Brady Plan: one way ticket to nowhere

by Peter Rush and Dennis Small

The "Brady Suggestions" on how to deal with the suffocating foreign debt burden of the developing countries, unveiled with so much fanfare on March 10, are duds. This conclusion, reached by *EIR* within hours of Treasury Secretary Nicholas Brady's ballyhooed speech, and by more and more financial analysts in the weeks since, has now been totally confirmed by a study comparing the impact of the Brady proposals with several competing plans put on the table in the last few years.

Among other results, this study shows that at present interest rates, and after applying all the "debt reduction" and "interest reduction" called for in the Brady Plan, the net cumulative outflow of capital from Ibero-America in the next seven years under the Brady Plan would be *$222 billion*, $33 billion *more* than the net outflow experienced by the region in the last seven years under the Reagan administration. These results should definitely hammer the final nail into the coffin of this silly but deceptive plan.

The dwindling band of Brady defenders argues that by proposing reductions in both total debt and interest paid, the plan is a major step forward for the developing nations. However, since the proposed reductions would cut interest payments by no more than 20%, and only on the portion of

FIGURE 1

Policies of the Baker, Bradley, Kissinger, and Brady Plans compared to Operation Juárez

	Baker Plan	Bradley Plan	Kissinger Plan	Brady Plan	Operation Juárez
Debt relief	No	Reduce interest rates 3% for 3 yrs, reduce principal 3% a yr for 3 yrs	Reduce interest rates by 3% for 5-7 years	Reduce interest paid on commercial debt by 20%	Reduce interest rate to 2% a year
Capitalize interest reduction	No	Yes	No	No	No
New money	$10 bn/yr for 3 yrs	$10 bn/yr for 3 yrs	No	$10 bn/yr for 3 yrs*	$100 bn/yr for 15 yrs
Net capital flow, 1st yr, 8.3% interest	−$23.2 billion	−$11.3 billion	−$21.3 billion	−$18.9 billion	+$92.0 billion
Net capital flow, 1st yr, 11% interest	−$34.1 billion	−$22.1 billion	−$32.1 billion	−$28.4 billion	+$92.0 billion
Policy toward flight capital	Attract flight capital with structural reforms	Attract flight capital with structural reforms	Attract flight capital with structural reforms	Attract flight capital with structural reforms	Exchange controls, strict penalties for flight capital
Changes in terms of trade	None	None	None	None	Establish just base prices for exports
Structural reforms					
a. debt for equity swaps	yes	yes	yes	yes	no
b. liberalize foreign investment laws	yes	yes	yes	yes	no
c. liberalize imports	yes	yes	yes	yes	no
d. increase exports	yes	yes	yes	yes	no
e. reduce government spending	yes	yes	yes	yes	no
f. devalue currency	yes	yes	yes	yes	no
g. floating exchange rate	yes	yes	yes	yes	no

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total debt owed to commercial banks, which comes to under $400 billion of a total developing nations debt of $1.3 trillion, it is clear that Brady's plan will be of negligible value to most countries. But even in Ibero-America, which accounts for at least $260 billion of the commercial debt, the debt service reduction implied by the Brady Plan comes to all of about $5 billion, a mere 15% of its total annual interest payment.

The problem faced by the continent is that for the past seven years, there has been an estimated *net outflow* of capital of $189 billion, all to pay interest. The effects have been devastating: collapse of living standards by 30-70% in most countries; severe weakening of educational systems and increases in illiteracy; a disastrous health crisis in virtually every country; rises in infant and general mortality; severe erosion of transportation and energy infrastructure for lack of investment; almost no new investment in agriculture, industry, and infrastructure; endemic and ever rising inflationary pressures; rising unemployment; chronic budget deficits and crises; exorbitant internal interest rates and skyrocketing levels of internal debt (incurred to finance the external debt payments); the list of damages can go on. *Any* continued net outflow merely continues to worsen the above conditions.

The Brady Plan proposes to reduce interest owed by only 15% for Ibero-America, and then calls for "new money" in unspecified amounts. Given the extreme reticence of banks to provide new money either before or after Brady's March 10 speech, an assumption of $10 billion in new money a year is generous, yet even with such a $10 billion infusion, the net outflow of capital under Brady's plan, under present interest rates, would be $28.5 billion, rising to $35 billion by 1995, for a seven-year total of $222 billion. Granted, this is less than it will be without the plan, but a 25% reduction in the dosage of deadly poison is still more than adequate to kill the victim, and such is the case here.

