Draft emergency law for revival of the national economy of Mexico

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Preamble

In recent months we have witnessed a dramatic deterioration of the world economic situation. Not only our own country, but nearly every nation on this planet finds itself today in profound crisis. Unemployment, collapsing living standards, and growing scarcity of the basic means of human subsistence are destroying the social fabric, inflaming regional crises, and aggravating the danger of general war. The financial system of the United States is disintegrating, and the entire fabric of international financial institutions and arrangements, which depended upon the stability of that system, is breaking apart.

In this situation the Parliament and government are obligated to take speedy action to protect the well-being of the citizens and to generate the conditions for economic recovery.

The international financial crisis has created a new situation. Many of the assumptions which have guided our domestic and external economic policy in the recent period, no longer have a basis in reality. The expectation that economic recovery could be based on foreign investments and aid from the International Monetary Fund (IMF) and related institutions, has proven to be a serious error. Evidently, the policies and structures associated with the IMF are themselves a leading cause of the worldwide economic crisis.

In this situation we are called upon to reaffirm the sovereign right of our nation to govern its own economic affairs, and to reject any doctrines or economic practices—whether of the Marxist or so-called "free market" variety—which deny elementary principles of economic and social justice, which open the door to unbridled speculation and usury, and deprive our citizens of their right to individual and social development. We affirm the principle, that economic policies must flow from natural law.

To this purpose we hereby enact this "Emergency Law for Revival of the National Economy." The law sets down basic guidelines for immediate government action as well as for future legislation concerning the detailed elaboration of measures outlined here.

This law provides the legal foundation for mobilizing the resources for growth and development existing within our own country, to generate a rapid increase in the useful physical output of the economy and to reverse the intolerable collapse in living standards from which the majority of our population now suffers. It furthermore mandates the government to take action, in concert with other governments, to create a new framework within which trade and cooperation among nations can be developed on a stable and equitable basis.

Statement of purpose

1. In order to provide for the speedy recovery and reconstruction of the national economy, in order to ensure its healthy functioning in the future and to lay the basis for more equitable relations with other nations, the laws and regulations governing the National Bank, the currency, banking, credit, and tax systems, and the conditions of commerce and the economic activities of the state, shall be modified in accordance with the following specifications.

Currency reform

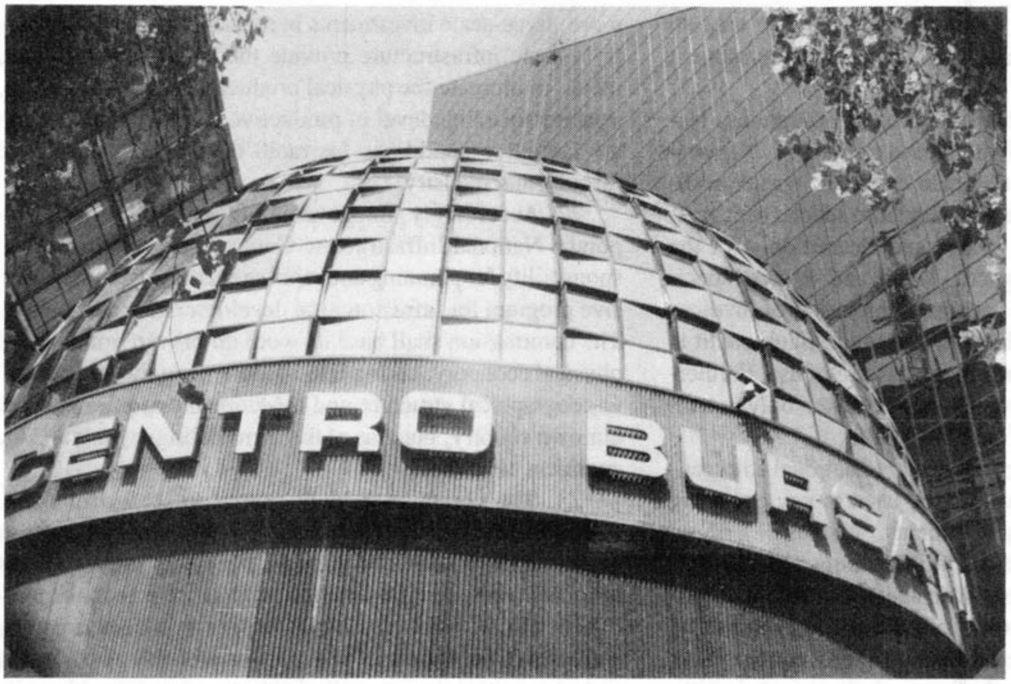
2. It is recognized that a strong and stable national currency is essential not only as the chief medium of exchange in the country, but above all as an instrument of sovereign rule of the nation over its own economic affairs, and as a means to promote the generation of real wealth through suitable mechanisms of credit.

