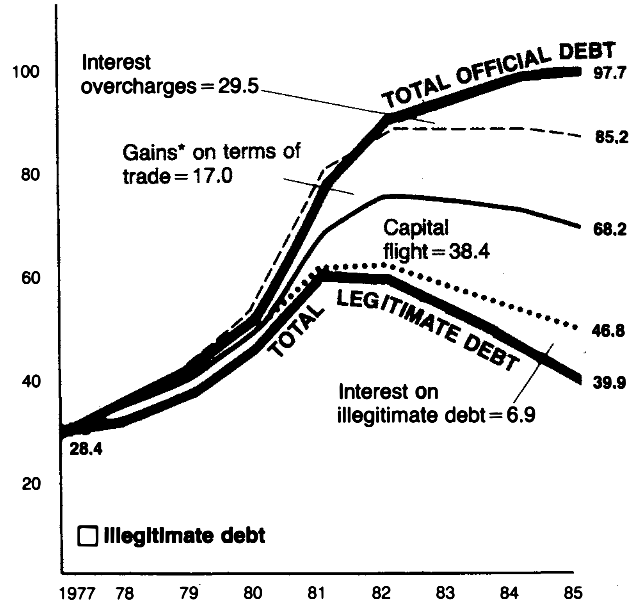
Manufacturing performance was even worse. As shown in **Figure 2-6,** Mexican, Brazilian, and Argentine per-capita manufacturing output has returned to levels of the mid-1970s. Argentina is producing *less* per capita now than it did in 1970.

The construction industry has been one of the hardest hit, because the most severe cuts have come in public investment, the mainstay of the construction industry in most Ibero-American countries. Mexico, Brazil, and the continent as a whole saw a 20% decline in construction (30% per capita), while Argentina's construction industry has fallen to half of its 1980 level, and Venezuela's to 60% (50% per capita).

However, even these calculations understate the damage suffered by Ibero-American economies. The decline in *production* shows a collapse of economic activity. But for an underdeveloped country, a decline in *consumption* of the output of farms, factories, and mines, both as personal consumption and gross capital investment, is the best gauge of the effect of a given policy on that economy. For an underdeveloped economy, only rapid increases in total capital investment (i.e., consumption of producers' goods) and per-capita personal consumption are compatible with development. By this measure, Ibero-America is much worse off than the production figures by themselves would indicate.

Between 1980 and 1984, there was a net increase of $40 billion in tangible goods exported. Therefore, using Inter-American Development Bank calculations (1982 dollars), while per-capita *production* of mining, manufacturing, and agricultural goods fell 8.6%, the domestic *consumption* of this output fell 22.4%, from an annual $732 per capita in 1980 to only $568 per capita in 1984.

FIGURE 2-3
Foreign debt of Mexico, legitimate and illegitimate 1978-85
(billions of dollars)



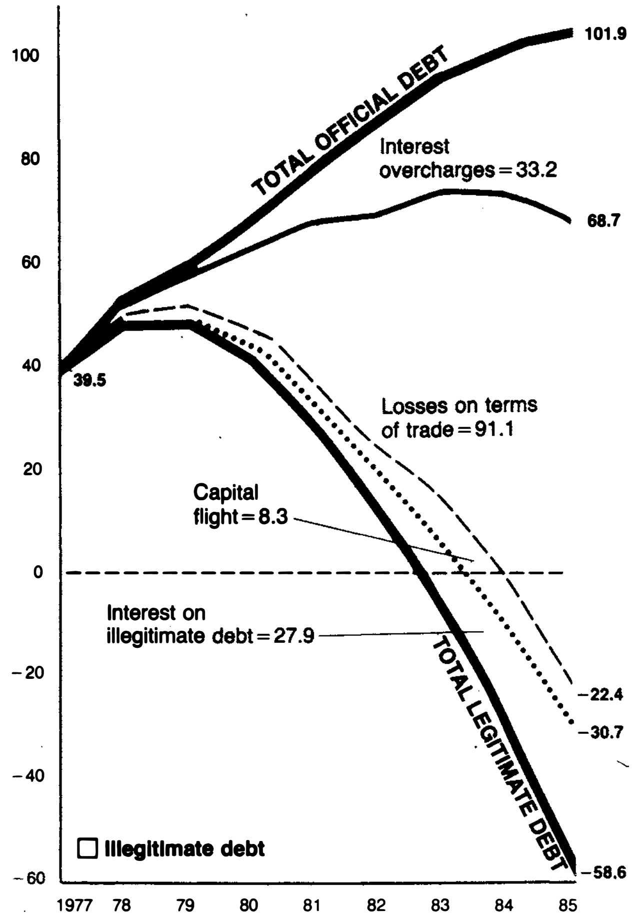
*Note that in this case there are gains, not losses, due to terms of trade, which cause an increase in the debt from $68.2 million to $85.2 million.
Sources: ECLA and authors' estimates.

