Brady’s ‘20% solution’ hoax is doomed to fail
by Peter Rush

Speaking to over 700 of the crème de la crème of the Anglo-American financial elite March 10 on the Iberio-American debt crisis, U.S. Treasury Secretary Nicholas Brady unveiled the latest administration proposal for rearranging the deck chairs on the good ship Titanic. Only this time, it is probably the last rearrangement before the ship goes down. The crisis Brady addressed is real, pressing, and about to explode and detonate the worst financial crisis in modern history. The measures proposed by Brady to deal with it are strictly from Never-Never Land. But Brady is not alone. As trenchant, and often sarcastic, as much of the international press commentary on his speech has been (see Documentation), no one else has suggested anything better. Rarely, if ever, in modern history, have so many proposed so little to deal with problems so great. If human history survives their insanity, the U.S. financial elite will go down in the history books as greater fools than Nero.

Brady’s studiedly vague discourse did manage to make clear that the core of his program was to retrieve from a Mexican garbage dump the failed, discarded “Morgan Plan” for debt reduction that bombed out just about this time a year ago, reheat it, serve it on clean plates, and put the words “Brady Plan” on the menu. This much was confirmed by the March 16 Wall Street Journal which leaked a few details on the plan, as presented by the Treasury Department to representatives of 16 (generally skeptical) international banks the day before. The Journal also revealed that the “brains” behind the operation is not the hapless Brady, but Assistant Secretary David Mulford, the point man for working out ever more Rube Goldbergish schemes for bailing out Mexico. Secretary Brady was merely the fall guy. It was in fact Mulford who then briefed Congress on the plan on March 16.

It doesn’t add up

As presented by Mulford in his testimony to both the Senate and House banking subcommittees, the Brady/Mulford plan refutes itself, as was apparent on the spot even to several Democratic legislators. Mulford wisely refused to release the cooked calculations on which his conclusions were based, and would only say that assuming a best-case scenario, at the end of three years, the total debt, and also debt service paid, of the 39 largest debtors would be reduced by 20%.

“I don’t see how it gets you to the root of the problem,” was the immediate response of Rep. Charles Schumer (D-N.Y.), expressing the sentiments of many other congressmen skeptical about what good it does to reduce interest payments by only 20%, when it is the net outflow that must be halted if economic recovery is to take place.

Even taken at face value, the Brady/Mulford plan doesn’t add up. Mulford’s promised 20% saving in interest costs is less than the debtor countries’ increased interest costs since 1988 due to higher interest rates. Returning interest payments to the already disastrous levels of early 1988 hardly constitutes debt relief. Also, since there will be no debt relief until the plan is worked out in detail, and complex negotiations between hundreds of banks and dozens of countries are completed, virtually no relief will come immediately, and at best only a few billion in all of 1989, thereby doing next to nothing to ease many countries’ immediate danger of default.

Worse, Mulford’s already famous “20% solution” was aptly characterized by the London Financial Times as based on “illustrative estimates,” while the New York Times reported that “another official said other assumptions produced other figures (than 20%) but would not disclose the fig-
ures"—surely because they were even worse. The "20% solution" is strictly a public relations stunt.

As laid out to the bankers meeting on March 15, one mechanism for debt relief is simply a replay of the 1988 "Morgan Plan" for Mexico. Countries will set aside some portion of their normal flow of loans from the World Bank and the IMF, to be used to buy U.S. government zero-coupon bonds, which will collateralize bonds the countries themselves will issue to the creditor banks in exchange for heavily discounted loans. The second scheme involves the IMF and World Bank coming up with pools of money which would become collateral for new, "secured" loans from the banks.

In this scheme, the banks will either voluntarily write down the principal on their loans to a given country by some percentage, or will lower the interest rate on the existing loans, with the pools of money for collateral backing the countries' interest payments on the loans that remain. Most of Mulford's $20 billion estimated interest payment saving comes from this direct interest rate reduction. The principal owed will not be reduced at all. So much for debt reduction.

