EIR Economics

Who will learn the lessons of Mexico?

by Gretchen Small

On Jan. 3, Mexican President Ernesto Zedillo bowed to the dictates of the international financial community, and announced an Emergency Economic Program whose sole premise is the further sacrifice of the Mexican economy and people to the survival of the speculative cancer called the global financial system. Combined with a promise of $18 billion in foreign *short-term* loans—half provided by the U.S. Federal Reserve and Treasury—Zedillo's austerity and privatization program had been expected to restore "confidence," and thus keep Mexico "attractive" for panicked international investors.

That did not happen. The bleeding of the peso and Mexican equity worsened. The crash of other global financial equities escalated also, blamed on the panic over the Mexican blowout. Investment houses such as Salomon Brothers, busy recommending collapsed Poland as a replacement for Mexican investments, found the bond markets of so-called emerging markets across the world "savaged" on Jan. 4. Stock markets in Brazil and Argentina fell faster than the Mexican market.

Wall Street and London blamed "mishandling" of the package by the Mexican President for the continued bleeding, and demanded that Mexico put up its national oil company, Pemex, for sale, to prop up their plummeting financial values. Media outlets for the banks warned the Clinton administration not to break ranks. If the $18 billion fund is not enough to stop market panic, "even more substantial support will be in order as a matter of vital U.S. security interests," the *Baltimore Sun* wrote in its Jan. 4 editorial. "This nation cannot afford to have a collapsed Mexican economy."

The lessons of Mexico's peso crisis are otherwise, however. The braver people in leadership positions around the globe have recognized the Mexican crisis as a textbook example of the speculative bubble that Lyndon LaRouche described in his June 1994 ninth economic forecast, "The Coming Disintegration of the Financial Markets" (see *EIR,* June 24, 1994). From China, to Poland, and Brazil, people have pulled out their copy of that document, to reread more carefully what steps to take to assure their nation's survival as global financial implosion nears.

Since the crisis broke, newspapers in Mexico, Peru, Venezuela, and the Dominican Republic have published declarations by LaRouche and his Ibero-American friends that the "Mexican" crisis, is a crisis of the system as a whole.

Feeding the debt crisis

The Wall Street rescue package announced by the Mexican President demonstrates precisely LaRouche's analogy between the terminal phase of a cancer, and the maintenance of the speculative bubble. A cancer, if not removed, requires ever greater resources to sustain it, until at last, the once-healthy body dies, taking the cancer with it, too.

With that in mind, start with the foreign side of the rescue package, the $18 billion in contingency credits and plans to issue new Mexican debt. Financial markets are desperate, because with only $6.1 billion in foreign reserves and a hefty import bill, Mexico has no funds to pay its foreign obligations. In the midst of the steadily worsening derivatives crisis, bankers fear the financial system would not survive a major debt moratorium.

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Figures vary, but the going estimate is that $16.9 billion of *tesobonos* (dollar-denominated Mexican government paper) come due between now and June. June is a long-term crisis, compared to the estimated $10-11 billion in *tesobonos* and *Cetes* (peso-denominated Mexican government paper) which matures between now and Feb. 2. Some 70-80% of those are held by foreign institutions. Until the Dec. 20 peso devaluation, the Mexican government just kept rolling over those bonds; now, investors are cashing in their bonds when they come due, and refusing to buy more. In the first week of January, the government could not find more than a handful of buyers for its three-month *tesobonos,* even at wild 12.5% interest rates.

The emergency plan seeks to resolve this cash crunch, by *increasing the debt bubble*. The U.S., Canadian, and European governments, plus major U.S. banks, made available $18 billion in *unsecured* loans, the first such to Mexico in 12 years, for Mexico to borrow as it needs to cover obligations and defend the peso. Whenever used, however, those credits *must be repaid within six months!* U.S. banks are so desperate, that Citibank and J.P. Morgan put up $3 billion of the $18 billion.

Those credits are just to buy time, however, while the Mexican government and its New York creditors put together some package of *new debt,* of longer duration, with which to repay its old debts. The plan is to float new bonds to cover those coming due, and to do that with terms which will entice investors to come back into Mexican paper. Under discussion are a combination of measures, each wilder than the next.

