Currency reform and replacing the IMF

Part 32
Ibero-American integration

This installment concludes 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.

[*The previous installment quoted from Lyndon LaRouche's 1982 writing,* Operation Juárez, *on the specific monetary and credit measures to be taken by an Ibero-American Common Market.*]

The 'peso de oro'

It is worth reviewing what LaRouche has said on national monetary reforms, since various countries have already undertaken such reforms in the name of fighting inflation, but the truth is that they have accomplished precisely the opposite. Such is the case of the Austral Plan in Argentina, the Cruzado Plan in Brazil, and a possible Aztec Plan which the IMF wants to impose in Mexico, against the will of that nation.

The primary purpose of a correct monetary reform is to take sovereign control of the national currency, under conditions of galloping inflation in which the state has lost control of its money, either because the central bank is not owned by the state and is in the hands of private interests (as in the case of Venezuela, for example); because the drug mafia has flooded the country with dollars that they have exclusive control over (for example, Bolivia and Colombia); or because another nation has direct control of the national currency (as in Panama). In all of these cases, a central bank owned by the state must be established, and then it must do what Jacques Rueff did for President Charles de Gaulle of France several decades ago: He issued a strong, or heavy, new currency, to replace the old one, and established a new, stronger parity vis-à-vis the dollar.

The Austral and Cruzado Plans go in the opposite direction. While the governments of Argentina and Brazil may have replaced the existing currency, they have put in its place a weaker one, more dependent on the dollar. In the case of

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Fighting for a new world economic order: Colombia's Unified Labor Confederation at its founding meeting in November 1986. At the center of the table is former Labor Minister Jorge Carrillo, who addressed the conference where the Schiller Institute Trade Union Commission was launched in 1984.

the Austral Plan, the parity of the austral and the permissible volume of new money in circulation depends directly on the quantity of *dollar* reserves the country has, such that Argentina has lost sovereign control over its own currency.

Not only that. The Austral Plan involves sharp reductions in the living standards of the population and in levels of industrial activity, with the argument that this is the only means of combating inflation. But inflation, despite the typical arguments of the IMF, was never defeated through destruction of the productive capacity of an economy. In Ibero-America, inflation is 90% imported, in the sense that it is the result of forced devaluations imposed by the IMF, and of the collapse of productive investment, again as demanded by the IMF. Eliminate these deadly policies, and there will be a substantial reduction of inflation, just as happened during the first year of Alan García's presidency in Peru, where inflation fell from 250% annually to 60%, while nominal salaries rose 95% and buying power increased 23%.

The fact is that all the Ibero-American currencies are incredibly *under*-valued by the IMF's financial warfare, and new parities must be established among them and with the major international currencies. The best way to do this is through the creation of a common Ibero-American currency, which could be called the "peso de oro," and whose value would be fixed at approximately 750 pesos de oro per troy ounce of gold. The value of each Ibero-American currency should be defined in relation to this peso de oro and not in direct relation to the dollar. If the dollar returns, as it should, to fix its value with respect to gold, at around $750 per troy ounce of gold, then the peso de oro and the dollar could be interchanged at the rate of one-to-one.

To determine the correct parities of the Ibero-American currencies, we have proceeded from the simple premise that the true value of a currency is defined by its power to buy a normal market basket of consumer and producer goods. A list of 20 such basic products was prepared, and a census taken to define the Aug. 1, 1986 prices of these products, in national currencies, in each of the nations under study, including the United States. An average price for the different products was then arrived at, and then the cost of the market basket as a whole for each Ibero-American nation was determined, converting it into dollars at the standing free-market exchange rate of each currency.

Put another way, if the basic market basket costs $100 in the United States, it was discovered that that same basket costs only $33 in Brazil; or rather, that the Brazilian currency was *under*-valued by 67%. Instead of having an exchange rate of 22.0 cruzados to the dollar, the exchange should be 7.3 cruzados per dollar, given that at this exchange rate the same physical quantities of consumer and producer goods could be purchased in the two countries.

The results of the calculations are reviewed in **Table 11-5,** and are truly impressive. The Mexican peso is undervalued by 54%; its correct exchange rate as of Aug. 1, 1986 should have been 294 pesos/dollar instead of the 639 pesos/dollar it was on the free market. The Argentine austral is undervalued by 41%; the Colombian peso by 42%; the Venezuelan bolivar by 58%, and the Peruvian inti by 46%.

