New Mexican debt bubble requires billions of dollars in loot

by Peter Rush

The North American Free Trade Agreement is being promoted as necessary for the economic prosperity of both Mexico and the United States. Not only is this a monstrous lie, but NAFTA is in reality nothing but an instrument for top Anglo-American financial interests to eliminate the national sovereignty of both the United States and Mexico, and prop up the failing international banking system by stepping up the rate of looting of Mexico to genocidal proportions. This involves skimming off ever greater interest payments on foreign and internal debt, expropriating millions of Mexican farmers through foreclosures and selling off their land to the grain cartels, setting up secondary mortgage and other derivatives markets, turning highway tolls, and even payments on utilities such as water and electricity, into income streams for foreign investors, looting Mexico's pension system, and taking over Mexico's oil industry.

The cornerstone of the push to "privatize" everything in sight, set up derivatives markets, and revamp the country's financial system, is Mexico's foreign debt, now officially admitted to be $121 billion. This is an incredible $27 billion more than at the end of 1989, after the implementation of the much-touted "Brady Debt Reduction Plan," which succeeded in shaving all of $6 billion from the debt, reducing it at that time to $93.8 billion. This $27 billion leap in indebtedness in less than four years is $7 billion more than Mexico's estimated $20 billion in foreign exchange reserves.

Volatile debt situation

The only factor which has prevented the payments on this debt from causing a financial blowout, is today's relatively low international interest rate, which, should it rise, would plunge Mexico back into a monetary catastrophe. As it is, according to World Bank figures for the end of 1992, almost $25 billion of this debt is short term, up from $8 billion in 1989, which is very volatile and can be called in on short notice. The annual $7 billion in interest payments is a continuing drain on Mexican foreign exchange earnings.

Moreover, Mexico's newly privatized banks now account for $20 billion of this foreign debt. This has put an enormous burden of interest payments to service this debt on a banking system already bankrupt by any conventional measure. According to figures presented by Mexico analyst and publisher of *Mexico Report* Christopher Whalen, in testimony before Rep. Henry Gonzalez's (D-Tex.) House Banking Committee on Sept. 8, about 6.7% of all outstanding loans by the Mexican banking system are officially considered non-performing or in default, a very high percentage. But, he added, Mexican officials have told him the true figure is likely between 20-30%.

This has come about because Mexico's economy is moribund, thanks to the application of International Monetary Fund austerity. Even the official Gross National Product is hardly growing, wages and employment are sharply declining, while the going interest rate for ordinary commercial and agricultural borrowers is a staggering 34%, compared to an inflation rate of 9%, and a rate at which the banks can borrow government short-term bills, known as Cetes, of 13-14%. The banks require this usurious 20% spread to cover their own indebtedness. However, when borrowers can't pay, the standard practice has been to "roll over" the unpaid principal and to capitalize the unpaid interest as additional principal—on which the same high interest rate was then applied. The pyramiding of an internal debt bubble analogous to that racked up by Mexico and most other nations of Ibero-America before 1982 has had the predictable result.

Having indebted major portions of Mexico's farmers and smaller businesses way over their heads, the banks are now moving to foreclose and completely reorganize their debt profiles, on the basis of selling the country to foreign interests. This is best seen in the current crisis of agriculture, and the plan to dispossess millions of farmers over the next several years.

The rape of Mexican agriculture

Thrown into crisis by President Carlos Salinas's agricultural "reforms" and a collapsed international market, Mexico's farmers are now under threat of liquidation by the banks, who are looking to clean up their balance sheets by enforcing mass foreclosures on farmers unable to service their mountains of illegitimately inflated debt. Things have reached the point where a large proportion of farmers cannot borrow the money needed to put in winter crops.

In response, the nation's banks have demanded from the government the right to expedite foreclosure proceedings to dispossess all those in arrears on their debts. At the same time, the government and the bankers have offered the irate farmers a deal whereby interest rates will be lowered from the market rate of 34% to about 22% (the Cetes rate plus 8%), and each farmer's debt "restructured" such that the farmer is required to put up collateral in terms of land, property, and machinery anywhere from three to seven times the value of the restructured loans. This means that now if he defaults, he loses not only his land, but everything else he owns.

