EIR Economics

The new Mexican debt plan: a war among paper titans

by Chris White

The financial pages of the nation's leading press suddenly, in the last week of December, shamelessly turned themselves into extensions of the public relations department of the J.P Morgan Bank, to publicize what they chose to present as the "merits" of the newly unveiled plan for Mexico's debt.

The plan, said to have been under negotiation between Morgan and Mexico since August, but held up in implementation by a group of recalcitrants in the Baker Treasury Department, was presented to the public during a Dec. 29 press conference, involving the U.S. Treasury and the Mexican government.

Needless to say, the plan, under which Mexico agreed to give the U.S. Treasury $2 billion to finance the purchase of $10 billion worth of zero-coupon 20-year U.S. government bonds—which can then be used to swap banks' holdings of Mexican debt at a discount to be negotiated—doesn't have much in it at all for the beleaguered debtor. In that respect, it is another example of the brutal "give and take" approach that's long been advocated among U.S. financial circles. Mexico gives, and the U.S. banks take, everything.

The Treasury's adoption of the plan, presumably over the objections of the initial recalcitrants, does, though, signal the way the financial political winds have shifted within the United States, since the Black Monday 500-point crash on Wall Street's Dow Jones Index, and points to how some are drawing the battle lines for the storms ahead. If the battle is fought out in such terms, as the foreseeable storms develop over the coming weeks and months of the new year, there won't be too much left of the United States or the world financial system.

Behind the Mexican arrangements, a group of old monied-family financial institutions, typified by Morgan itself, the Bank of Boston, and the Bank of New England, along with Lazard Frères and Goldman Sachs, are attempting, dog-eat-dog style, to cut some of their competition down to size, and to use the credit-generating powers of the U.S. government to support the effort politically through bail-outs. They are taking political steps to prepare for the next phases of the ongoing deflationary collapse of the bubbled dollar credit system. The principle at work among the bankers seems to be the not-so-seasonal "if there's not enough room for all the guests at the dinner table, throw 'em out."

This was put, in a rather different way, by the *Wall Street Journal,* when it described the Mexican arrangements as Morgan's "riposte" to Citibank, in the "latest round" of the ongoing battle among the "financial titans."

The package was greeted with less than enthusiasm by Citibank and Chase, which, according to wire service reports, do not intend to write their Mexican debt down to the levels of discount implied by the agreement. Considering Mexico still creditworthy, they will continue to demand full interest on the par value of their debt holdings—if they can.

Citibank, under its previous chairman and CEO Walter Wriston, typified the brutal incompetence of the financial policy which guided the Reagan administration from 1982, when presidential candidate and economist Lyndon LaRouche's "Operation Juárez" debt reorganization proposals were rejected by that administration, in favor of the Citibank-Merrill Lynch approach. Known to its advocates from the "magic of the marketplace" free enterprise crowd as "creative or innovative" financing, the advocates of globalized deregulated banking and securities activities, built their paper

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bubble worldwide, on the wreckage they had made of Mexico and the rest of Ibero-America during the course of 1982. Wriston and Don Regan for Citibank and Merrill Lynch, respectively, were the ones who took the banks' securitized "off-balance-sheet liabilities" from zero in 1982, to about $7 trillion by the Aug. 25 breaking-point in 1987.

The internal U.S. political arrangements which came into place as the Mexican agreement was hammered out show that Citibank's "J.R.-style" policy, "get rich quick" by stealing as much as you can from as many people as possible, is being shoved aside. The Mexican agreement depended on the U.S. Congress changing legislative limits on the Treasury's ability to issue long-term debt. In this coupon-clipping world, the powers that be have insisted that the Treasury maintain its debt issuances on the short- to medium-term side so that interest rate fluctuations nominally compensate for the inflation. The year-end budget package included provisions to increase the Treasury's long-term borrowing capacity by $20 billion. The Mexican agreement accounts for half of the increase. Presumably, other such packages will be forthcoming soon.