3. Accordingly, the government is obligated to take extraordinary measures to eliminate widespread use of foreign currencies in the national economy, and to suppress unregulated (black market) trading in currency and commodities.

4. It is recognized, further, that in order to ensure a healthy currency and to permit orderly and equitable trade relations with other nations, the national currency system must be reorganized upon a gold-reserve basis, and the value of currency pegged to a basket of basic commodities, to be specified in further legislation.

5. Pursuant to these goals, the finance minister shall draw up a plan for currency reform, according to which, within a specified period, the existing currency will be withdrawn from circulation and replaced by new currency notes in accordance with an orderly procedure.

6. Said procedure shall include a provision under which holdings, larger than a specified per capita amount, will be



The Mexico peso crisis marked a new phase in the disintegration of the international financial system, a speculative bubble fueled by institutions like the Mexican stock market, shown here.

exchanged for new currency notes only upon documentation of their lawful origin.

7. If existing gold supplies are not found sufficient to back the new currency at a rate of 10-15% of value, the finance minister shall draw up a plan for acquiring needed supplies, as far as possible on the basis of domestic production. Until such time as a sufficient gold reserve exists, the value of the new currency shall be guaranteed by a basket of other, domestically produced commodities whose price-range shall be insured by government intervention. Market-basket pegging of the currency shall be maintained also after the introduction of the gold reserve.

8. The time and exact conditions for the currency transition shall be set at the discretion of the government in accordance with this and forthcoming legislation.

9. It is recognized that under present conditions, strict currency controls are necessary in order to curb speculation and capital flight and defend the integrity of the national currency.

Reform of the National Bank

10. The National Bank is mandated to pursue a general policy of fostering increases in the productive powers of the nation's labor force through scientific and technological progress; of promoting independent family farming and the formation and development of modern small and medium-sized enterprises in industry, as well as capital improvements in industry and mining generally; and of providing credit for urgent improvements in housing, physical infrastructure, and educational, research, and health facilities.

11. The National Bank shall be empowered to generate credit for specific categories of productive investment. This shall occur through the circulation of new issues of currency notes in the form of credit granted by the National Bank directly and through participation in loans by private institutions.

12. The minister of finance shall be empowered, upon approval by Parliament, to issue specified additional amounts of new currency notes, to be deposited in the National Bank and employed solely for the purpose of extending credit to productive activities in the economy. With the exception of replacement of notes retired from circulation, new currency notes shall be placed into circulation only through the credit-issuing activities of the National Bank.

13. New currency issues shall be introduced into circulation in the form of credit exclusively in the following four ways: a) credit granted by the National Bank for state investments; b) credit granted by the National Bank to private enterprises; c) participation of the National Bank in loans by private banks; d) National Bank discounting of notes, drafts, and bills of exchange arising from the production of tangible wealth and capital improvements.

14. In each case, the issuance and use of such credit shall be strictly confined to the following categories: purchase of raw and intermediate materials and capital goods, construction of facilities, and employment of labor to produce or transport manufactured goods, agricultural commodities, and construction materials, and to work mines; to build manufacturing, transportation, and mining facilities or dwellings; to produce and deliver energy in all forms; and to provide public utilities for communications. Such definitions shall not include notes, drafts, bills, or loans issued or drawn for

the purpose of conducting business except in the area so defined, or for trading stocks, bonds, or other investment securities.