IMF or development

Until now we have presented our explanation of the monetary and fiscal measures that would have to be adopted to facilitate the creation of the Ibero-American Common Market—or better put "the sphere of co-development"—that Ibero-American integration would bring about. These Operation Juárez-style measures are reviewed in **Table 11-6.**

Of the four points, all except the last are steps that can be taken within Ibero-America, by Ibero-America, and without having to ask permission of or convince anyone. Only point 4 of Operation Juárez, which poses the advantage of reactivating the economies of the advanced sector through cooperative projects, depends on a political decision that must be made outside of Ibero-America.

These distinct policy decisions in turn define two variants

TABLE 11-5
Real value of Ibero-American currencies with respect to the dollar
(as of August 1, 1986)

	Currency	Free-market exchange rate	Official exchange rate	Real value*	Real undervaluation (%)†
Argentina	austral	0.91	0.91	0.54	41
Brazil	cruzado	22.00	13.85	7.30	67
Colombia	peso	202.00	196.98	117.91	42
Mexico	peso	639.00	622.00	293.68	54
Peru	inti	17.60	13.98	9.43	46
Venezuela	bolívar	19.00	7.50	8.04	58
Ibero-America	peso de oro	—	1.00	1.00	—

*Calculated on the basis of national prices for a market basket of 20 products selected from the different countries, and compared with the price of the same products in the United States (prices taken in the capital city of each country).
†Undervaluation calculated with respect to free-market exchange rate.

of Operation Juárez that must be evaluated separately. First, "Operation Juárez A" (points 1-4), in which the advanced sector actively participates in the creation of a New International Economic Order, and provides in the coming decades a substantial flow of credits to help finance the great projects of infrastructural, industrial, and agricultural development in Ibero-America.

And second, "Operation Juárez B" (points 1-3), in which historical blindness continues to prevail in the United States and other countries of the North, and they refuse to collaborate in the development of the South. In this case, the developed sector nations respond to the formation of the Debtors Club and the Ibero-American Common Market by declaring financial and trade warfare.

Ibero-America must be perfectly prepared for either of these two possibilities.

What we wish to emphasize is that *either* of the two versions of Operation Juárez is preferable—by far—to what it would cost Ibero-America to continue under the current guidelines of the International Monetary Fund (IMF). In the following figures, we have made approximate comparative projections of what will happen to Ibero-America if it adopts either Operation Juárez A or Operation Juárez B, and what will occur if it continues to enforce IMF measures.

What will happen with the total foreign debt? As can be seen in **Figure 11-2,** the *IMF* plan (which for our purposes we have taken as identical to the previously mentioned Kissinger proposal) rises from $370 billion in 1985 to $429 billion in 1990. Under Operation Juárez B, Ibero-America only recognizes its legitimate debt of $20.5 billion, and there is neither technology transfer nor new loans in the years that follow. By fully applying Operation Juárez A, however, the $370 billion of the current debt is recognized and reorganized, but then the advanced sector makes new loans of $100 billion per year between 1985 and 1990. We estimate that that amount would increase to $140 billion a year between 1990 and 1995, and would drop back to $120 billion annually from 1995 to the year 2000, to add up to a total of $1.8 trillion over the next 15 years—the necessary level of foreign financing that we identified in Chapter 5. This means, as can be seen in Figure 11-2, a substantial increase in Ibero-America's foreign debt. The reader might perhaps be tempted to conclude that this is bad, but the fact is that the new debt, in this case, is simply a vehicle for transfer of tangible capital, and not a vehicle for looting, as it is under the current international monetary system.

Figure 11-3 shows the interest payments that Ibero-America would make under each of the three options. In the case of the IMF, even assuming the more generous version that Kissinger proposes, there would only be a 3-point reduction in interest rates charged. This means that, in the first year, interest payments would fall from $36.4 billion to $26.7 billion; but then this quantity would slowly increase and, by 1990, annual payments would again be at $30 billion.

With Operation Juárez B, an interest rate of only 6.8% would be paid on the legitimate debt of $20.5 billion; as we have said, this would reduce annual interest payments to only $1.4 billion. With Operation Juárez A, annual interest payments would only be $7.4 billion (2% on the reorganized old debt of $370 billion). Although the total debt would increase in the manner indicated in the previous figure, there would be a grace period of 15 years on principal and interest charges on this new debt, and therefore it would not yet affect projected interest payments from 1985 to 1990.