One proposal, is that the *United States* government would guarantee the new *Mexican* government debt. That is, that the collapsing Mexican financial system would be absorbed, de facto, into the U.S. Federal Reserve System—exactly as *EIR* warned would happen under the secret accords of the North American Free Trade Agreement (NAFTA). Another proposal on the table, most likely linked to the first, is that Mexico use its oil to back up the debt, giving debtors first lien on the country's oil revenues. Financial circles are also discussing interest rates which might have to range as high as 20% on three-year bonds, and which must be denominated in dollars.

To add to Mexican foreign debt and bonded obligations as a *solution* to this crisis, is sheer lunacy—never mind the insanity of the U.S. government's stepping in to guarantee it. Mexican debt figures are already astronomical. Its *official* public and private sector foreign debt rose from $119 billion in 1993 to $140 billion in December 1994, an increase of $21 billion (largely in private sector debt) in one year. These figures do not even include the very government bond obligations whose payment so worries the bankers! To reach an estimate of the *real* foreign debt, you have to add on these bonds, as well as foreign holdings in the Mexican stock market. In 1993, this real foreign debt totaled an estimated $183 billion. Today, it stands at around $210 billion!

The domestic side of the rescue package commits the Mexican government to generating a larger income stream to pay off that ever-greater debt, through two principal mechanisms. The first is privatization, that is, selling off more of Mexico's productive capabilities. President Zedillo announced that the government will be selling four major ports, its railroads, more toll roads, its communications system, and its airports.

A national garage sale

The calculators are at work figuring out how many billions can be raised for debt payments through what the *Washington Post* dubbed this "national garage sale." One Mexican stock brokerage estimates that $38 billion could be raised through privatization, if downstream parts of Pemex are added in. Creditors reacted to Zedillo's program with disappointment, in fact, because he did not put either the nation's electricity utility nor any part of Pemex on the auction block, at least not explicitly. Pemex is the only large plum left unsold in Mexico; as the New York *Journal of Commerce* greedily noted in its Jan. 5 editorial, Pemex is "one of the world's biggest oil producers . . . [which] controls reserves estimated to be worth up to $750 billion."

The second income-generating mechanism is to gouge the living standards of Mexicans even further. The government emergency program includes drastic cuts in both domestic credit and government spending, hikes in rates charged for public services and goods (the price of gasoline, for example, was raised by 10%, and will be increased another 10% over the course of 1995), and ensuring that wages do not rise more than 7% in 1995, even as inflation is officially projected to be 16%. The idea is both to reduce the government's costs and increase its revenues, so it can send more money out to pay debt, and to cheapen Mexican labor costs sufficiently to entice foreign investors back to the country.

This is a plan to pay the debt through slavery and murder. If little is left to sell of Mexico's productive capabilities, even less remains of its living standards after 12 years of gouging to meet debt payments. Real wages were *halved* between 1982 and 1992; in 1993, *EIR* calculated Mexico's real unemployment to be 50%.

Industry has been gutted. A study carried out by one Mexican bank calculated that 600,000 manufacturing jobs were lost in Mexico in 1994. The Mexican daily *El Financiero* warned on Jan. 4 that the combined effect of the devaluation and contraction in the internal market brought about by the emergency program, threatens to eliminate six already-weakened manufacturing industries: textiles, printing, wood, basic metals, non-metallic minerals, and plastics, rubber, and oil-derivative products.

These measures are not only murderous; they also won't work, as each measure to "save" the system, worsens another

part of it. Exemplary is the government decision to raise interest rates sky-high to keep foreign capital rolling in. That move bankrupted the domestic banking system. On Jan. 4, the Mexican Bankers Association petitioned the government for emergency relief, citing the soaring rates of defaults on loans, the high cost of money, and the effect of the devaluations on the banks' own dollar obligations.

