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This gradual shift in trade away from the U.S., and the potential break from the dollar system, grows with the government's firm intention to secure independence from the multinationals' technology and distribution networks. Already Venezuela controls 20 percent of its marketing, by passing the major oil companies, and by the end of this year plans to increase this figure to 30 percent, according to Mines Minister Valentin Hernandez Acosta. Although trade statistics covering the destination of exports for 1976 have not been published to date, figures for 1974 and 1975 indicate a gradual decline in the proportion of oil exports to the U.S. from 57 percent to 50 percent. Meanwhile, diplomatic efforts at the end of last year have opened up possibilities for new or expanded government-to-government sales with Great Britain, France, Italy, Brazil, and the Comecon, including Cuba.

Similarly, the Perez government is not only increasing its own refining operations, but it is vastly expanding capital investment into the industry to diversify output. A record $700 million will be invested in 1977, twice the 1976 level. The five-year program through 1981 calls for total investment of 45 billion. During the five-year period preceeding the nationalization, the multinationals invested only $1.5 billion. Gasoline refining by 1980 will be increased four-fold. But perhaps even more importantly, the Mines Ministry has a "vast exploratory program" for the purpose of increasing the country's total known reserves. With technical aid from the EEC and the Comecon, new finds in relatively unexplored areas such as the Delta Amacuro, the continental shelf, and the Gulf of Venezuela would open the door for a massive increase in oil output.

In 1976 the Venezuealn government also began to exert independence in monetary policy by not only using its oil revenues for industrial development, but also by diversifying its reserve holdings away from dollar deposits. According to the IMF, Venezuelan deposits in the U.S. dropped by 21.7 percent during the first two months of last year and have remained below the 1974-75 levels despite the recovery of oil exports after the initial drop at the beginning of 1976. Simultaneously, in the second semester, the government began to transfer funds into European currencies, particularly the pound sterling and the lira. Should this activity pick up in the early months of 1977, Venezuela's dependence on the dollar will be severely reduced.

Because of such a prospect, Romulo Betancourt and his protege Luis Pinerua Ordaz, the chairman of the ruling Accion Democratica party, are attempting to raise the issue of "inflation." In fact, they are promoting the World Bank and IMF argument that the economy allegedly cannot absorb further petrodollar investment, in an effort to pressure Perez into cutting back on his industrialization program and leaving the oil revenues in dollar deposits. The reality of the matter, however, is that not only does the 1976 economic performance admirably demonstrate the country's ability to handle increased investment, but the rate of increase of the Caracas cost of living index declined from 10.75 to 7.7 percent. The wholesale price index rate, meanwhile fell from 16.2 percent to only 7.3 percent.

Mexican Economy 1977: Plenty Of Confidence, No Production

During his six-year administration former Mexican President Luis Echeverria began an ambitious program to industrialize Mexico. Since Mexico's new President Jose Lopez Portillo was inaugurated Dec. 1, he has abruptly reversed Echeverria's strategy for development and has charted an economic course of austerity which, if followed, will turn Mexico into a replica of Argentina.

During the Echeverria Administration, for the first time in history, Mexico stood at the threshold to real industrial development. State sector productive capacity was strengthened and expanded in such strategic fields as energy, steel, petrochemicals, fertilizers and mining. Hyrdocarbon production went up 100 per cent as compared with the previous Administration. Refining capacity by the state-controlled oil monopoly PEMEX climbed by 60 per cent since 1970, with over 70 per cent of all capital investment in secondary petrochemical areas coming from Mexican sources. Industrial state-sector capacity was strengthened through the creation and expansion of state-sector entities known as "paraestatales," to coordinate and oversee the development projects. On-line power-generating capacity was doubled from the previous period. Combined public and private efforts led to the doubling of steel production potential. Phase I of the showcase steel complex, of Las Truchas, has been completed, with a projected steel output of 1.3 million tons; 5,500 permanent jobs were created.

In sum, state-sector contribution to Mexico's Gross Domestic Product rose three times over that of 1969 during the Echeverria Administration. The industrial sector was during this period the greatest contributor to national growth, with petrochemicals, manufacturing industries and electric power in the lead.

Echeverria's domestic development policy was tied to an active foreign policy which placed Mexico at the forefront of the international struggle for a new world economic order. This policy led to a substantial diversification of foreign markets, capped by the signing of a far-reaching trade deal between Mexico and the Socialist

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countries' economic and trade bloc, the Comecon, negotiated in the summer of 1975.

