Recolonizing Ibero-America: Mexico first to submit?

by David Goldman

With the proposed changes in Mexico's central bank law announced Nov. 12 by the de la Madrid government, Ibero-America formally began an economic era only comparable, in modern terms, to the regime imposed by the Third Reich on the territories it conquered between 1939 and 1943. The new legislation would build International Monetary Fund conditionalities directly into the ongoing management of the Mexican economy, making the organs of the Mexican government a creditors' instrument for the looting of the country.

The opening of the Ibero-American continent to a flea market sale to creditors is now only a step away, as U.S. Secretary of State George Shultz emphasized in speeches in Brazil on Nov. 12.

What this means for the barely quiescent continental debt crisis is difficult to estimate in the short run, and depends upon the willingness of political institutions and popular institutions in the victim nations to suffer a continuing degree of austerity worse than any people has been forced to swallow, except under conditions of wartime occupation. Nonetheless, the gory accountants of the major commercial banks have made clear their intent to maintain existing debt values at the expense of the lives of the lower strata of Ibero-American society, and the hopes for the future of all residents of the continent.

Mexico's trade surplus this year is estimated at $12 to $13 billion; with tourism receipts, the net income for trade and services will yield a surplus of $14 billion. Net of interest payments of $12 billion, this should yield a $2 billion current-account surplus. This is more than sufficient to cover the $400 million Mexico will lose in oil revenues due to restricted production through the remainder of this year.

As for Brazil, its $12 billion trade surplus estimated for 1984—plus $500 million gained from the drop in oil prices—will approximately cover its interest requirements of $13 billion for 1984.

In the corridor of a conference on debt held this Nov. 10 in Iguazu, Argentina, Morgan Guaranty Trust's chief international economist Rimmer de Vries told reporters, "The debt crisis has been solved: Latin America will be a net exporter of capital for the remainder of the decade."—that is, it will pay out more capital than it receives, through continuing to import one-third to one-half less than what it exports.

De Vries' evaluation supposes that the current rate of looting of the Ibero-American economies may continue indefinitely. Brazil's currency, for example, has been devalued 62.47% so far during 1984, and by 73.26% over the past 12 months. Brazil's output is roughly 20% below the level of 1982, which adds a touch of irony to the Brazilian authorities' boast that their economy will have grown by 3% during 1984. Brazil and Mexico are importing virtually nothing but petroleum, suppressing imports even of spare parts and raw materials, let alone capital goods, and exporting everything that is not nailed to the ground at extreme devaluation prices. On the basis of this gigantic garage sale, both nations have racked up trade surpluses approximately equal to their debt-service requirements for the current year.

What this means for the living standard of the poorer strata of Ibero-America can be read from an estimate recently produced by SELA, the Latin American Economic System: every 1% increase in interest rates is equivalent to 17 million tons of imported cereals. A ton of grain represents basic life support for one person for one year; a 1% rise in interest rates, therefore, compromises the existence of 17 million people under conditions where much of the continent is just at or already below the boundary-line of survival. The report notes that in 1980, one hundred and twenty million Ibero-Americans were malnourished; today, the figure has risen.

Levels of malnutrition reaching levels incompatible with "social peace . . . or moral standards."

As the impresario said to the desperate vaudevillian who offered to commit suicide on stage, "What do you do for an encore?" These economies cannot physically sustain the rate of capital export now in progress for very much longer, even if the populations of those nations were to accept the hideous consequences of such capital exports; Mr. De Vries of the Morgan bank has never been suspected of gross stupidity, and must understand this well.

Buying up the continent

That explains the urgency with which the bankers' spokesmen, including former Morgan board-member George Shultz, have urged the Ibero-Americans to open their countries to direct equity investment—the equivalent of telling the penniless homeowner, after he has completed his garage sale, to auction off his house the same afternoon.

On Nov. 11, U.S. Secretary of State George Shultz told Brazil's economic elite: "Open up the door to foreign investments and we will try to help you; but, if they don't the developing countries will have even greater difficulties ahead of them."

Shultz rejected in advance the plea made by Brazilian President J.B. Figueiredo in opening the assembly of the Organization of American States the same afternoon for "new mechanisms" to deal with regional debts, which Figueiredo characterized as "unsustainable." Shultz categorically rejected demands for "government to government" debt renegotiations, telling the U.S. embassy luncheon guests that the banks "have been renegotiating for years and have been doing a much better job than we, the U.S. government, could do." He then told the OAS meeting that public and private loans would continue to disappear, adding that capital would become available only after governments established conditions for "greater investment flows and voluntary conversion of debt capital into investment capital."

Shultz demanded that the Ibero-Americans open the door to foreign investment and turn debt into equity, since there will be no official aid or fewer bank loans. "The conclusion is inevitable," he said: "The required capital to maintain new growth will have to come from elsewhere."

Shultz added that fear of foreign capital is part of the "intellectual baggage" of "fear of the power of multinational companies," and must be discarded. "If we want to practice what we preach on growth and equity, a better living standard, we all have the responsibility of changing or putting aside stereotypes which are no longer pertinent. Today, attracting internal and foreign investment may be the road for more liberty and independence, rather than less. It is an essential part of any strategy to restore growth." He insisted that debt has to be paid even in the worst of times, while foreign investments have no profits to remit during depressions.

In both Mexico and Brazil, the local collaborators of the International Monetary Fund are attempting to wrest absolute control over economic policy through the imposition of a central bank dictatorship. In Brazil, a brutal fight is underway over the status of the central bank; in Mexico, the issue appears virtually settled in the central bank's favor.

On Nov. 15, Mexico's de la Madrid government introduced new central bank legislation which, for all practical purposes, places the sovereign power in the hands of Mexico's central bank as a surrogate for foreign creditors. In constitutional terms, the enactment of this legislation—which banking observers say will be rubber-stamped by the Mexican Congress—would return Mexico to the status of the pre-1910 Porfirio Diaz regime.

Under existing law, the central bank is obligated to absorb whatever deficit the government may incur by purchasing the obligations of the government. Through a 50% reserve requirement, the central bank in the past obtained the funds with which to finance the deficit from the deposit base of the banking system, which President Lopez Portillo in any case nationalized in September 1982.

The new law eliminates this obligation; instead, the government must replenish any borrowings from the central bank after each 30-day period. Its deficit must be funded by the "private market," leading to suggestions that the new legislation will establish a private market for government debt. Since bankers expect the new law to be accompanied by the de-nationalization of the private banks taken over under emergency conditions by Lopez Portillo, the total effect would be to turn control of the government's finances over to a private banking oligarchy whose principal allegiance is to the same financial interests that sent Maximilian of Hapsburg to Mexico as creditors' viceroy more than a century ago.

The proposed "banking reforms" as they now stand begin the process of denationalization by turning stock-market activities over to private-sector finance companies, and keeping the nationalized banks out of the business. Under the proposed debt-for-equity arrangements, the now-moribund Mexican stock exchange would become the central institution for the auction of the Mexican economy. The central bank has already announced that foreign financial interests will soon have access to operations on the Mexican stock exchange.

The move follows reports that the refinancing of Mexico's debt, announced as a *fait accompli* in September, is having trouble receiving the required approval from 600 creditor banks.

As part of the same package, the central bank will put what the *Financial Times* calls "a padlock" on the government's ability to spend more than budgeted a year in advance. The deficit will be set in advance by a committee of the Budget and Treasury Ministries, with the central bank acting as chairman. The *Financial Times* comments that the package "is intended to reassure international creditors that Mexico can maintain its newly acquired financial discipline once its IMF adjustment program expires at the end of the year."