But this still understates the matter. What would have been produced, and consumed, had normal growth taken place? Let us assume a 7% rate of annual growth for the continent. A reasonable figure, attained by several Ibero-American nations during some years in the 1970s, and repeatedly exceeded by several Asian nations over the past 25 years. Taking into account the increase in population, this growth rate translates into 4.7% growth per capita. Under this condition, the per-capita availability of goods in Ibero-America would have increased 20% over 1980 levels, to $880 per annum.

From this standpoint, the present figure of $568 represents a 35% decline since 1980. The tripling of foreign debt has been the mechanism by which 400 million people have been robbed of their rightful consumption of investment and consumer goods, most of it going to the home countries of the creditor banks in the form of underpriced exports, the rest never produced because of the policies dictated by those banks.

Finally, gross capital formation, a rough measure of investment in all forms, has plunged much farther than even

FIGURE 2-4
Foreign debt of Brazil, legitimate and illegitimate 1978-85
(billions of dollars)



Sources: ECLA and authors' estimates.

the general consumption of goods. In 1982 dollars, this fell from $155.3 billion to $104.9 billion, a 32.5% decline, between 1980 and 1984. In per-capita terms, the fall was 38.5%, from $435 to $268.

Argentina's gross domestic investment has fallen more than 51%, 54% per-capita from 1980 to 1984. Mexico's decline, since the high-point of 1981, has been 43%, 48% per-capita.

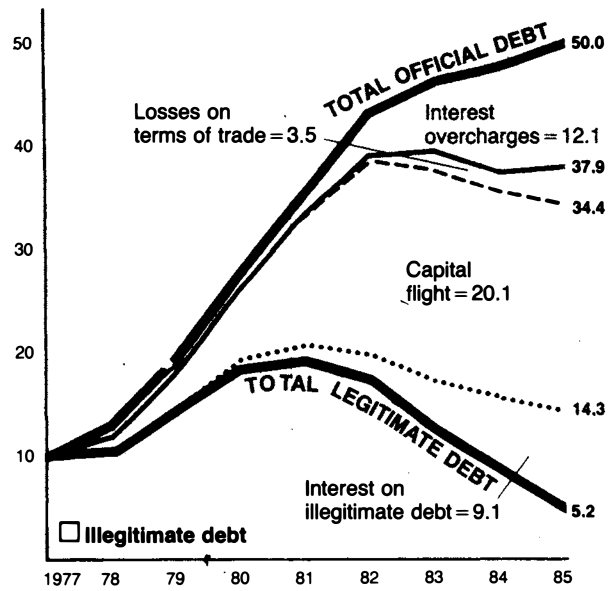
Part of gross capital formation is simply maintenance and depreciation of existing capital infrastructure, with only the net portion representing investment in new plant, equipment, housing, or infrastructure. A fall in the gross category always means a much more severe fall in net investment, though it is nearly impossible to measure this net investment with precision, based on available statistics.

Nevertheless, certain things are clear. Mexico has all but canceled its development budget, including the four planned superports, two of which were never even started. The transportation infrastructure budget was cut from $1.8 billion in 1981 to under $1.0 billion by 1984, canceling most new construction and not even providing for adequate repair and maintenance of the existing system. Brazil has downgraded its multi-billion dollar investment in the Grande Carajas project to the bare minimum needed to extract ore and ship it to port. Tens of billions of dollars of other development projects have also been scrapped. Government investment in transportation, for example, fell in 1984 to nearly half of its 1976 level, from $3.1 billion to $1.7 billion. In Peru, it is estimated that manufacturing industries have not invested at a level sufficient to maintain existing capital stock, much less expand. A recent study in Argentina estimates that industry has experienced a net disinvestment of $4.5 billion in the last five years, i.e., negative net investment.

Living standards in Mexico. In Mexico, real incomes fell by 26% in the 12 months following the late 1982 imposition of IMF policies, and they have continued to fall since. This decline in purchasing power has hit consumer durables particularly hard. These fell 18% in 1983, the first year of the "shock treatment," and have continued down from there. Production of all consumer durables is down 50-65%.