15. Apart from individually approved exceptions, National Bank credits and private bank credits with National Bank participation shall not be paid out to the borrower directly; instead, loans will be deposited into special accounts, from which checks will be issued and cleared only for the categories of purchases of goods, labor, and services specified in Paragraph 14 above, against submission of invoices for the said payments. In this way, National Bank credit is regulated and restricted to the intended forms of use. Furthermore, new currency notes come into circulation only in connection with the creation of tangible wealth.

16. With the exception of the declared national emergency, new currency issues shall not be used to pay operating costs of local and national governments.

17. Private banking and credit institutions shall be permitted to lend only on the basis of deposits. The sole additional margin of loan-issuing activity of such institutions shall be by participation of the National Bank in approved categories of loans, as specified above. In this case, the private institution shall negotiate the borrowing-charges for the total loan, provided that the effective interest rate on the total loan not exceed approved limits established by the National Bank according to instructions from the government.

18. Apart from credit granted by the National Bank for uses specified in Paragraph 14 above, all expenditures in the economy—including investments in the service sector—shall derive from: a) income and savings of private persons and private and state institutions and enterprises; b) tax revenues expended by state and local governments; c) credit (including discounting operations) extended by banking and credit institutions on the basis of deposits; d) foreign investments and expenditures of foreign persons, companies, and institutions subject to regulation in accordance with the law.

19. All issuance of credit by domestic and foreign institutions and persons within the national territory, shall be subject to laws prohibiting usury. Such activities are furthermore subject to reserve requirements and other regulations governing banking and credit, contained in existing and forthcoming legislation.

20. Interest and discount rates for credits granted by the National Bank shall not exceed 4% per annum in the case of credit extended toward capital improvements in the productive sector, and employed according to the specifications given in Paragraph 14 and Paragraph 15 above.

Infrastructure development

21. It is recognized that the development of our national economy and of mutually beneficial commerce with other nations is crippled by serious deficiencies in the area of basic physical infrastructure, including transport, energy, water control and water supplies, and communications. Furthermore, large-scale investments in modernization of the country's basic infrastructure provide the single most effective means to increase the physical productivity of our economy, to maintain a high level of productive employment, and create favorable conditions for rapid development of private farming and industry.

22. Accordingly, the government shall immediately appoint a National Infrastructure Commission with overall responsibility for planning and rapid execution of a comprehensive program for infrastructural development in the country. The commission shall base its work on proven principles of physical economy, taking into account not only the economic-geographical structure and development requirements of our own country, but also of the surrounding regions and the continent as a whole.

23. The commission shall submit to the government, within 60 days of enactment of this law, an initial report including: (i) a survey of the most necessary improvements in basic economic infrastructure, with emphasis on modernization of rail, road, and inland waterway transport and on increases in the supply of water and useful energy per capita and per square kilometer; (ii) estimates of mobilizable manpower and productive capacity for infrastructure improvements; (iii) estimates of the volumes of additional credit generation required in a specified initial period to finance comprehensive infrastructure development, including estimated percentages to be allotted to a) direct state investments, and b) credits to private enterprises involved in construction and supply of materials and equipment for infrastructure improvements.

24. The commission shall update its estimates and programs and submit progress reports to the government at regular intervals.

25. On the basis of the commission's recommendations the minister of finance shall request from Parliament authorization to issue specified amounts of new currency notes, to be lent out by the National Bank in the form of expanded credits for activities linked to the improvement of basic infrastructure in accordance with the national program. These credits shall consist, mainly, of (i) credits to state-owned companies and companies with special concessions from the state, for construction and modernization of facilities and equipment for rail, road, water, and air transport; for power generation and distribution; for water control, treatment, and distribution, including irrigation facilities; for communications, with emphasis on the postal and telephone systems; and (ii) credits for the creation, expansion, and technological improvement of private-sector enterprises engaged in approved infrastructure projects and in the supply of materials and equipment for the same.

