The debt bomb: Mexico in the hour of truth

by Hugo López Ochoa

The dumping of Jesús Silva Herzog as Mexico's finance minister "marks a turning point in the Latin American controversy over treatment of foreign debt," declared Carlos Alzamora, former permanent secretary of the Latin American Economic System (SELA) and current Peruvian ambassador to the United Nations, on June 19. "It is undeniable that there have been from the beginning two positions on this problem in Latin America: those who conform to it and those who contest it. Jesús Silva Herzog was the leader of the first group," he stated.

When negotiating debts, Alzamora reported, the "conformist tendency" would say, "It's wrong to discuss the international context which causes the debt, and we should not organize ourselves to negotiate jointly." SELA's position of joint action has won out, although, "four years delay and four years of hemorraging are four years too many."

During the almost four years in which he bled Mexico, Silva Herzog had grabbed a kind of "dual power" in Mexico. His sweetheart deals with Paul Volcker and the Citibank crowd practically cut President Miguel de la Madrid and the nation's political and economic institutions out of economic decision-making.

In contrast, his successor, Gustavo Petricioli, proclaimed on the eve of his June 26 departure for Washington that "an indispensable requisite" for any deals with creditors or the International Monetary Fund (IMF) is growth. "We cannot accept any arrangement which does not embrace the country's need to grow. We also need enough resources from abroad to permit us to achieve 3-4% growth through 1988, which is the equivalent of the [rate of] incorporation of the population" into the labor force, he said.

De la Madrid categorically renounced the creditors' dictates in a June 2 speech. He committed himself to defend Mexico's sovereignty and "make the usurers understand that the dead cannot pay, nor can the bankrupt be clients."

Gustavo Petricioli is a loyal friend of the President and has been described by the president of the Confederation of Chambers of Industry (Concamin) as "a man who is in favor of industrial growth."

Operation Juárez on the agenda

Alzamora's statements highlight why creditors have entered a kind of "quiet panic" since Silva's ouster. Since 1982, U.S. economist Lyndon LaRouche's proposal for financial reform, known as "Operation Juárez," has been the central issue in policy fights at the highest levels of government in the United States and other republics of this hemisphere. Now, the new outbreak of the Mexico debt crisis has brought this proposal to the fore once again. The core of Operation Juárez is a debtor's club to impose the necessary reforms on the banking system. LaRouche holds that the debt of bankrupt nations must be refinanced on a very long-term basis at 2-4% interest. He insists that the developed capitalist countries finance sales of $200 billion annually of capital equipment for the great projects needed to turn today's bankrupts into tomorrow's prosperous partners.

De la Madrid has joined Peru's Alan García in seeking such a reasonable solution.

Washington and Wall Street, however, are insanely fixated on forcing debtors to accept more hemorrhaging, more years of depression, and more social upheavals. Federal Reserve chairman Paul Volcker and Treasury Secretary James Baker III are braying like pathetic machos that they will make Mexico sign with the IMF, with threats of ripping apart Mexico if it resists. Fast-buck huckster Don Regan, the White House chief of staff, is telling president Ronald Reagan bedtime stories about little old ladies losing their life's savings if Mexico were to declare a moratorium.

Sen. Jesse Helms (R-N.C.), the *New York Times*, and the *Washington Post* lie about Panama, Mexico, and Peru to force them to their knees before the IMF, that awesome financial policeman. The threats to overthrow any government which resists have been crude. Helms asked on the U.S. Senate floor on Feb. 19, "Why do we not unseat President Miguel de la Madrid?" On June 22, he raved at Mexico on NBC, "You've got to denationalize your banks; you've got to give the people free elections." Were Ibero-American governments to submit to such dictates out of fear of being overthrown, they would be overthrowing themselves, by relinquishing national sovereignty.

Silvestre Fernández Barajas, president of Concamin, observed on June 20, "The question is not how long Mexico would survive without receiving credits from abroad, but how long the international banking community would survive?"

July 1 is the critical day—at least as far as bank balance sheets are concerned. The creditors had scheduled Mexico to pay $1.5 billion in debt service that day, the new finance minister told the press on June 24. But, he proclaimed, Mexico would not "sacrifice" its remaining dollar reserves—around $3 billion—to meet this schedule.

On June 22, in an interview with American television, de la Madrid for the first time said explicitly that Mexico should adopt a debt payment criterion similar to that long advocated by Alzamora or SELA and adopted last July 28 by Peru. The Mexican President affirmed, "We believe that we have to measure the country's capacity to pay by its foreign currency earnings, and also by the Mexican economy's need to grow." He insisted at the same time, "When I say that Mexico can only pay what it is able to pay, I am not setting a political postulate. I am affirming reality."

During the entire interview, de la Madrid seemed to be preparing the American population for events to come. Over and over he insisted that economic growth is the only solution to the problems of debt, emigration, and narcotics traffic which concern the population. The interview was taped June 16, the day before Silva Herzog was fired.

The day it was broadcast, June 22, Peruvian President Alan García confirmed that he would visit Mexico in the middle of July. The nationalist faction in Mexico has been maximizing the attention paid to García and to his alternative economic policies for the past several months. His visit will help catalyze Mexico's will to resist creditor pressures.

Much less dramatic, but highly significant, have been a series of hush-hush meetings between Mexican and Argentine leaders, which took place under the cover of the World Cup soccer championship matches. Argentine Finance Secretary Mario Brodersohn confided on entering the stadium June 22 that the Mexican and Argentine Presidents had agreed to coordinate their treatment of the foreign debt. Argentine President Raúl Alfonsín will be in Mexico June 29, ostensibly for the World Cup finals. There will almost certainly be a working meeting with de la Madrid.