In 1970, according to the National Nutrition Institute, meat consumption in Mexico was 170 grams per capita per day. In 1983, it was 38 grams, and Mexico was exporting large herds to the United States to earn foreign exchange for debt payment. In 1984, as food prices rose faster than wages,

FIGURE 2-5
Foreign debt of Argentina, legitimate and illegitimate 1978-85
(billions of dollars)



Sources: ECLA and authors' estimates.

Mexico reduced its food imports to free several hundred million more for debt payment.

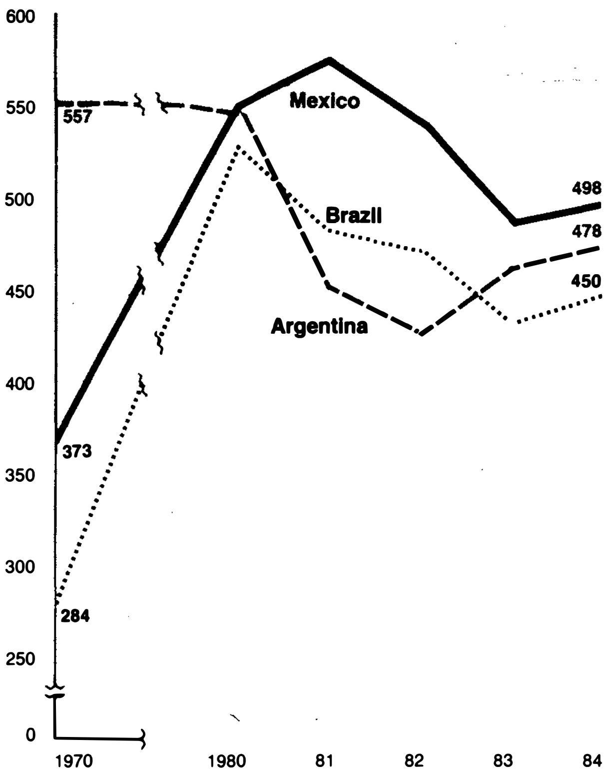
Mexico's industrial sector has laid off tens of thousands of employees every year since 1982, with no alternative jobs. The peso, relatively stable for decades until 1982, has been in continuous free-fall. Prices are indexed to rise with each devaluation, placing the burden on wages.

In earthquake-ravaged Mexico City, virtually no buildings have been rebuilt, no new homes constructed.

This domestic collapse parallels cuts in Mexican imports by two-thirds between 1981 and 1983, from $24.0 billion to $8.6 billion. This turned a $13.9 billion current account deficit in 1981 into a $5.3 billion surplus in 1983 and a $4.0 billion surplus in 1984.

Living standards in Brazil. In Brazil, the reality is similar. In the late 1970s and early 1980s, Brazil undertook an impressive program of investment in large-scale infrastructure projects: Itaipu Dam, the Grande Carajas minerals and energy project, a number of nuclear plants, and so on. It also sought to create an environment favorable to the manufacturing sector's creation of a heavy-industry subsector. Brazil's steel output approached 20 million tons, and it began to manufacture an array of sophisticated heavy industrial items.

FIGURE 2-6
Per-capita manufacturing production Argentina, Brazil, and Mexico 1970-84
(1982 dollars)



Source: ECLA

But in 1981-82, Brazil, like Mexico, was forced to cut imports and increase exports at the expense of internal consumption of capital and consumer goods. From a high of $23.0 billion in 1981, Brazil cut imports 45% to $12.8 billion in 1985. Exports were increased from $20.2 billion in 1982 to $27.1 billion two years later, only to fall to $25.2 billion in 1985. This turned a small trade surplus of $777 million in 1982 into more than $13.0 billion in 1984.

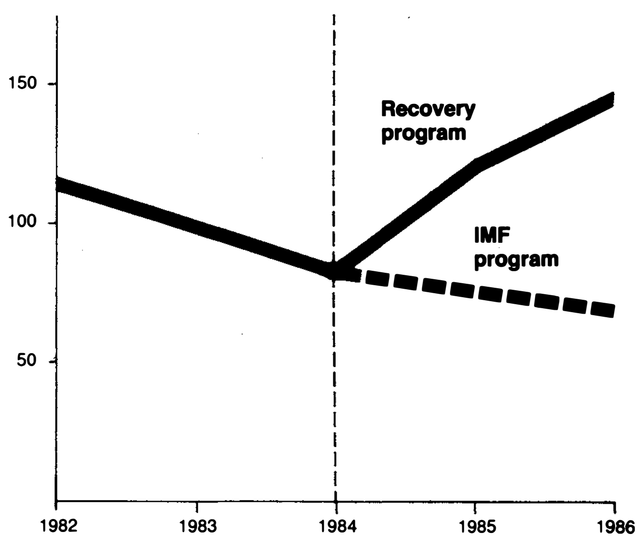
This was accomplished in the same way that it was in Mexico. Meat consumption was 24 kilograms per capita per year in 1967. It is 14 kilograms today. And, according to the First National Bank of Boston, Brazil exports approximately $1 billion in meat under its IMF program.