26. In view of the fact that the continent as a whole constitutes an economic-geographical and historical unity, it is acknowledged that the greatest benefits of domestic infrastructural improvements will be realized, if they are carried

out in parallel and in coordination with the establishment of an integrated, continent-wide infrastructure network.

27. Accordingly, the commission shall assist the government in international consultations and negotiations concerning the planning, financing, and division of labor for a continent-wide infrastructure network.

Parity prices, commerce, and tariffs

28. Apart from declared national emergencies, government intervention into the free exchange of goods and services shall be limited to the minimum necessary to maintain good order, to prevent gross excesses in the form of speculation, exploitation, and usury, and to ensure an overall productive orientation of the economy.

29. It is recognized that the hoarding and withdrawal of goods from the market, for the purpose of obtaining exorbitant prices for their sale, or to gain power over persons and events, represents a gross form of speculation which shall be severely penalized by the state.

30. It is further recognized that any large-scale trade in essential goods such as food, raw and processed materials, and basic equipment, at prices significantly below the costs of production, represents a gross excess which cannot be tolerated either in domestic commerce or in commerce with other nations. Accordingly, the state is obligated to intervene, as necessary, to ensure that producers do not receive less than a certain percentage, to be fixed at not less than 90%, of the parity price for acceptable qualities of such essential goods.

31. The parity price is determined as follows: The average costs of production of the given commodity shall be estimated from a survey of enterprises producing that commodity, leaving aside both the most backward 30%, and the upper, most productive 30% of the enterprises. The calculation shall be based upon a fair and decent wage level, corresponding to levels of household and other consumption consistent with the requirements of a progressive increase in qualification level and productivity of the workforce, regardless of whether such wages are actually paid at the time of the survey. The parity price shall be calculated by adding to the cost of production, so determined, a margin for capital improvements in production, consistent with a minimum rate of increase of productivity for the given sector as judged in terms of the needs of the economy as a whole.

32. It is recognized that at the present state of development of the national economy, a completely free exchange of goods with the world market would lead to intolerable destruction of domestic producers and impoverishment of the majority of the population. On the basis of the historical examples of the United States, Japan, Germany, and other countries, we affirm the right to impose protective duties as an instrument of national economic development.

33. In general, tariffs for imported commodities in the category of basic goods, shall be set no higher than necessary to ensure a parity price to competing domestic producers of acceptable quality.

Tax policy

34. It is recognized that the proper function of a tax system is not only to generate necessary revenue for the government, but also to encourage those categories of activities which benefit the national well-being, while tending to discourage those which are demonstrably harmful to the same. It is further recognized that the most effective method for increasing tax revenues is to foster the increase of capital-intensive, technologically progressive employment of the workforce, which augment the net physical output produced per capita, generating growing rates of real income of the population and of enterprises from which tax revenues are derived.

35. Accordingly, tax advantages should be granted for income and profits which are reinvested in the indicated, productive manner; while relatively high taxes shall be imposed on speculative and purely parasitical forms of incomes, such as those gained from mere resale of nominal assets (paper holdings) without physical improvements.

36. The government shall conduct a review of tax laws and procedures with the view toward bringing them into efficient agreement with the principles summarized above.

External debt

37. All agreements and understandings with the International Monetary Fund and other foreign institutions, private and otherwise, which grant to such institutions the right to impose "conditionalities" and to exercise supervisory control over the national economy, are hereby declared to be contrary to the principle of national sovereignty and to be null and void.

