Now, Mexico is hit with a *political* earthquake

by Mark Sonnenblick

Many people in Washington and New York suffer from the delusion that Mexico's going to the brink of a unilateral debt moratorium in early June was merely a bargaining tactic designed to prod its creditors to negotiate yet another "bail-out." The financial press is full of stories about how Paul Volcker, a mild-mannered Federal Reserve Board chairman, put on his Superman outfit and flew to Mexico June 9 to save it from going over the edge.

President Miguel de la Madrid did not proclaim the moratorium many had expected when he finally appeared on national television the next night. While Washington heaved sighs of relief and geared up for another game of "bailouts" like the 1982 "rescue" operation conducted for Mexico's creditors, curses were muttered in Mexico.

Mexico's debt crisis may be papered over for a while longer in the magical world of bank balance sheets. But, *Mexico has already decided for a moratorium and an end to International Monetary Fund austerity,* regardless of any deals unrepresentative factions of its administration may sign with creditors. Its labor, industrial, and agricultural sectors, and part of the cabinet are committed to that policy.

Foreign Minister Bernardo Sepulveda insisted in San Diego June 9, that Mexico's foreign debt is simply "unpayable," and the nation's finances are in "a critical state." "Political management of the debt, which has been insistently demanded by the governments of Latin America, has not yet encountered an adequate response from the United States."

Mexican Labor Congress head Fidel Velázquez told a press conference June 9, "The workers' movement would totally support Miguel de la Madrid if he decided to declare a moratorium on the foreign debt," and urged the government to immediately impose exchange controls. He said moratorium "is no longer a question of convenience, but of necessity," and concluded, "What is certain is that the people can bear no more sacrifice."

President de la Madrid swore June 2, "We are going to comply with our financial obligations in accord with the country's real ability to pay and without choking the national productive aparatus. . . . Never, never will the Mexican state divest itself of those strategic companies without whose control we would be at the mercy of minority foreign interests." That is a position from which he cannot now retreat.

Mexico's majority party, the Institutional Revolutionary Party (PRI), committed itself in May to the defense of the Mexican economic system in terms so compelling that the President would have to break with the party which sustains him in office, losing control over choice of a successor, were he to surrender to any of the creditors' demands. As a tough leader of the oil workers union threatened, "We won't tolerate a fourth-rate banker in the presidency."

García's drum-beat

In 1982, Volcker pulled together an "emergency package" for Mexico in two weeks. With that he staved off the danger of an Ibero-American regional debt moratorium.

For three and a half years, Mexico's political and labor institutions exhausted themselves holding the population in line with the murderous austerity programs imposed by the IMF. As workers lost 5%, 10%, 25%, and then 30% of their real wages, Fidel Velázquez, time and again, urged them not to strike, not to join the growing dissidence led by communists. He, and thousands of other labor leaders on all levels, argued that the "unity of the workers' movement with the revolutionary government" had to be preserved at all costs. The PRI party machine thus enabled de la Madrid to apply IMF monetarist medicine, without the social explosion which would have taken place in countries with weaker institutions.

Those days are gone.

They ended on that April day when the Mexican government announced that it had invited Peruvian President Alan

García to visit. That announcement signaled the end of the four-year retreat by Mexico's nationalists. It meant that options such as García's, restricting debt payments to 10% of export income, were now on Mexico's agenda. It meant that Mexico was again considering uniting forces with other debtors.

Since then, Mexico has been marching to García's drumbeat. State television and the press have been saturated with interviews with the continent's most potent political orator. De la Madrid himself sounded a lot like García on June 2 when he proclaimed that Mexico's state policy is to pay debt service commensurate with its falling export revenues. Even the staid English-language daily the *News* rumored that Mexico was about to limit payments to 15-25% of foreign earnings.

Were Mexico to pay the $10 billion due this year, it would spend more than half of its export earnings, bringing hunger and forcing its import-dependent national industries to close their doors. The government spent over 70% of its first-quarter income servicing external and internal debt, the planning ministry reported. De la Madrid stated in his June 10 interview, which U.S. media agreed was "conciliatory," "*Until now* it appeared to us that not meeting its obligations would not be best for the country, because *until now* we were capable of restructuring due dates . . . and we had the foreign exchange to service the debt. But as I have warned, the oil shock changes the picture."

