EIR Economics

Mexican President: Dead debtors can't pay

by Hugo López and Mark Sonnenblick

Before 7,000 farmers and businessmen in Hermosillo, the capital of the Mexican state of Sonora, President Miguel de la Madrid on June 2 warned international bankers that Mexico would pay its foreign debt "according to the country's real ability to pay and without choking the national productive apparatus. This ability to pay—our creditors must be made to understand—could be maintained or even increased, which would coincide with their interests, only to the degree that they let Mexico continue growing. The dead can't pay; and the bankrupt can't be clients."

The President said, "The drop in oil prices alone has meant for us in a single year the loss of about one-third of what we export and approximately 12% of public income." Mexico paid $2.72 billion interest during the first quarter by running down its foreign exchange reserves, which are now estimated at $2.5 to $3.4 billion. If Mexico were to pay the $2 billion interest and principal due in June, there would be little left. "We have no choice; either we accept the International Monetary Fund's demands that we sell the stock of public and private companies—all bankrupt—to creditor banks or we declare a moratorium," a prominent businessman said. The decision *has* to be made during June.

Immediately after the Hermosillo speech, rumors swept Mexico City that de la Madrid had decided to limit debt payments to a percentage of export income, as pioneered by Peruvian President Alan García. The head of the ruling Institutional Revolutionary Party's (PRI)
June 4, "The PRI will propose a percentage for debt payments very soon. We don't need plans like Argentina's Austral or Brazil's Tropical. . . . There will be no more reductions in public sector spending. . . . It is not that we don't want to pay; what happened is that we can't do so at this time. To pay at all costs would be dangerous, because less money in health or food supplies would foster epidemics or reduce the Mexican's diet." *Excelsior* newspaper columnist J. A. Perez Stuart wrote June 6 that radio and TV tapes announcing the new measures have already been prepared.

Setting a ceiling on debt service was proposed on May 23 by Adolfo Lugo Verduzco, president of the PRI, in a special session of the party executive. He sought a "historic commitment" by all patriotic forces to defend the economy.

An 'end-game' battle

With Mexico financially prostrate and economically drained by three and a half years of brutal austerity, its creditors have moved in for the kill. Sen. Jesse Helms (R-N.C.) demanded during the Senate hearings he sponsored May 12-13, that Mexico give power to the National Action Party (PAN). Then, during the May 30-31 Mexico-U.S. Interparliamentary Meeting, Sen. Phil Gramm (R-Tex.)
that the Mexican government abolish its control over the economy to permit creditors to take over its industrial, agricultural, and especially mineral assets. Foreign investment, he said, "is not going into your country at necessary levels and one of the causes is the limits the Mexican government places on foreign-owned businesses."

PRI senator Martínez Corbalá revealed that the U.S. legislators demanded that Mexico turn over to its creditors its oil and government-built electrical infrastructure.

Gramm's arrogance and contempt for Mexican sovereignty was scarcely concealed, as he demanded that the nationalist heritage of the country give way to "free enterprise." "One thing we do right," he said, "is that our economy works well. . . . The wave, the tide of history goes in the direction of encouraging free enterprise. Your legislators are going to scream, but we know that those are not the voices of the people, but of interest groups—the voice of the few who want to gain at the expense of the others."

Gramm's message to Mexico on privatization of the economy was just like Helms' on putting the PAN in power: If you don't do it, it proves you are corrupt.

Faced with exactly the same kind of demands in a similar economic crisis in August 1982, President José López Portillo responded not by words, but by actions against what he termed "the plague of usury." He nationalized the banks; he tried to form a debtors' club, although Argentina, Brazil, and others refused to join. On Dec. 1, 1982, Miguel de la Madrid was inaugurated, and within two weeks, Paul Volcker of the U.S. Federal Reserve smilingly offered Mexico a "bailout."

Since then, a pliant Mexico has coughed up more than $30 billion in interest payments and another $10 billion in capital flight to the banks. In return, real wages of workers have been cut by 25-30%, as Finance Minister Jesús Silva Herzog boasted in May. With comparable cuts in government spending and the disappearance of investments, the internal market shrunk. Industries without customers and burdened with internal interest rates of over 80% for the past three years, are increasingly unable to keep operating.

Today, Mexico puts more than half its earnings into interest payments on a foreign debt of over $97 billion.

The Juárez nationalist tradition

Those loyal to no nation underestimate the power of Mexican nationalism. Mexico's patriots have begun to mobilize, as PRI President Lugo Verduzco cited President Benito Juárez (1858-72): "The triumph of reaction is morally impossible."

In a speech on June 2, de la Madrid proclaimed, "We will leave behind and below those who try to deny our nation's capacity to govern ourselves. The majorities are profoundly nationalist. . . with a nationalism which defends sovereignty with one's own blood, if necessary. . . . Only with dignity can relations be maintained between peoples."

De la Madrid committed himself to protect private industry and not to change the Foreign Investment Law. His voice rose in volume as he pledged, "Never, never, will the Mexican state, which is nothing but the social and political organization of all Mexicans, divest itself of those strategic companies without whose control we would be at the mercy of minority foreign interests." The 7,000 people who filled Hermosillo's largest hall went wild with cheers, perhaps the first spontaneous outburst of approval the President has received in his 40 months in office.