38. It is recognized that economic recovery has priority over debt service, and that no country or institution has a right to demand from a debtor country a level of payments which leads to falling living standards, unemployment, and loss of essential social services. This means that an immediate debt moratorium must be put into effect on the entire foreign debt and certain categories of domestic debt. This moratorium will be maintained until such time as: a) the legitimacy of the original debt is established (see Paragraph 40 below); and b) the renewal *and* servicing of legitimate debt can be undertaken without endangering the general recovery and development goals outlined herein. It is recognized that in many cases this will require debt moratoria for periods of up to 20-30 years. Interim satisfaction of legitimate creditors will be offered only as outlined in Paragraph 41 below.

39. It is also recognized that the practice of liquidating national assets such as land, mineral resources, or state-owned companies in the domain of basic industry and infrastructure, for the purpose of paying or securing existing or future foreign loans, is contrary to the principle of national sovereignty and is to be strictly forbidden.

40. It is furthermore recognized that certain categories of nominal debt were contracted and inflated by unlawful, unfair, or usurious practices. The government shall appoint an independent body of experts to make a determination between legitimate and illegitimate portions of debt. It is also recognized that certain categories of originally legitimate debt have in fact been fully repaid, yet remain on the books through usurious and other bookkeeping manipulation. Such de facto repayment will also be considered by the appointed body of experts in its determination of legitimate and illegitimate debt.

41. The government shall affirm its commitment to honor all legitimate debt obligations, in a manner consistent with the principle of equity as well as the vital interests of the nation. The government shall therefore seek to negotiate the conversion of legitimate debt into long-term obligations at low interest rates, preferably through an arrangement under which such obligations would be made discountable to the holder for specific categories of productive investments benefitting both debtor and creditor nations (Paragraph 45). Contact and coordination will be actively sought with other nations adopting policies similar to those contained herein, for the purpose of strengthening the government's negotiating position vis-à-vis its creditor banks and the international financial institutions.

International cooperation

42. It is recognized that no acceptable solution to the world economic crisis is possible within the framework of presently dominant financial and trade institutions, including the International Monetary Fund, the World Bank, and the General Agreement on Tariffs and Trade. The government is therefore mandated to take action, in concert with other governments, to bring into existence an alternative framework, within which the world economy might be revived, and trade and cooperation among nations developed on a stable and equitable basis.

43. The government shall immediately enter into negotiations with all interested nations, to expand the number and scale of mutually beneficial barter agreements on a systematic basis. The government shall work for the establishment of a suitable clearinghouse institution to expedite bilateral and multilateral barter agreements between cooperating nations. In some instances it will be both desirable and possible to establish regional common market-type relations, which can play an important role in meeting national import requirements of essential goods.

44. The government shall work toward the reintroduction, at the earliest suitable point, of a gold-reserve standard for international trade, by means of which a system of stable currency values will be established as the foundation for long-term investments and a greatly expanded level of trade.

45. In the context of establishing a gold standard for economic relations among agreeable nations, the government shall work to establish a suitable multilateral gold reserve-based financial institution, possibly as an outgrowth of the clearinghouse described in Paragraph 43, whose chief functions shall be (i) to expedite the clearing of trade imbalances; (ii) to rediscount bills of trade and specific categories of bonds, including bonds issued in connection with debt consolidation of debtor nations, for approved categories of credit to hard-commodity trade and productive investment; and (iii) to cooperate with the National Bank in the generation of credit for international projects, above all in the area of basic economic infrastructure.

46. It is recognized that a number of nations, including some of the most powerful, may be strongly opposed to such steps. The government shall not be deterred by such initial opposition, but shall instead seek agreement between those governments which recognize the essential policy principles embodied in this law, and which in particular are committed to (i) recovery from the economic crisis based on revival of the national economies, (ii) low interest rates for productive investments, and (iii) achieving a stable value of their currencies, linked to production of tangible wealth.

47. Parallel with efforts to expand barter trade and establish a gold standard for trade relations among an emerging community of interest among nations, the government shall pursue cooperation on the development of a continental infrastructure network. The latter shall emphasize construction of trunk lines for high-speed rail transport of passengers and freight; modern multi-mode transfer facilities between rail, road, water, and air transport; cooperation of energy generation and distribution; and improvements in water infrastructure and communications.

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