In **Figure 11-4** one can see what the three options under discussion really mean, in terms of the GNP projections for

TABLE 11-6

LaRouche's "Operation Juárez" proposal

I. Reorganize the Ibero-American foreign debt through collective negotiation

1. Capitalize or "purchase" the current Ibero-American foreign debt through emission of new bonds on the part of the Ibero-American countries (at 2% interest, payable in 30 years, with 15 years grace on principal).
2. Dump the IMF and World Bank.

II. Form an Ibero-American Common Market

1. Establish a customs union to stimulate intra-regional trade.
2. Reestablish the real value of Ibero-American exports, both for intra-regional as well as extra-regional trade, based on the concept of "guaranteed prices" (the real cost of production plus a fixed profit percentage).
3. Dump the GATT.
4. Form an inter-republic bank among the Ibero-American nations, which would serve as:
   a) a central bank for settlements, to facilitate trade and other agreements of the Common Market;
   b) to establish an Ibero-American common currency, a "golden peso," with a new exchange rate to the dollar, defended by exchange controls; and
   c) to create an Ibero-American development bank to facilitate financing of the indicated projects.

III. Reform the national monetary systems of Ibero-America

1. Establish state-owned national banks, which would issue loans solely for productive purposes.
2. Impose capital and exchange controls, to the extent necessary to maintain the currency exchange rate.
3. Institute, where necessary, major monetary reforms to eliminate the drug and black markets through substituting the existing currency with a new one.

IV. Reactivate the advanced-sector economies

1. Ibero-America should import from the developed sector between $100 and $140 billion worth of capital goods per year, to invest in continental infrastructure projects.
   be financed through new net credits issued for this amount, negotiated at 2% interest, payable in 30 years and with 15 years grace on principal and interest.
2. Nationalize the U.S. Federal Reserve; return the dollar to the gold standard (at approximately $500 per ounce of gold); drastically lower the interest rates; and encourage loans solely for productive purposes.
3. Encourage the U.S. defense program, based on beam weapons and other advanced technologies.

Ibero-America. With Operation Juárez A, for example, there is an average annual growth of 10%, which brings us to the year 1990 with a GNP of $1.141 trillion.

In the case of Operation Juárez B, there is no doubt that a trade embargo would cause damage to the Ibero-American economy, especially during the first two years, in which an approximate 15% fall in GNP would take place overall. But the fact that, despite the trade embargo, Ibero-America would put a halt to the looting of the continent, and would productively employ the 35% of the work force which today is unemployed, means that the economic recession could be quickly halted, and a trajectory of growth restored, although definitively at a slower rate than that of option A. By 1990, the total GNP would again be equal to that of 1985: $708 billion.

FIGURE 11-2

Projections of Ibero-American debt: three options 1985-1990

(billions of dollars)

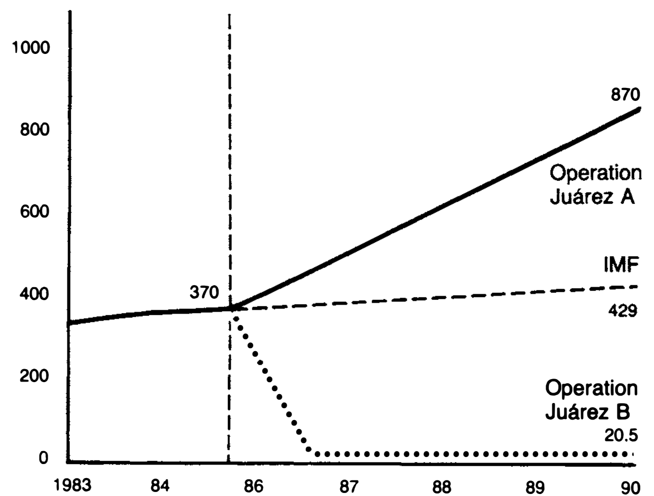
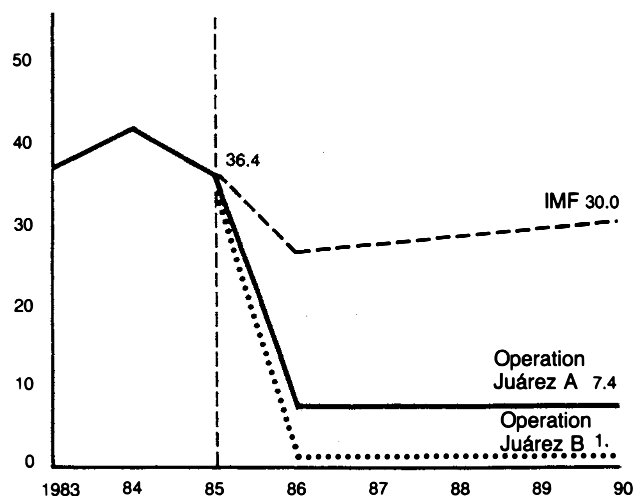


