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Eye on Washington by Nicholas F. Benton

Chase Manhattan CEO demands Mexico's blood

William Butcher, the chairman and chief executive officer of both Chase Manhattan Corp. and Chase Manhattan Bank, is one of those people whose name tells you his policy. (There are others: Robb, Swindle, Gore, LaFalce, and DeLay, etc.)

Butcher made a candid speech at the Johns Hopkins University School for Advanced International Studies here on Dec. 1. He outlined a policy of unabashed economic brutality, flawed only by the profound delusion that this would prevent a global economic collapse.

Butcher claimed that the Weimar-style hyperinflationary blowout of the Mexican economy in November was "long overdue and necessary." "The only problem is that it happened all at once, instead of in a more ratcheted fashion," he grumbled. "This means there will be more pressure to raise wages faster than there would be if it happened more slowly."

He only thought it a little curious that a major devaluation of the peso occurred when it did. "Usually they wait until after the election to do it."

Otherwise, he refused to see any correlation between the fact that, as he put it, "Latin American countries have lost their appetite for new debt," down from $86 billion in 1981 to $10 billion in 1986, and the collapse of the Mexican economy.

He also failed to assign any significance to the fact that the Mexican government has been among the most compliant to the "conditionalities" demanded by the International Monetary Fund, but suffered its traumatic devaluation nonetheless.

In fact, Butcher said that the latest peso devaluation "has only brought that currency in line with its real value," and that the economic growth potential of Mexico remains, as it attracts new U.S. capital to its slave-labor, sweatshop border industries.

He conceded that a similar chain reaction of currency devaluations will occur throughout Ibero-America, but gave no quarter to "dead beats" who refuse to pay their debts on time. He predicted "deep political trouble" over the next year for Peru and Bolivia, in particular, but said that while Brazil made a "big mistake" in declaring a debt moratorium earlier this year, "it has the most to lose from such a move, and also the most to gain from coming back into the fold." He was confident Brazil would "straighten out its act."

The most important issue of Third World debt, he said, concerns the "political will" of governments there to ignore the demands of their populations in order to meet their foreign debt obligations.

This line, of course, is nothing new from an international banker, but it belies an amazing lack of sensitivity, and just plain sensibleness. In the wake of the recent stock market crash, might it not occur to him that there is a need to develop new approaches, even in the narrowest interests of self-preservation in these rough economic times?

If a brutal austerity policy can be carried out in the Third World, combined with a domestic spending spree by consumers in the next six months, Butcher actually thinks everything will be "copasetic," and memories of the fall's stock market crash will fade into history.

He said that the biggest problem in the world economy is currency imbalances: those which have caused the overvaluation of currencies in the Third World, and the overvaluation of the dollar. He called for a continued drop in the value of the dollar against the West German and Japanese currencies.

Budget deficit unrelated to market

In a single note of realism, Butcher said that the federal budget deficit had nothing to do with financial markets, and neither did the trade imbalance. About 90% of the world's dollar trading is cleared daily through the New York-centered computer system known as "CHIPS" (Clearing House for International Payments), and this had risen in the last three years to a $650 billion daily. That translates into $170 trillion a year. Of that, he said, only $5 billion a day, or less than 1%, represents trade-related transactions. Therefore, trade flows have no impact on currency exchange rates, and vice-versa.

This is a condition created, he said, by the growth of the Eurodollar markets after currency exchange rates started to float in the early 1970s. It is imbalances in exchange rates, if sustained over a number of years, which can wreck an entire economy, he said.

He did not think that a return to fixed exchange rates was the answer, but demanded a series of bullying measures by the United States—not only imposing genocidal austerity on the Third World, but also "putting some real teeth" into trade negotiations with Europe and Japan. In effect, let's go on looting the world to save Chase Manhattan.

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