Preparing the lifeboats

Meanwhile, the debts and banking systems of the rest of Ibero-America are also beginning to blow out. Argentina is very much like Mexico, where "the dike broke," economics editor Daniel Muchnik of the Argentine daily *Clarín* wrote on Jan. 1. Since Mexico and Argentina have implemented similar economic policies, the "million-dollar question" is whether the Mexican peso devaluation has unleashed a broader financial crisis which is "more unpredictable" throughout the continent.

The economic team of Brazil's new President, Fernando Henrique Cardoso, is convinced that the Mexican crisis is not over, and that Mexico may have to declare a debt moratorium, the daily *Jornal do Brasil* reported on Jan. 2. If that were to happen, or if the shaky Argentine financial system were to blow, Brazilian officials believe that all of Ibero-America would be placed on the investors' "black list."

Quiet recognition is growing, that those nations which kept a degree of protection from the free trade swindle, are today the best prepared to face the crisis. Venezuela, whose government declared exchange controls in 1994, is the most notable case. The Mexican economic crisis dominated discussion at the first cabinet meeting of 1995 in Venezuela, with various ministers noting that Mexico was a victim of "neo-liberalism" (as the radical IMF-free trade school is known in Ibero-America), the Venezuelan daily *El Globo* reported Jan. 5. One minister pointed out that Mexico adopted the decisions which the neo-liberal theoreticians wanted; had Venezuela done so, it would be in a similar condition, he argued.

Documentation

EIR called the shots on Mexico's debt crisis

For nearly four years, as the world's governments and financial elites held up the market liberalization and debt reorganization in Mexico as a "success model" for the rest of the world to emulate, *EIR* repeatedly warned that Mexico was suffering a breakdown of its physical economy, which the free market reforms, privatization, austerity, and the North American Free Trade Agreement (NAFTA) would only accelerate. The only ones to benefit, *EIR* warned, would be the special banking interests that have been able to continue looting Mexico through its foreign debt payments and through speculative manipulation of the stock market.

In three cover stories and one 75-page Special Report issued during that period, and in a multitude of other articles, we showed that the looting schemes being imposed on Mexico must lead to a financial blowout. In April 1993, the cover story entitled "Mexico's Economic Model: How to Destroy a Nation" asked: "The charade about the 'Mexican success story' is about to end. Will the nations of eastern Europe, of Ibero-America, and of the rest of the Third World wake up in time?" Here are some highlights of the record: what we said, and what the others said:

Feb. 4, 1990: On the occasion of the signing of the Brady debt restructuring plan, U.S. Treasury Secretary Nicholas Brady declares: "Mexico is on the move again. Jobs are being created. Flight capital is returning. Investor confidence is growing. In short, a new dawn is rising. Mexico stands as a beacon of hope for other debtor nations."

Mexican debt neN$%1M9+.HPMgel Gurria: "We are beginning the period of life after debt in Mexico."

September 1990: Citibank's William Rhodes, speaking at the annual trade fair in Leipzig, Germany, says that the Mexican model for dealing with debt should be used as a solution for Poland and other eastern European countries.

May 1991: *EIR* publishes a Special Report, "Auschwitz Below the Border; Free Trade Pact Is George 'Hitler' Bush's Mexican Holocaust," which describes the North America Free Trade Agreement as follows: "NAFTA and its sequels are designed to bolster the shaky, overextended international credit pyramid by vastly increasing and solidifying the flow of Third World debt payments to the international banks. It will do this by thoroughly absorbing the economies of the nations of Ibero-America into an extended dollar zone, annexing their raw materials (such as oil), and using their labor forces as captive cheap labor in runaway shops, principally for production for export back into the United States.

"Along with this projected new looting of Third World economies, NAFTA will also reorganize the entire Ibero-American banking structure, and thereby create the conditions under which the vast financial flows originating in the Ibero-American drug trade can be more readily laundered into the cash-strapped Anglo-American banking system."

June 21, 1991: *EIR* warns that Mexico is "becoming a world paradise for financial speculation and fraud," and that the means by which Mexico will be "kept current on its over $9 billion in yearly interest payments" on its debts is to "hand over to the creditors title to more and more chunks of the Mexican economy, and use the Mexican stock market to do