Brazil's agricultural productivity is extremely low. It produces far below the level required to provide even minimal consumption standards for its own population. Per-capita production of rice, beans, potatoes, and maize dropped by 12% between 1980 and 1984. A recent study done in Brazil indicates that 90 million Brazilians, that is more than two-thirds of the entire population, consume less than 2,400 calories per day, and 22 million consume less than 2,000 daily. Yet, Brazil exports several billions of dollars' worth of agricultural products under its IMF program.

Studies show that one-third of Brazilian families lives in "misery," and an additional one-fourth in "poverty." In sum, more than one-half of Brazilian families live in poverty or worse. Some 30 million minors live in poverty or are abandoned.

The general health of the population reflects this situation. One in five children in northeast Brazil now suffers

FIGURE 2-7
Projections of Manufacturing Gross National Product of Peru 1982-86
(millions of 1973 soles)



Source: *Executive Intelligence Review*

This book's a bombshell in Ibero-America

Chapter 2, which is completed here in this week's installment, has been a particular focus in news coverage of *Ibero-American Integration: 100 Million New Jobs by the Year 2000,* during the month since its publication in Spanish. The book's co-authors have given presentations to military men, government planners, industrialists, trade unions, economists, and the media in seminars in Colombia, Peru, Bolivia, Mexico, Argentina, Venezuela, Guatemala, and Washington, D.C.

Newspapers throughout Mexico ran banner headlines on the Schiller Institute's proposal for Ibero-American integration and a debtors' cartel, following the Sept. 17

Members of the Schiller Institute Trade Union Commission, which commissioned the book, following a visit with the President of Peru Alan García in late 1985 in Lima.

press conference in Washington D.C. to announce the book's release, given by Dennis Small, coordinator of the team which produced the book. The Venezuelan daily *El Universal*, and Panama's *La Estrella* have published coverage of the book as well.

Bolivian television broadcast an interview with Schill-

vitamin A deficiency, making them susceptible to mental retardation and blindness. The Health Ministry reports that malaria is rising and now afflicts 400,000 people, twice as many as in 1980. Eight million people suffer from chagas. A drastic reduction in imports of yellow fever vaccine in 1984 has led to the reappearance of that previously conquered disease. There is no money to pay doctors or hospitals, leading to doctors' strikes and hospital conditions that are appalling.

Finally, cases of the deadly Acquired Immune Deficiency Syndrome, AIDS, have been reported throughout the country, spreading
cities.

Living standards in Argentina. In the early 1950s, Argentina had per-capita production figures similar to Japan's, and was poised for an economic takeoff. But ever since the 1955 coup against Peron, Argentina has squandered the head start it once enjoyed.

The greatest damage to the Argentine economy was done by the Videla government's economics minister, José Martínez de Hoz. During his 1976-81 reign, Martínez de Hoz ran up an enormous debt. During the same period, Argentina ran a balance of trade surplus (including services, but not interest) in every year but two. The debt climbed from $9.6 million in 1977 to $43.6 billion in 1982, an increase of $34.0 billion. All but $4.5 billion of it, that is, $30.0 billion, is "non-registered," that is, it cannot be identified as funds that ever entered the country. Presumably, it went straight into the numbered bank accounts of de Hoz and his cronies.

The cost to the country was enormous. The size of Argentina's manufacturing workforce, the most skilled in Ibero-America, is now at less than 75% of its 1974 level. The per-capita gross domestic product for the first quarter of 1985 is at the level it had reached in 1965. In January 1986, industrial employment was 10.2% below the level of January 1980.

Per-capita consumption of steel has fallen from an already low 102 kilograms per capita per annum in 1980 to 68 kilograms, the level of the 1950s. But exports of steel tripled in 1985, and are now larger than domestic consumption.

Argentina was turned into a "post-industrial society"—without ever becoming a fully industrial one.

But it is in agriculture that the full scope of Argentina's economic catastrophe becomes apparent. Agriculture has always been a mainstay of Argentina's economy, both for domestic consumption and for export. The current government had a target of 60 million hectares of land under cultivation. But in the 1985-86 crop year, the harvested land fell from 43 million hectares in 1984-85 to only 36 million hectares. It is projected to fall to 30 million in 1986-87.