Moreover, the London Inter Bank Overnight Rate (LIBOR) rate to which most loans are pegged has risen 3.5% since last year, from 7% to 10.5%, while the U.S. prime rate is now at over 11%. This one-year increase alone will cost Ibero-American nations twice what the Brady Plan will save them in reduced interest costs. Brady's proposals are doomed by his refusal to tackle the real issue, the exorbitant and usurious interest rates that have prevailed since 1973.

Figure 1 contrasts the known features of the Brady plan with those put forward by then Treasury Secretary James

FIGURE 2

Interest payments from Ibero-America due under Baker, Bradley, Brady, and LaRouche Plans 1985-95

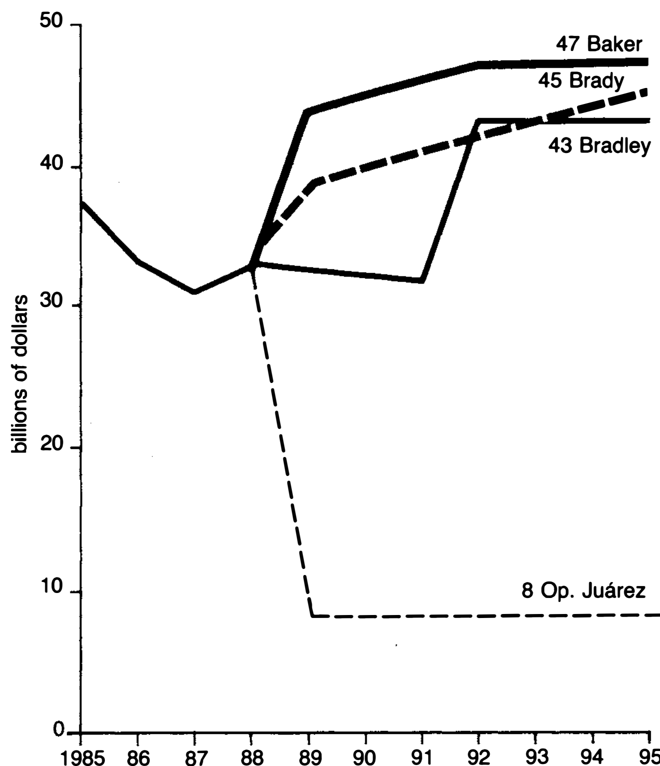
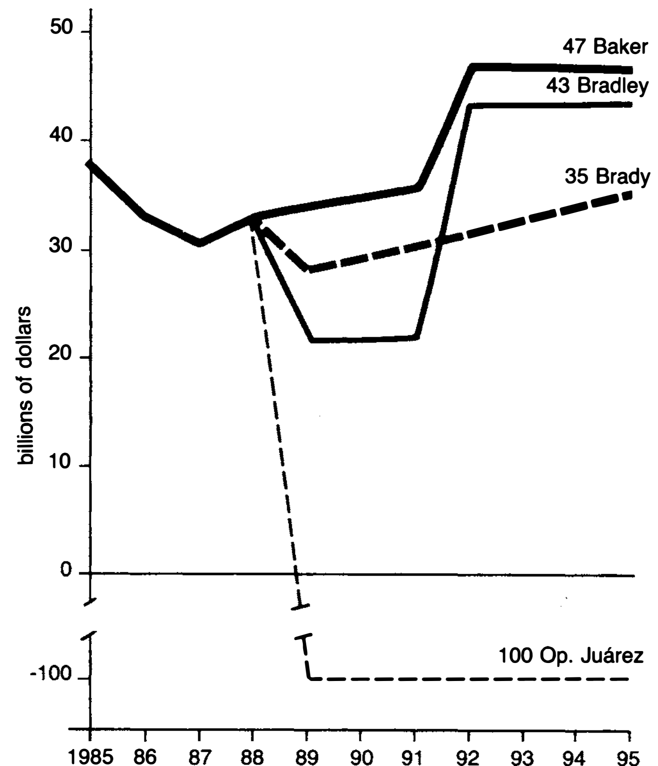


FIGURE 3

Net capital outflow from Ibero-America under Baker, Bradley, Brady, and LaRouche Plans 1985-95



Baker in December 1985, by Democratic Sen. Bill Bradley in 1986, by Henry Kissinger several years ago, and by Democratic economist and politician Lyndon LaRouche in his 1982 book-length *Operation Juárez*. Lines 4 and 5 contrast the effect in the first year that each option would have on the net outflow of capital, calculated at last year's effective interest rate of 8.3%, and this year's rate of 11%.