By the end of August 1976, the Echeverria Administration was forced, by pressures from the International Monetary Fund and other international financial institutions, to devalue the Mexican currency, for the intended purpose of stimulating Mexico's exports to alleviate the country's balance of payments deficit. But, as IMF specialists themselves have admitted since then, such monetary measures are no longer effective for these purposes. This is certainly true in the context of an overall depressed world economy, and the lack of elasticity of import markets in the U.S., Mexico's largest trading partner. The devaluation did not "stimulate" Mexican exports, but it did force severe cutbacks in imports, mainly capital goods from the U.S.

The peso devalution was political. This is shown by the fact, among others, that the peso plunged much deeper than expected even by those in favor of the move. The devaluation was preceded and followed by a massive flight of capital, mostly from conservative Monterrey industrialists dissatisified with Echeverria's unwillingness to bend to their will. In the period following the devaluation, $50 million reportedly fled Monterrey for U.S. banks in only three days. Even as Echeverria's term drew to a close, the Monterrey industrialists rocked the country with widespread rumors of an imminent coup d'etat.

The stage was thus set for Lopez Portillo to step in and "restore confidence." The point had been made: Lopez Portillo should not continue the policies of his predecessor. The effects of the campaign were immediate. Up to September, during the last leg of the Echeverria Administration, Mexico's GNP was still registering a 5-6 per cent growth rate; by year end it had reached a virtual standstill.

In his inauguration speech Dec. 1, the new President pledged almost explicit adherence to IMF policy "recommendations" for the Mexican economy. Echeverria had endeavored to develop the two necessary components for true economic expansion: maintaining and increasing the instruments for production, and development of a qualified labor force for an expanding production through social expenditures such as housing, health services, education, etc.

A summary analysis of the Lopez Portillo budget for 1977 suffices to clarify the point. Approved by Mexico's Congress, Dec. 25, the budget was presented to the public as an austere budget trimmed with a "slightly higher" real increase in public spending plus the elimination of the "fiction economy" — a euphemism coined by Lopez Portillo himself to signal the end of government subsidies to public services and development projects. These must now become "self-financing," said the President. In line with the new image, immediately after the budget's announcement, top business and industrial spokesmen began demanding a wage-freeze under the appropriate slogan of an end to "fiction-salaries."

What rapidly became clear is that the budget itself is a "fiction budget." The slightly higher increase in real public spending means at least a 10 per cent cutback in real social investment, when the enormous debt-service payments and investments are subtracted for exports. The 1977 budget—approximately $30 billion—is a perfect match to IMF guidelines. The only category to increase above the almost 40 per cent inflation rate is debt repayment — about $4 billion, or almost double or last year's — besides investments for increasing exports in such areas as oil and mining. As part of the 46 per cent increase in "capital account," which was raised to over $7 billion, investments in oil and other energy sources are expected to rise by 100 per cent; 125 per cent for mining. On the other hand, the over $18 billion "current account" usually channeled to maintaining and enhancing the population's labor power represent an increase of only 30 per cent in contrast to the previous year — almost 10 per cent less than the inflation rate. And this is only the first stage: *The Journal of Commerce* complained Dec. 16 that, even with the drastic reduction in public spending levels, the budget was still "surprisingly hefty."

But the real "fiction" is Lopez Portillo's stated economic goal: to "get out of indebtedness" through "two years of sacrifice," after which Mexico will retake the path of economic expansion. If followed, this policy will simply reproduce in Mexico New York City's financial disaster — eightfold. After two and a half years of brutal austerity, New York has so undermined its own ability to generate income that it now faces a larger debt than before the Big MAC scheme was implemented — with much fewer resources to pay it!

According to official government figures, Mexico's public foreign debt is $20 billion. When $12-15 billion private debt is added to this figure, Mexico's total foreign debt adds up to $32-35 billion — the Third World's highest. Public debt service payments for 1977 are $4 billion of the overall Federal budget. This figure alone is higher than the entire Federal budget for Mexico in 1971. How is it possible then to cope with such high-magnitude obligations? In 1976, the total deficit on debt-payment and trade accounts was over $5 billion. A great portion of the deficit was balanced through new Euro-dollar loans, thus adding to the country's indebtedness. The rest is still outstanding, and this year's picture is still more depressing.

IMF "recommendations" are to reduce imports, mainly capital goods and heavy machinery necessary for development projects and to "stimulate exports," which is a polite way of referring to labor-intensive exports at giveaway prices. A key target of these policies is Mexico's oil. PEMEX recently announced plans for increasing crude exports to one million barrles per day by 1982, without a significant increase in domestic use during the same period.