FIGURE 11-3

Projections of Ibero-American interest payments: three options 1985-1990

(billions of dollars)

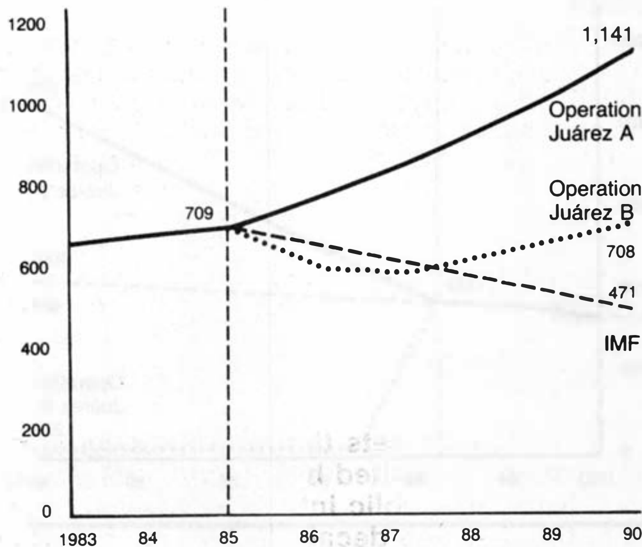


The worst option for Ibero-America is *that of the IMF*. We have estimated that, by following the recessionist policies of the IMF, the Ibero-American economy would collapse at an accelerating rate of 5% in 1985, going to 10% in 1990 . . . if such policies do not first trigger an economic and social catastrophe of incalculable dimensions, which would bring Ibero-America to African-like conditions in a matter of a few years.

FIGURE 11-4

Projections of Ibero-American GNP: three options 1985-1990

(billions of dollars)



This doesn't have to be the future of the continent. Ibero-American integration offers a way out of the crisis, based on development and sovereignty, a way out that would turn Ibero-America into an economic superpower in less than a generation.

There are those who will argue that our integration project is impractical, that it is too ambitious, that it breaks all the rules of the game. They will explain to us, patiently, that it is time that we learned that "politics is the science of the possible."

But this is untrue. True politics is the science of what is *necessary*, not what is possible. And, as Perón said, integration is necessary, and therefore must be achieved, even if it appears impossible. In any case, it is this quality, of doing the near-impossible, which defines us as human beings. In this historic integrationist task, Ibero-America should make its own the words of the great German patriot and world citizen, Friedrich Schiller, when he said:

> Man must be greater than his circumstances; he must be greater than his destiny.

Or, as President Alan García expressed it more recently, during his July 28, 1985 inaugural address to the Peruvian nation:

> There remains something much greater to be done: the moral works of faith, which make each of us great in the face of difficulty, and as great as history demands.

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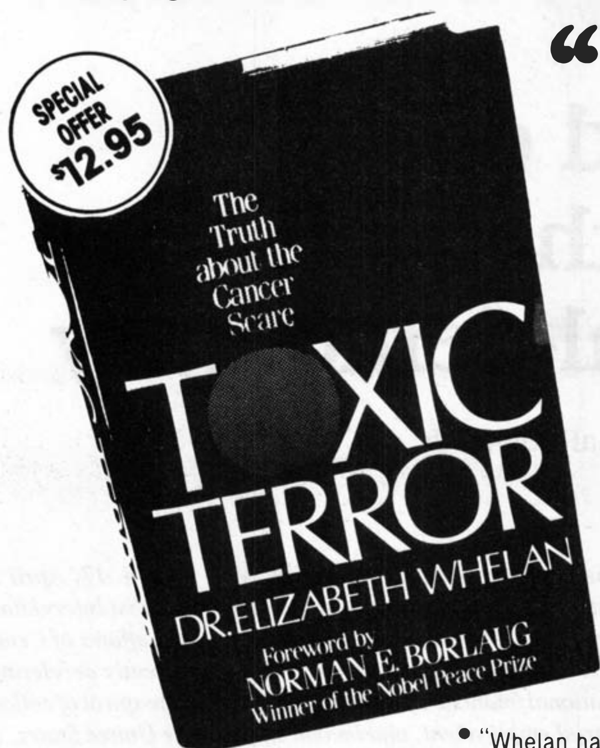

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