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The way out of Mexico's financial disaster

by Timothy Rush

U.S. economist and Democratic Party leader Lyndon LaRouche, on a visit to Mexico at the end of May which included a meeting with President José López Portillo and an address to the Fourth Congress of the Mexican Labor Party (PLM), told Mexico it had to go on the offensive to preserve its economy and institutions from the danger of what he termed "Iranization."

The specific action he urged was that Mexico join with its sister Latin American nations to use the region's combined $200 billion-plus debt as a reverse weapon against those Malthusian financial interests, based in London, Switzerland, and New York, who are counting on the debt as a weapon against Latin America instead.

LaRouche specified how the Latin American countries, which are being destroyed one by one through genocidal financial conditionalities, could use their debt to impose conditions on the foreign bankers:

Latin America: "We want a gold-based monetary system!"

Bankers: "No, no, no."

Latin America: "You just lost $200 billion."

Bakers: "Well, I guess we have no choice."

Latin America: "We want credit at 2 percent interest!"

Bankers: "No, no, no."

Latin America: "You just lost $200 billion."

Twofold crisis

Mexico is simultaneously under the gun of foreign bank efforts to collapse its finances and the cumulative effects of crippling errors in its own development strategy.

As outlined by PLM Secretary-General Marivilia Carrasco in her keynote presentation to the PLM congress, Mexico has commited three major errors in its growth strategy. First, despite the effort put into capital goods and heavy industry, the bulk of growth of imports were part of continuing import substitution efforts with overall negative economic value. Second, Mexico indulged in planning efforts of such a disproportionate nature relative to actual building that the development projects of the planners remain largely on paper four years later. A nuclear program which should have been restarted four years ago is a prime example.

And third, the government never took effective control of the national banking and credit apparatus, which remained largely in the hands of speculators and anti-growth strategists. This failing has contributed to the government's current impotence in the face of flight capital, which should properly be contained by exchange controls.

What has now happened is that the foreign financial sector, exploiting these weaknesses in the Mexican model, is taking advantage of the Volcker high-interest-rate regime and slack world oil markets to collapse the whole situation, and hold up a gutted Mexico as an object lesson for any country which dares to aspire to rapid industrial growth.

Rather than attempting to straighten out the internal situation and take on the external enemies along the lines suggested by LaRouche, government officials are for the most part capitulating to the pressures.

Mexican Finance Minister Jesús Silva Herzog called in the foreign press May 18 to announce that Mexico's

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The Ciudad Netzahualcoyotl area of Mexico City, where speculation has given rise to a shantytown.

pledge to cut a whopping $6 billion from its imports was being carried out, and that the official estimate for growth over the next year is zero percent, after growth of 8 percent per year for the last four years. He stated "Perhaps the fundamental problem is that we grew too fast."

Silva Herzog also made the first official suggestion that Mexico may put off its big nuclear energy program, set to move into its next stage in August with the award of $2 billion in new contracts. "We probably are going to postpone a decision on the nuclear program until the next government," he was reported to have stated. That means a moratorium on nuclear development until well into the next presidential term, which begins Dec. 1, 1982, unless other officials intervene. Scrapping the nuclear program has been aleading demand from New York and London.

Abject Finance Minister

Silva Herzog's willingness to surrender what has been initiated of Mexico's development plans is symptomatic of many officials who believe that such surrender will buy time until economic progress can be resumed. This is the same illusion that guided the Shah of Iran and his more loyal advisers. If Mexico had learned anything from the experience of Iran—where the Shah's nuclear program was one of the first high-technology pillars of the economy knocked out—it would know that one capitulation to such nation-wrecking demands only leads to another.

In Mexico, LaRouche listed four phases of this process now under way: 1) devalue the peso to 90 to the dollar (it is currently 47 to the dollar); 2) put Mexico under GATT dictatorship; 3) use the economic crisis to destabilize Mexico politically; and 4) create a blow-out in the Middle East, as a pretext for military occupation of the Mexican oil fields.

'Poor old López Portillo'

A top official of Security Pacific Bank made it clear that it was not Mexico's growth errors, but the attempt to develop the country at all, which was the issue. President López Portillo was responsible for bringing on "disaster" with "expansionist, growth-oriented policies," he told *EIR*. "Now poor López Portillo has had to swallow a bitter political pill. He is humbly trying to undo what he had done. His administration will go down in the history books as a disaster. And I must say it is fitting that this should happen." He chortled that "once in a while, a terrible thing happens: a country falls into the fatal embrace of foreign bankers. Financial factors come to determine everything else, including political and social policy."

A credit cut-off and new forced devaluation of the peso—down to 65 to the dollar as an interim level, says the U.S. Federal Reserve in private—are on the immediate agenda. How little either has to do with objective conditions in the Mexican economy was rubbed in by an official of a leading New York bank who is close to the Council on Foreign Relations. A new devaluation "will almost certainly come sometime in June," he assured *EIR*, despite the fact that the peso is almost universally regarded as *under*valued after the first devaluation of February. The banker's fundamental motivation was revealed when he added, "This new devaluation will be politically devastating to the ruling PRI party and to López Portillo, coming just weeks before the July 4 national elections."