The reason is straightforward: Farmers cannot make a profit. There are very high positive interest rates, no help from the government, and agricultural exports are taxed. As a result, grains and related products are expected to drop by 25%; sorghum, an animal feed, is down 29%; and the cattle stock is down to 1.76 animals per capita, 20% below the level of 1976.

Several of Argentina's provincial governments are so short of funds they have had to resort to issuing their own er Institute spokesman David Ramonet Sept. 21, following his three-hour presentation on the book to 49 military officers and state company executives at the School of National Higher Studies of the Bolivian Armed Forces on Sept. 19.

In Bogota, the former president of the Society of Economists of Bogota, Guillermo Silva, joined Schiller Institute author and engineer Jorge Bazúa and others in presenting the book to 40 government representatives and labor leaders on Sept. 18. The event was led off with the reading of a telegram of greetings and well-wishes from President Virgilio Barco.

In Lima, 200 people turned out Sept. 23 for a presentation on the book given by Dennis Small, one of the coordinators of the team which produced it. "The book is must reading, a practical manual for all the projects which must be realized on the continent," stated Deputy Carlos Rivas Dávila, chairman of the congressional budget committee and president of the Peruvian Economists Association, in his speech opening the event.

On Sept. 30, Bazúa also addressed a conference of 45 at Mexico City's National Polytechnic Institute. Afterward, the national daily *Unomasuno* wrote: "The book asserts that the forced servicing of the illegitimate debt has undermined new investment and living conditions in all the countries, and that if the descent continues, the region will soon sink into conditions of poverty, depression, and disease like those of Africa, and the drug trade will spread still further in the area. . . . In addition, *Ibero-American Integration* . . . notes that this economic devastation has no reason to exist, and that if the nations of the region economically integrated and created a debtors' cartel and Ibero-American Common Market, the area would be self-sufficient in more than 80% of what it consumes."

Invitations have also been received for presentations on the book before the Guatemalan private business sector's think-tank CEDEP (Oct. 2), and public forums organized by the Schiller Institute in Argentina (Oct. 7) and Venezuela (Oct. 7).

regional currencies just to keep the wheels of government turning. Abject poverty is now spreading across the country, diseases such as chagas are expanding rapidly, as the same breakdown of nutrition and public health takes place in Argentina as in Brazil and Mexico. Drug use is spreading rapidly among youth in major cities. This was unknown only a few years ago.

The cost of further IMF policies

As devastating as the above picture is of the current state of the Ibero-American economy, as a result of the application of IMF policies over the past decade, it is a pale shadow of what will result if those policies continue to be applied.

In 1984, *EIR* examined the Peruvian economy in detail, using the computer-assisted LaRouche-Riemann economic model to forecast the country's economic future under conditions of continuation of the IMF policies then in force, and to compare that to *EIR*'s recommended program for economic recovery. That forecast predicted a 10% fall in agricultural production by 1986, an 18% decline in manufacturing output, and a severe contraction in per-capita consumption (see **Figure 2-7**). In fact, most of what was predicted was reached or approached ahead of schedule by mid-1985. Poverty was afflicting a majority of Peruvians, and near-starvation was a spreading condition. A few more years of the same rate of decline would have brought the nation of Peru to an end, with complete economic disintegration, mass starvation, and upheaval. Then, the government of Alan García assumed office and revoked the IMF policy, opening up the possibility for reversing the damage done.

Today, Brazil, Argentina, and Mexico are still embarked on programs that have brought large portions of their populations and economies to the level that Peru had reached in 1983-84. The same rate of decline can be confidently predicted based on understanding the effects of IMF-dictated austerity. On June 1, 1986, then Mexico's finance minister, Jesús Silva Herzog, a favorite of creditor-institutions, boasted that the income of Mexico's working population had fallen 25-30% since 1982. A continuation of this rate of fall for another two years would bring a large part of urban Mexico to a point of severe malnutrition bordering on starvation.

While precise statistics are not available, it is well-known that throughout Ibero-America there has been a severe decline in calories consumed per capita, and widespread substitution of lower quality, cheaper foods. What is true for Mexico is also true for Brazil, Peru, Colombia, and even Argentina, where meat consumption has fallen substantially.

Under a continuation of the present austerity prescriptions, millions of people in every country will reach the point of starvation. Prior to such a point, widespread malnourishment means weakened immunological potentials. The continent becomes, as Africa is today, a vast forcing medium for old and new varieties of pandemic disease, including AIDS.

Of this, no responsible official of any Ibero-American government can entertain a doubt: genocide, ungovernability, and the disintegration of Ibero-American countries as nations, is the meaning of the IMF for Ibero-America's future.