EIR Economics

Year of complacency ends on Ibero-American debt

by David Goldman

A year of sham complacency from bankers regarding the Third World debt bomb has come to an end. Mexico's negotiations with the International Monetary Fund are now at an impasse, as the IMF continues to insist that Mexico reduce its public deficit by 5%, even though it has suffered a tremendous loss of income from the drop in oil prices. Mexico insists that the IMF must accept a 12% deficit.

Mexican leaders have been more alert to the nature of the crisis than the U.S. administration, which first delivered an outrageous provocation to Mexico in the context of Senator Helms's May hearings, then retracted the provocation in the form of a statement from Attorney-General Meese, and then qualified the retraction. On the contrary, Mexico's political leaders have stated the obvious truth: Mexico cannot lose more than $5 billion a year in oil revenues under conditions of collapsing prices and falling world oil demand, and continue to service its $100 billion foreign debt. Washington has forced Mexico into unilateral action, and well-informed observers are asking only how severe it will be.

This is not a crisis in U.S.-Mexico relations, as the administration and the press falsely portray it. The developing-sector debt crisis has continued to boil, while the International Monetary Fund sat on the lid. At Tokyo on May 2, the seven leading industrial nations affirmed their support for the IMF's posture. Now the crisis has reached another breaking point, drawing in not only Mexico, but Brazil and other leading debtor nations.

Mexico's disastrous financial position stems from the oil-price collapse, but the oil-price collapse only parallels the generalized deflation of world-trade prices under way since early 1985. Although Mexico's problem is simpler than Brazil's—it has no cash and no evident means to borrow it—the two countries are victims of the same world depression spiral. It is no coincidence that the debt crisis has taken on a new dimension in both nations at once.

A special irony came from Senator Helms's focus on flight capital leaving Mexico; the Ibero-American countries have lost $100 billion to flight capital since 1980, doubling their outstanding debt. It has now emerged that the same banks who forced their debtors to accept impossible austerity conditions, managed most of the outflow of flight capital. This revelation may have pushed Brazil over the edge.

The Mexican crisis

The French news agency AFP May 23 cited warnings from Mexican officials, that an attempt to force new sacrifices upon Mexico's internal economy would compel that country to declare a moratorium on its foreign debts. Two days later, the Mexican ruling party, the Partido Revolucionario Institucional, made official its support for Peruvian President García's debt policy, namely, limiting debt service to a fixed percentage of export revenues. The powerful president of Mexico's trade-union confederation, CTM, Fidel Velásquez, backed the PRI decision with the following words:

"We can't say that it means declaring a moratorium, but we will support our party's conclusions to the final consequences; its conclusions definitively have our complete support. . . . We are able to design our own models. . . . We can't copy solutions from others. This measure will have to be on the basis of paying with what we have, since it is impossible to pay with what does not exist."

With these words, Sr. Velásquez refuted the collective

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nonsense concerning the international debt disaster at the May 2 Tokyo summit meeting of the seven leading industrial nations. Treasury officials are scrambling to issue a revised version of the so-called "Baker plan," the threadbare initiative offered by the U.S. Treasury Secretary last September. But the point remains that Mexico will fall short by several billion dollars on second-quarter interest payments, following the collapse of its oil revenues, and neither its bankers nor the U.S. government have any current proposals to fill that gap.

Mexico has to decide what form of unilateral action it will take. Virtually the only one acceptable to its creditors involves an agreement to convert a large part of its $100 billion external debt into equity in Mexican industry and national resources, at a fraction of underlying values, given the enormous devaluation of the Mexican peso. Such a measure would destroy Mexico's political system, constitutionally founded upon the agricultural-labor-industrial coalition which makes up the ruling party. Sen. Jesse Helms, who plans additional hearings in June to follow the Mexico-bashing sessions he chaired in mid-May, has made that much explicit, by declaring support for Mexico's explicitly fascist, and covertly pro-Soviet, National Action Party (PAN). In its May 30 editorial, the *Wall Street Journal* volunteered the PAN as the local representative of "American" (i.e., American banking) interests:

"On the political front, the Institutional Revolutionary Party (PRI), which has dominated Mexican politics for nearly 60 years, is in trouble. . . . If there are any doubts about the honesty of a PRI victory, there'll be more recriminations from the U.S. . . . We ourselves share some of its economic ideas and also a taste for political pluralism."