Why the scam, and why now?

Mulford is smart enough to know that his latest schemes are a scam. Just as the Baker Plan of December 1985, was issued in response to the Peruvian partial suspension of debt payments under President Alan García, an idea which threatened to spread to the major debtors if the United States didn't appear to be doing anything to help, so today Brady and Mulford's latest update of that plan has been rushed into the public eye to try to bolster the banks' favored Ibero-American governments against their own internal pressures for debt suspensions.

As succinctly expressed by journalists Enrique Quintana and Gustavo Lomellín in Mexico's La Jornada March 14, "It is suspected that the cited Brady Plan was launched last Friday to 'deactivate' the possible suspension of payments which Mexico and other Latin American nations have threatened in one way or another."

Mulford let the cat out of the bag when he told Congress that debt reduction could "very considerably exceed" 20% for Mexico. A few days before, Mulford had called Mexico the "pilot country" for the new plan. Venezuela, which has already received a $450 million bridge loan from Treasury, is also likely intended as a major beneficiary of the new schemes.

Rather than being a plan for general application, it appears to be a cover to bolster with just enough relief, and promise of relief, merely a few favored but shaky Ibero-American regimes such as those of Mexican President Carlos Salinas de Gortari and Venezuelan President Carlos Andrés Pérez, both of whom have proven themselves totally loyal to the IMF and the banks in imposing crushing austerity programs for the sake of paying the debt.

Otherwise, the purpose of the Brady Plan is to appear to be making concessions on the debt, in order to entice as many Ibero-American countries as possible to implement Mexican or Venezuelan-style austerity programs on the hollow promise of debt relief down the way. By championing the concept of such relief—which represents a change from previous U.S. policy—Brady and Mulford hope to derail internal pressure for more radical measures on the debt.

While Treasury is known to have been very concerned to avert social explosions such as that which just occurred in Venezuela from happening in Mexico and other countries, the new plan will in no way avert them. The Brady Plan offers nothing to relieve the real pressures of economic disaster that caused the Venezuelan riots. The price the Mexican people have paid for six years to achieve "favored nation status" with the U.S. Treasury is truly stupendous—60 million of 82 million people now live in abject poverty. Cutting $10 billion in net outflow of resources to $8 billion, or even to $5 billion, won't help at all. As far as they go, the initial reactions from Anglo-American banking circles, reflected in the commentaries reprinted on the next page, are on the mark.

However, Brady's critics' alternatives range the gamut from A to Z, from the British call not to forgive debt at all but to rely on new loans, to calls for a new debt facility to buy most of the debt in exchange for discounted, guaranteed bonds. None of these measures will solve the crisis.

LaRouche's 'Operation Juárez'

Excluded from public consideration is the only proposal on the table that addresses the magnitude of the problem, that proposed by Lyndon H. LaRouche, Jr. in 1982, in a paper entitled Operation Juárez. Any viable solution must establish a strong, long-term flow of net resources into Ibero-America, without unduly increasing the debt. LaRouche's proposal is for a general freezing of most interest payments and a 5-15 year grace period on principal, to be accompanied by hundreds of billions of dollars yearly in very low-interest loans, at 2-3% a year, targeted to industrial, agricultural, and infrastructural projects exclusively. The strong economies this will engender can resume fuller debt repayment on legitimate portions of the old debt within 5-15 years.

The spectacle of LaRouche's Operation Juárez has haunted bankers and the IMF for the last seven years. Every Ibero-American leader and potential leader is quite familiar with it. The nightmare of the international banking elite is that the opponents of IMF genocide in every Ibero-American country might come to power riding the crest of the discontent revealed in the Venezuela riots, and will implement LaRouche's program. Already Peru's Alan García has taken heart from Venezuela's demonstration of the high cost of kowtowing to the IMF, while Brazil and even Chile are now threatening debt moratoria. The Brady plan will certainly fail.