Hence, the net effect of Lopez Portillo's "two years of sacrifice," is the annulment of the development policies of his predecessor Luis Echeverria. "Zero subsidies" means either bankruptcy or forced production cutbacks for a large section of Mexican business and industry — as energy prices soar. Consumer demand will diminish as regressive "wage restraint" takes hold. Government revenues will decline correspondingly. As the "two years of sacrifice" go by, this revenue "deficit" will require further cutbacks in social services and domestic investments — leading to further reductions in revenue.

Already Mexico's largest private steel company, Fundidora Monterrey — the second largest in the country — is asking for a "moratorium" on its foreign debt. Textile and auto in Mexico is on the verge of bankruptcy; so is

Mexico's large shoe industry. Due to import and investment cutbacks in industry, the Las Truchas steel complex Phase II is in question, while Phase I output is being earmarked 100 per cent for export — not for internal development as planned by Echeverria. Phase II of Las Truchas was scheduled for completion during the 1976-1982 period, with a projected output of 3.5 million tons, and a capacity for sustaining 10,000 permanent jobs. In a fourth stage, programmed for completions in the 1990s, Las Truchas output would reach 10-11 million tons.

Lopez Portillo also acquiesced to, and later threw his weight behind a concerted campaign by pro-U.S. Mexican businessmen and industrialists against the large state-sector created by Echeverria. Although most of the entities which comprise it provide social services, the new Administration has declared that any of these which cannot pull its own financial weight, without government subsidies, will be eliminated or sold to private interests — all under the rubric of IMF "recommendations" to cut back on public spending.

The Mexican economy has not yet been unalterably Chileanized. The real economy can be resuscitated if the government puts a rapid end to the disastrous economic policies. The emerging Arab-Western European Socialist axis provides an alternative for Mexico, similar to the one Echeverria sought through his active foreign policy in favor of a new world economic order. Perhaps the greatest single result of this policy is the then unprecedented trade deal signed by Mexico with the Comecon; this was the second such trade arrangement to be made with a country outside of the Comecon itself. The deal is there, ready to be implemented. Latest reports are that the Italian Government — a leader in Europe's efforts for establishing a new monetary system outside of the dollar orbit — has announced plans to establish ship-building facilities in the port of Veracruz, as well as to finish the Las Truchas steel giant. Mexico's Deputy-Secretary of Foreign Trade simultaneously has announced that Mexico hopes to broaden trade with the Comecon sector and will attend its upcoming meeting in Budapest next March.

Peru — N.Y. Banks End Revolution; Economic Degeneration Ahead

Peru, which in the first half of 1976 threatened to become the first Third World nation to declare a moratoria on its private and public foreign debt in order to maintain the right to economic development, ended 1976 firmly under the control of a bankers' dictatorship run by its New York-based commercial banking creditors. The capital-intensive industrial and agricultural development orientation of the 1968-75 so-called first phase of the "Peruvian Revolution" has been scrapped, and a severe "economic stabilization" austerity regimen imposed to meet external financial obligations — at the expense of social reforms, economic development, and the very health of the domestic economy. The severity of the economic austerity measures being imposed in Peru has provoked widespread comparison to the monetarist "shock therapy" imposed on the Chilean economy after the 1973 fascist coup d'etat.

The 180-degree turn in Peru's economic policy was the result of extreme pressure applied by its foreign (primarily Wall Street) creditors and the U.S. State Department during the first six months of 1976. Peru was subject to economic warfare comparable to that waged against Allende in the months prior to the coup: virtually no new loans were granted, existing lines of credit were frozen, and iron ore exports completely halted by a boycott arranged by the U.S. Marcona Corporation, in retaliation for the nationalization of its Peruvian mining operation. The threat of a provoked RAND Corp. scenario regional war as well as the inaction of the rest of the Third World, were the critical political determinants of the ultimate concession to draconian austerity.

Totally bankrupt by the June 30 payments deadline for $400 million in debt obligations, the government announced its surrender to the banks' demands, proclaiming economic measures patterned after those prescribed by Milton Friedman for Chile in 1974. The Peruvian sol was devalued by 44 per cent, subsidies on imported food products were removed, and fuel prices raised overnight by as much as 50 per cent. Prices were permitted to rise by 23 per cent in July alone. while wages were frozen for the rest of the year after a 10 per cent across-the-board increase.

A cold coup on July 16 purged the leading pro-development nationalist ministers from the cabinet and military posts. As in Chile, the implementation of these measures has required the imposition of martial law, closure of all publications which criticized the austerity dictates, and a rapid escalation since July of political repression.

The Debt Picture

It is public knowledge that Peru went bankrupt during 1976, recording *negative* foreign reserves of $693 million in August. Peru is unlikely to escape from bankruptcy in the foreseeable future, despite the rosy prediction by the