The *Journal* editorial added, "President de la Madrid is said to have privately expressed the worry that the Americans are thinking of dumping him the way they did Ferdinand Marcos. Mexico owes some $97 billion in foreign debt, and if yanqui-baiting should lead to an eventual default there could be horrendous damage to U.S.-Mexican relations."

The *Journal*'s cold feet reflect a realization in Washington that the Helms hearings, which featured explicit attacks by U.S. officials on Mexican sovereignty, have "backfired," in the evaluation of one senior consultant to the the administration. "The result has been to destroy the position of [Mexican Finance Minister Jesus] Silva Herzog," the Mexican official most accomodating to the bankers' demands.

In fact, the Helms hearings, which took place with the full cooperation of administration, were intended to enforce what Assistant Treasury Secretary David C. Mulford explained before the Bankers Association for Foreign Trade convention in Phoenix May 16. Mulford demanded that debtor nations follow the Chile model, by "liberalizing their direct investment regime to permit financial institutions to establish financial subsidiaries that would be active in the host country's domestic markets."

Agosto Pinochet's dictatorship, which has left Chile in a condition of permanent near-civil war, represents the only form of government capable of enforcing the "debt-for-equity" conversion proposed under the Baker plan. Jesús Silva Herzog's finance ministry already proposed a plan to the foreign creditors of 30 private companies, under which the state would issue bonds for 60% of the private companies' debts, and the companies would pay the additional 30% in stocks—giving the creditors effective control of the companies, which include most of the country's largest.

What would be required to control the political consequences of foreign ownership of Mexican national assets was made evident on May 27, when 50,000 workers from the Fundidora Monterrey steelworks, with their wives and children, staged their third protest march against its closing.

De la Madrid cannot step into Pinochet's shoes, and may well wonder if his creditors plan to treat him like Marcos. Mexican industrialists bitterly object to the plan as well. Their association, Concamin, said they would not accept the capitalization of their foreign debts as a means of payment, since it would mean the loss of national industry. The association's president warned that companies are already laying off workers, and further layoffs at the hands of foreign creditors would cause unmanageable hardships. Mexico's reported unemployment rate is now close to 20%, and the actual rate is much higher.

Brazilian flight capital

Brazilian officials were convinced that they had uncovered the main seam of illicit flight capital May 20, when banker Antonio ("Tony") Gebauer resigned from the securities house Drexel Burnham Lambert. Gebauer is suspected of running a massive flight-capital operation out of Brazil, with which he conducted debt negotiations while at Morgan Guaranty Trust.

According to press reports, Gebauer, who just shifted to Drexel from his longtime job at Morgan Guaranty Trust, resigned when an "internal investigation" at Morgan revealed that he had "misappropriated" $6 million from the private accounts of Brazilian clients. Gebauer's attorney, Stanley S. Arkin, said he "could not comment" on reports from friends of Gebauer, that the missing $6 million reflected the banker's fees for placing flight-capital deposits at Morgan; the level of fees implies that billions were involved.

In a published study, Morgan estimated that $6 billion in illicit funds left Brazil during the course of the debt crisis. Now, the Brazilians charge, Morgan was handling this money—at the same time that Morgan officer Gebauer was putting the thumbscrews on the Brazilian economy. Central bank official Carlos Eduardo de Freitas is considering legal action to force Morgan to release the names of Brazilian money-manipulators.

Such action on Brazil's part has implications as explosive as Mexico's expected limitation on payments: It cuts to the core of the international banking system's dependency on dirty money, or what *EIR* has called "Dope, Inc."