The maneuverings for a credit cut-off—which, as *EIR* has reported, the U.S. Federal Reserve declared privately in March it was orchestrating with private banks for the May-June period—focus on a "jumbo" $2.5 billion loan credit on the international markets Mexico is now seeking, preceded by a $1 billion bridge loan.

The purpose of the credit is to restructure current debt into longer-term maturities at attractive rates, and help meet some of the $11 billion on interest alone that Mexico owes this year. Not a penny is for continuing any of Mexico's development projects.

Officials at the New York Federal Reserve, Citibank, and Security Pacific said the last week of May that they were working to shoot the loan down. The New York and London financial press suddenly sprouted articles casting doubt on whether "the little banks" were going to join the syndication. This was the same kind of press scare tactic used against the $1.2 billion

Mexico's economy at a glance

GNP: 1982 growth officially projected at 2-3 percent, said Finance Minister, Silva Herzog on May 18. For the year April 1982-April 1983, zero percent. Business and labor sectors are protesting that these figures are set too low, and designed to please foreign bankers.

Imports: Government is pledged a drop of $6 billion in imports for 1982, divided 50-50 between the public and private sectors. This is a 25 percent collapse over 1981 levels of $24 billion. The kind of ravaging of U.S. exports involved is indicated by Washington estimates of U.S. export of oil-related equipment to Mexico for 1982: $500 million, down from $2.0 billion in 1981.

The Bank of Mexico announced May 24 that import levels for the first four months of 1982 are close to meeting the government goals. In January-February, imports fell 15 percent. This rate accelerated and in March-April, the fall was 33 percent. Over the four months, imports were down $1.9 billion.

Exports: Oil and gas revenues are heading toward $14 billion at best, approximately $1 billion off last year's levels. Non-oil exports are substantially down as well, proving the bankruptcy of the argument that the February devaluation was required to make Mexican exports competitive. The manufacturing association Canacintra reports manufacturing exports are off 50 percent so far this year.

Interest rates: The last week in May the Bank of Mexico hiked domestic interest rates 1.9 percent, raising the cumulative increase since Easter week to 6.9 percent. The minimum now for government paper (CETES) is 40.1 percent, and for 30-day commercial paper, 50.0 percent; business loans are effectively at 50-55 percent.

Inflation: Rising over the first four months at an annualized 60 percent rate, as a result of the February devaluation. Inflation for April 1981-April 1982, 40 percent. 1981 inflation: 28 percent.

Prices: Price controls on some 5,000 items extended May 24 for three more months. CTM làbor confederation pushing for permanent price controls; business associations warning of spreading bankruptcies if price controls are not lifted.

Projects axed: Completion of six major government offices in Mexico City, including the 58-story Pemex tower; one subway-line extension (unconfirmed).

Projects threatened: Next phases of nuclear development and the Las Truchas steel mill; the industrial port projects at Altamira and Laguna del Ostion.

Pemex loan signed April 2. It didn't work then, and so far it does not appear to be working now. But the spread Mexico has to pay is rising fast. The second part of the jumbo package specifies rates of 1.5 points over LIBOR, a 75 percent jump over the ⅞ points above LIBOR of the Pemex loan. And the tactic is to keep building the "doubt" with each loan until one does fall through in the near future.

Then what happens? "Mexico would be forced to go to the IMF directly, and that's the kind of 'performance guarantee' on an austerity program that we want to see," declared the Security Pacific executive.

It's a calculated strategy of playing with fire, since if Mexico fails to get new cash, it could mean default on all of Mexico's $50 billion in public debt and $20 billion in private debt. "Yes, it could be the next Poland," acknowledged one of the Latin American desk officers for the New York Federal Reserve, glibly passing over the fact that the amounts involved are three times those of Poland, and debt almost all held by U.S. banks.

Plan for a new Chile

The New York Fed official confided that the crucial policy objective was to force Mexico to reverse its long-standing opposition to GATT. Mexico's vital capital-goods imports are already going; the GATT demand is to allow a flood of cheaper foreign manufactured imports which would bankrupt whole sectors of Mexican industry currently enjoying government protection. The "import substitution" skew of the Mexican economy makes it particularly vulnerable to this kind of operation. Already, government cuts of up to 8.3 percent in most areas of productive activity are leading to waves of layoffs in non-contract labor. What you will see will be "just like Chile," the Fed official promised.

The Fed plan got a boost from the U.S. Ambassador to Mexico, John Gavin, who told a meeting of the American Chamber of Commerce of Mexico May 17 that "if the Mexican government continues subsidizing" its exports, the U.S. would impose countervailing duties on a broad scale, and "bilateral trade could be reduced." He offered Mexico a "ready market" for its goods in the United States—provided the country "moved toward trade liberalization."

Gavin's threats of trade war drew outrage from Mexican business leaders of all viewpoints, even the followers of Friedmanite neo-liberal doctrine.

The U.S. Department of Commerce, after giving definitive authorization for a 15 percent countervailing duty to be levied on import of Mexican ceramic tiles the first week in May, has now suspended high-level trade talks with Mexico scheduled for June 9. Commerce officials told *EIR* that maximum pressure is being prepared for Dec. 1, when the presidency of Miguel de la Madrid begins.