So far, it is reported that few farmers are taking the deal voluntarily, but they are increasingly being driven to desperation. It should be noted that while the federal government has no money to help the struggling farmers, it has promised to subsidize the banks for the 12% or so in interest they will "lose" under the deal.

The magnitude of defaulted debt involved is not small. According to the latest figures, the value of bad loans in just the agricultural sector was $8.95 billion in June (27.75 billion new pesos), and $10.2 billion by August (31.62 billion new pesos), a 14% increase in just two months, or an annualized rate of increase in bad loans of 119%. At this rate, the total of bad loans would be $25.5 billion a year from now, compared to a total GNP of Mexico of less than $300 billion. And these figures are just for agriculture, and do not count the billions of matured, unpayable debt from Mexican industry which, especially small and medium-sized firms, has been devastated by cheap imports of consumer goods and the same insane monetary policies.

The Anglo-American game plan is to foreclose on every farmer possible, and then turn around and sell the farmland and machinery to international grain cartels such as Cargill and Archer Daniels Midland, or to other large or corporate farm operators inside and outside Mexico. The cleaning up of the banks' balance sheets in this way will in turn facilitate the next objective of Mexican and U.S. financial interests: the creation of a secondary market in mortgages and car loans, and the establishment of commodities futures, stock index trading, and other derivatives markets to skim yet more loot from the Mexican economy.

The effect on agriculture will be devastating. The new corporate owners of the foreclosed farms will shift toward high-profit export crops, no doubt hiring back some of the former farmers as laborers, but leaving the vast bulk of Mexico's agricultural work force unemployed.

That this is precisely what is planned was confirmed Oct. 4, when the Salinas government revealed it was radically changing its subsidy program for maize, one of the staples of the Mexican diet. It will now pay subsidies to farmers at a rate of 400 pesos per hectare (a pitiful $54 per acre), rather than the former guaranteed price of around 910 pesos per ton of maize, 460 pesos of which represented a subsidy above the international maize price. Imported maize costs a mere 450 pesos per ton, well below the price at which all but a handful of Mexican producers can make any profit. Mexico says it intends to begin importing maize at these prices within two years, despite the fact that the country is currently self-sufficient in the grain.

The effect of the change will be to subject Mexican agriculture over the next two years to the same brutal international competition to which it has, with catastrophic results, already subjected its domestic manufacturing industry. The London *Financial Times* of Oct. 5 openly admitted what the new approach will mean: "In many cases, farmers will not be able to sell maize or any other crops profitably at international prices. Some recent studies by academic economists suggest that as many as 700,000 farmers could be forced out of work by full liberalization of maize prices." And a Mexican government official conceded, "In the end we will have fewer people working in agriculture as a proportion of total employment." The *Wall Street Journal* concluded that this will increase pressures on Mexicans to emigrate to the United States: "The elimination of crop subsidies will wipe out many farm jobs and force the workers to seek work elsewhere."

With an official estimate of 3 million farmers producing maize, the estimate of 700,000 to be dispossessed is extremely conservative. The true figure could easily be double or triple that. Upwards of 4 million farmers—representing 15 million or more people—could be thrown out of work by the reforms. And with "Operation Blockade" to shut the U.S.-Mexican border, including the construction of sheetmetal walls, the grim future for these unemployed brings to mind the recommendation of genocidalist William Paddock in the 1970s, who advocated reducing Mexico's population by half through famine and disease. "Shut the borders and watch them scream," Paddock had advised.

The great privatization swindle

Financial vultures are also looking at other income-producing areas of Mexico's economy. Most of the former state sector, such as the telephone company Telmex, two airlines, and hundreds of other companies from steel mills to fertilizer plants, has now been sold off, largely to Mexico's richest citizens, and to foreign consortia. One scheme is the construction of private toll roads owned by foreign capital in which the tolls are paid to foreign investors, guaranteeing them high rates of return on their investment. There are plans for more such roads, as well as plans to privatize public water utilities, and perhaps electricity after that (see *EIR*, Oct. 8, p. 22).

The latest plan is to privatize Mexico's social security system along the lines of Chile's, which would establish a huge pool of capital for foreigners to speculate with. And if the speculations went sour, goodbye pensions. And while it is out of the news for the moment, Mexico's plum, its national oil company Pemex, is still the single largest remaining target of these vultures.