Figure 2 shows the impact on interest owed that each plan (Kissinger's not shown) would have over the next six years if applied to the $401 billion presently owed by Ibero-America (this amount is that used by the Economic Commission for Latin America; the World Bank estimates $441 billion). The rate of 11% was the interest chosen, because the effective rate is already above that today, with many predictions of higher yet to come, so this is a conservative estimate.

Only Bradley's plan would reduce interest owed slightly from the 1988 level of $33.2 billion, because it proposes a direct 3% reduction of both interest rates and principal owed—but only for three years. Baker's plan shows how much interest would be owed at the full 11%. Brady's plan would do no more than halve this increase. Interest owed would then rise as the debt grows by the $10 billion a year in "new money."

Only LaRouche's Operation Juárez proposal significantly lowers interest owed, by dropping interest rates to 2%, or $8 billion a year.

Figure 3 shows the net cost to the countries of each plan, which is the interest charge of Figure 2 minus the "new money" as shown in Figure 1. Again, only Operation Juárez, which calls for $100 billion in funds for investment in physical and social capital, not financial folderol, not only eliminates net capital outflow, but provides ample "medicine" for sick economies in the form of new investment.

Figure 3 and **Figure 4** show the annual and cumulative net outflow predicated by the Brady Plan under an assumption of 11% interest rates, and compares this to the net outflow under the two previous Treasury secretaries, Donald Regan and James Baker. As shown, the previous seven years have seen an estimated $189 billion net capital outflow, which caused untold harm; under Brady's gimmick, this will *rise* to $222 billion in the next seven years. Even should interest rates fall back significantly, the net outflow will still be enormous by any measure. And it should be pointed out, very generous assumptions have been made concerning the Brady Plan itself. With Japanese banks saying they will lend no new money, the British and Dutch vetoing a central element of Brady's proposals, and bankers generally quite cool, combined with the fact that each country must negotiate debt reductions with each individual bank, even a 20% reduction in interest paid is wildly optimistic.

FIGURE 4
Annual and cumulative net outflow of capital from Ibero-America under Brady Plan 1989-95
(billions of dollars)

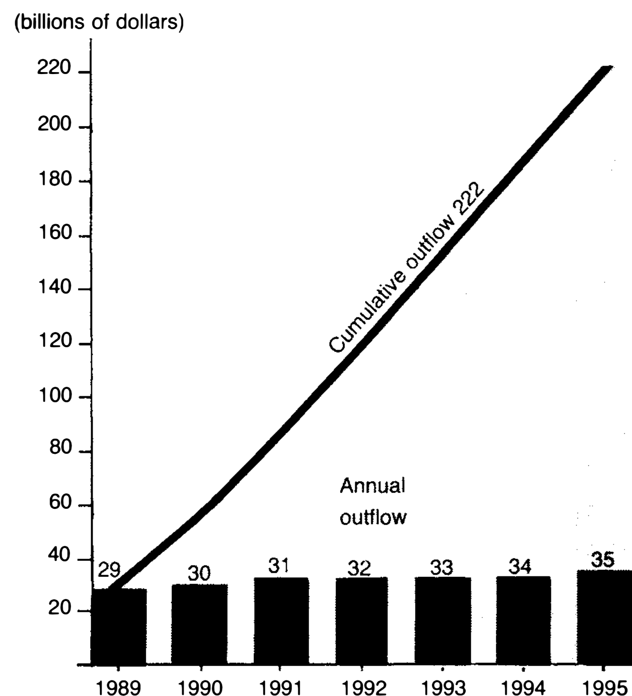


FIGURE 5
Comparison of cumulative net capital outflow 1982-88 and 1985-95