Responding to Helms' brazen demand that power be handed over to the PAN, de la Madrid said, "Democracy cannot be attained in Mexico with a so-called alternation, in which sometimes the majority rules and sometimes the oligarchy. . . . We Mexicans did not commit ourselves to democracy yesterday. . . . We did so with Hidalgo . . . the first in the Americas to abolish slavery." Mexicans know that the PAN descends from slave-owners who supported the Spanish monarchy in the past century, who wanted Hitler to "whip the Yankee imperialists," and who today are the party of the drug traffickers who huddle next to Phil Gramm under the slogan of "free enterprise."

De la Madrid made his stand in Sonora at a "national unity" rally organized in solidarity with one of his friends, Gov. Félix Valdez, who had been accused of protecting narcotics traffickers by U.S. Customs Commissioner William von Raab during the May 13 public session of the Helms hearings. This was one of the most outrageously false of the slanders voiced against Mexico by Reagan administration officials who testified.

On June 4, after President Reagan hosted the Mexican congressional delegation at the White House, his spokesman declared that the President had reiterated his "total confidence" in von Raab and had given "no apologies" for what happened at the Helms hearings.

A new round of hearings will take place June 10, 17, and 19. According to Senate sources, their main thrust will be on how Mexico's economic crisis was caused by "the mismanagement and corruption of its government."

Wall Street bankers claim that they are ready to withstand a Mexican moratorium and make Mexico suffer economic and political chaos as a result, the daily *El Financiero* reported June 6. This is the same threat Henry Kissinger wielded against de la Madrid when he entered office.

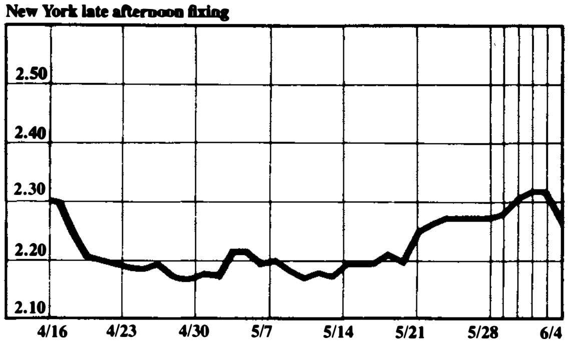
Treasury Secretary James Baker III is blandishing offers of another bailout—if Mexico heels to the conditions imposed by the International Monetary Fund (IMF) and other creditors: the total denationalization of Mexico's economy.

The battle over whether to accept this offer is being fought hourly in the Mexican cabinet, which is sharply split between, on the one side, those who share the approach of the PRI and most of Mexico's industrialists, agriculturalists, and all of its powerful labor movement, and, on the other, the pro-IMF technocrats whom Juárez would have shot as traitors.

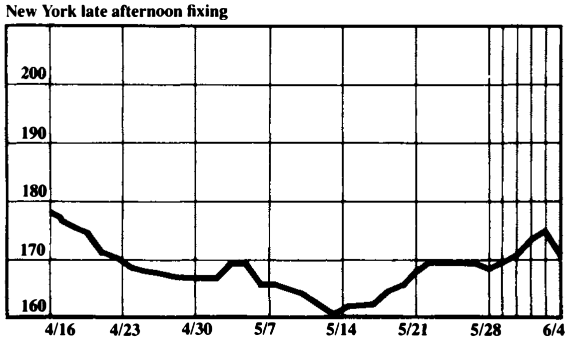
For example, when U.S.-Mexican relations reached the lowest point in a generation, Interior Minister Manuel Bartlett was wined and dined by David Rockefeller and top figures from Chemical Bank, Manufacturer's Hanover, etc., at a Columbia University reception in his honor. Mexico's central bank chief, Miguel Mancera, railed on June 5 against the exchange controls which would be necessary in case of a debt moratorium.

Currency Rates

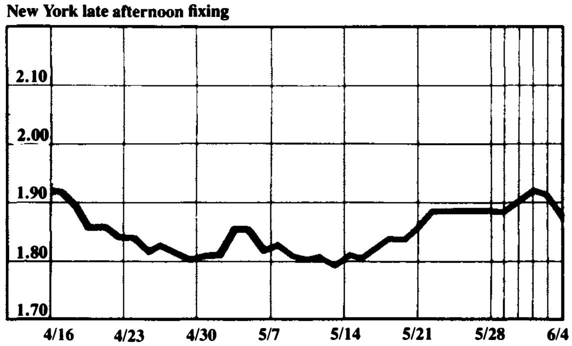
The dollar in deutschemarks
New York late afternoon fixing



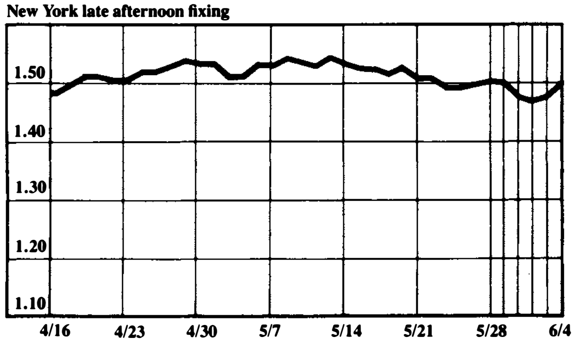
The dollar in yen
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing



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