Mexico's reserves have been used up in maintaining interest payments while petroleum income collapsed. There is reportedly $2.5 billion remaining; Mexico has $1.8 billion in interest and principal payments due July 1.

The spectre of the debtors' club

Mexico's considering unilateral action reinvigorated the sometimes lonely battle of Peru's García to stop debt from crippling economies. Almost every country in the region shares Mexico's situation: democratic governments doing unconscionable things to their countries to pay debt, because no practical option seems available. The *Wall Street Journal* quoted an unnamed Argentine official, "If Mexico acts, we would have to follow them."

Paul Volcker testified before the House Government Operations Committee June 11 that individual country debt cases "are interrelated, and if the Mexican situation can't be handled in an orderly way, it makes it more difficult to handle" debt problems in Argentina, Nigeria, Venezuela, Ecuador, and others. "These things all reflect back on each other. . . ."

Even Brazil began to take unilateral actions. Brazil was praised by the gnomes at their June 9 conclave at the Bank for International Settlements in Switzerland for acting as the spoiler of Ibero-American unity. Yet, when a mistaken report that Mexico had declared a moratorium was made at a June 10 meeting of top economists, the response was markedly positive. The next day, Finance Minister Dilson Funaro announced Brazil's first unilateral debt action. He said that Brazil had offered to repay government creditors (the Paris Club) half of the $3.4 billion in arrears owed them. But, since they had refused the offer, Brazil would pay them 15% now, and stretch the rest over 25 years. In reprisal, the U.S. Eximbank cut off credit to Brazil.

A summit of Ibero-American Presidents to discuss the debt crisis was agreed to in Panama June 6 by the foreign ministers of the Contadora and Contadora support group countries. They are Argentina, Brazil, Colombia, Mexico, Panama, Peru, Uruguay, and Venezuela. Argentine Foreign Minister Dante Caputo's office first leaked news of the meeting on the eve of his trip to Washington, where he used it as a bargaining chip in his dealings with the IMF. Caputo's people said the summit would be in Mexico August 6-7, but those details remain unconfirmed.

Regular meetings of Presidents, Venezuela's Foreign Minister Alberto Consalvia suggested June 11, would facilitate joint action on debt and the economic integration required to fend off creditor reprisals.

Fear of trade blockades and even military action by Mexico's powerful neighbor to the North was undoubtedly de la Madrid's main reason for retreating from imposing Mexican debt management on creditors. During and following the May 12-13 hearings by Sen. Jesse Helms (R-N.C.), the executive and legislative branches flaunted their intentions to destroy Mexico's presidential system. As the July elections approach in the border state of Chihuahua, the drum-beat from the United States is that the minority National Action Party (PAN) must be given control over the state. The June 13 *Wall Street Journal*, for example, calls for the United States to withhold any "bailout" as blackmail until Mexico surrenders a border state to a party committed to insurrection and separatism in overt alliance with the communist party (PSUM). It predicts: "There could be violence." Washingon has stepped up its military and para-military forces on the border.

Mexico's leading newspaper, *Excelsior*, reported front-page June 7 what Susan Director, a LaRouche Democrat who is a party nominee for U.S. Congress in Texas, said at a Ciudad Juárez press conference the previous day. "Mrs. Director said there are other dangerous aspects to [Sen. Phil] Gramm's statements on Mexico, mentioning that since 1983 the Soviet Union has been committed to a plan to force the U.S. to pull its troops out of Europe to put them on the Mexican border, to leave Europe unprotected under Soviet influence. This policy, Mrs. Director indicated, is known as the 'New Yalta,' and has the complete support of the State Department."

In his June 10 announcement that he would personally lead negotiations with creditors, de la Madrid stood before a statue of Mexico's "founding father," Benito Juárez, and declared: "What he did remains as a lesson for all Mexico, but especially for all its Presidents."
moratorium.