On June 23, Finance Minister Petricioli, told a Mexico City press conference that Mexico would "change the terms of foreign debt renegotiations" so that "we could pay without depressing the Mexican people's living standards. . . . We start from national necessities, priorities, and objectives, not from what the creditors want to concede." He outlined a growth program which was approved by the cabinet and the President two days later. It provides for this year's 5% contraction of the economy to be replaced by 3-4% growth during the last two years of de la Madrid's presidency, through "the liberation of credit to the private sector . . . support to productive industry and trying to lower interest rates. . . . Lower interest rates are indispensable to prevent interest payments from soaring, to alleviate the financial situation of private companies, and to facilitate credit to peasants and small industries."

"Mexico's path must not be stagnation and recession. . . . We firmly reject the option which only offers scarcity and despair to Mexicans with the sole purpose of continuing paying, in its entirety, the interest on the debt, as if the petroleum [price] collapse did not exist."

He concluded with the following rejoinder to the nakedly interventionist efforts of Volcker and the International Monetary Fund: "Through all its history, Mexico has been a country which has fought at the cost of thousands, perhaps millions, of Mexican lives to be a free country, to be an independent country, to decide its own destiny, its own priorities, its own economic policy. . . . Nobody is going to dictate our economic policy to us. . . . We will do battle for the Nation."

Renewed patriotism

Petricioli came to Washington to "do battle for the Nation" with the support of leaders of all the sectors which form the social basis of the Mexican state: industrialists, workers, peasants, the army, and also that of the Catholic Church. Patriotism has revived throughout Mexico; throughout Ibero-America the "conformity" characteristic of the Silva Herzogs of the continent has been wiped out at the stroke of a pen, giving way to the courage which characterizes Alan García, of Peru, who has already shown the way.

On June 24, the chief of the presidential military general staff, Gen. José García Elizalde, proclaimed, "Today, as in 1914, we are willing to defend the country." In 1914, U.S. Marines landed in the port of Veracruz, with the complicity of Mexican traitors, only to be repulsed by Mexican army cadets. The President's representative concluded, "We are the only ones who have a right to participate in our decisions, struggling united and in solidarity for better times. Let us learn from the past. Let the painful lessons not be repeated."

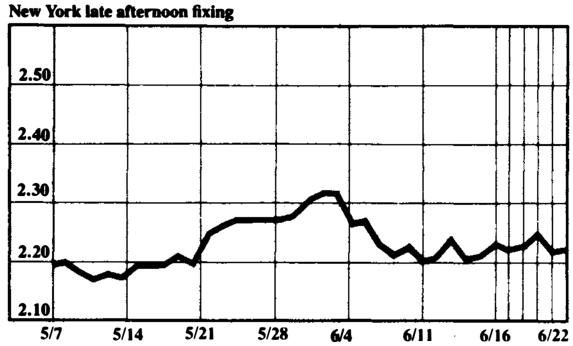
The same day, Mexican Workers Confederation chief Fidel Velázquez reiterated, "If the government decides to have a moratorium, we will support it." Sen. Rafael Armando Herrera of the National Peasant Federation said that a moratorium "would be a drastic measure, but perhaps rigorously necessary."

Fernando Gutierres Barrios, ruling-party candidate for the governorship of the state of Veracruz, reminded his listeners of President Lazaro Cardenas, who expropriated foreign oil companies in 1938 and is the symbol of "our sovereigny and our national dignity." He was cheered by 10,000 members of the powerful oil workers union.

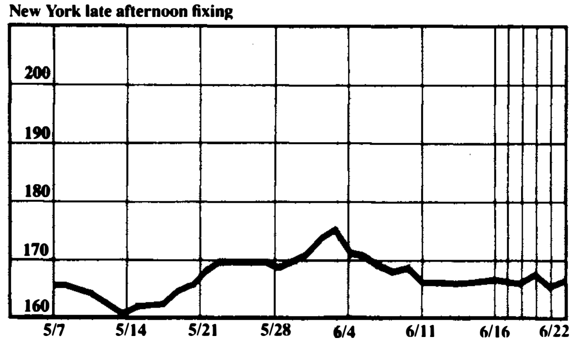
Attention is now focused on Bank of Mexico director Miguel Mancera. While Silva Herzog's demise put debt negotiations in the President's hands, Mancera's departure is vital for controlling the internal economy. Mancera responded to Petricioli's appointment by provocatively raising interest rates another 3.75%. On June 25, the *Wall Street Journal* reported that Mancera would accompany Petricioli on what it anticipated would be a continuation of Silva Herzog's negotiations. That afternoon, Petricioli jumped on a plane, but Mancera went home early.

Currency Rates

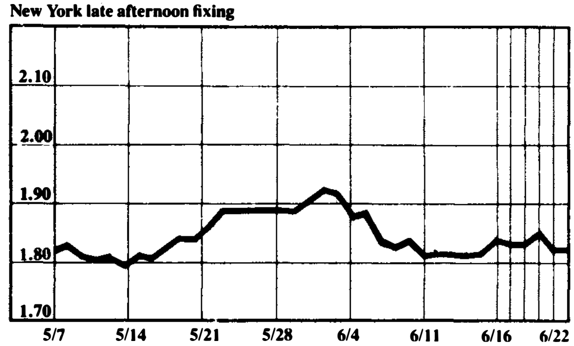
The dollar in deutschemarks
New York late afternoon fixing



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