The passage of the measure is in turn the result of a deal between the Reagan-Bush campaign, and the congressional liberals, typified by the Democrats' Bill Bradley in the Senate, a basketball player and Rhodes Scholar, groomed by Morgan's Ditchley Group as the spokesman on Third World debt and related matters, and Shumer and LaFalce in the House.

The Smoot-Hawley memorial bill

In this regard, the Mexican package is perhaps the narrow-end of the wedge, or foot-in-the-door, for administration acceptance of the generalized version of the same package which is included in the Gephardt-authored omnibus trade bill, known as the "Smoot-Hawley" memorial bill, in nodding recognition of its debt to the two predecessors who, in the late 1920s-early 1930s, helped push the economy into Herbert Hoover's Great Depression.

The trade bill empowers the Treasury Department to set up a facility to issue long-term bonds which can be used in "debt swaps" with Third World countries on the Mexican model. This project has been long favored by the liberal crowd, and by such outfits as the International Institute for Economics. The Treasury Department, up to now, has stayed aloof, seeing the government's role as muscle-man and enforcer for the banks in their efforts to exact full payment of each interest dollar.

The purpose, as in the case of the Mexican agreement, is to replace banks' holdings of Third World paper, with holdings of paper secured against the U.S. Treasury. Thus, those who accept the write-off of some portion of their Third World debt get the implicit backing of the U.S. government for their actions. Morgan's spokesmen have mooted a figure of 50%, as two dollars worth of existing debt is swapped for one dollar worth of new debt collateralized against long-term U.S. Treasury bonds. Those, like Citibank and Chase, which either choose to go along the same old route, or resist the markdown implied by the Morgan plan—and it will be a Morgan official, in the case of Mexico, "advising" that country on how much of a markdown to accept—can go their own way. If they're strong enough, they'll survive; if not, they won't.

Don't take too much comfort from these kinds of games. The perspective behind it all ought to be quite clear. There is a group, in the international banking community, in this case typified by Morgan, which is not so much a U.S. bank alone, as also British and Swiss, which is recognizing that there is a deflationary collapse of paper values in progress, and which is seeking to protect its own relative advantage, against competing banks, while lining up the credit-generating power of the U.S. government as a bail-out back-up. Reduce the power of the competition, and hyperinflate if the deflationary collapse threatens to get out of control.

Morgan has long years of experience in such incompetent tricks. After all, it was Morgan's management of the German reparations payments question after World War I, through the succession of Plans, the Dawes Plan, Young Plan, Hoover Moratorium, and so on, which created the self-feeding international financial spiral of unpayable debt—Germany, paying off Britain and France, which in turn paid off the United States. This came down in 1929, thanks in large part to Morgan's efforts "to protect itself" from what it itself had unleashed. Similarly, in the financial collapse of 1907. Morgan's pattern, in this century, has been to play the bear market against the bulls from the previous phase, and pick up the pieces afterward.

This is accomplished, as it has been in Mexico and elsewhere over the last five years, by means of increasingly vicious austerity against populations and economic capacity, in favor of inflationary and hyperinflationary protection of financial paper assets. Nothing is ever solved by such means. Indeed, such approaches ensure that the crises they are supposed to resolve in fact get much worse. For the nominal claims of the outstanding paper obligations pyramid against the destruction of the economic capacities and potential to service such claims. Mexico's descent into hyperinflationary hell a month ago is in that sense a foretaste of what will happen, ultimately inside the United States, if the paper titans are permitted to battle the matter out on their own terms.

Making government the protector of the banks nominal paper accumulations, as Morgan is proposing, is one of the most rapid routes into the depths of the looming financial collapse. If that's the only way government will be freed from the control of the financial parasites, who will put themselves out of business through such approaches, then so be it. Because it's not until the government's powers to reorganize the entire bankrupt financial system are brought to bear that any measure will have any effect other than accelerating the financial and economic collapse that is now ongoing.