Debt bubble heading for second blowout

by Dennis Small

What would you think of a banking system where 48.5% of all debt owed to the banks is officially non-performing, i.e., in which nearly *half* of all debt is completely worthless? Would you put your life's savings there?

Well, that's the case in Mexico, which the International Monetary Fund and the world financial community absurdly continue to praise for its supposed "recovery" after the December 1994 explosion of its debt bubble. The "solutions" desperately strung together by the IMF crew in early 1995, are now proving worse than the disease—and the Mexican debt bubbles, both the domestic one and the foreign one, are about to blow again.

On the foreign front, Mexico paid off its huge Tesobono obligations in 1995, by running up its official foreign debt by about $25 billion, to $159 billion at the close of 1995. A chunk of that new debt, borrowed largely from the U.S. government, is now coming due, and the Mexican Finance Ministry has determined that they will solve the problem this time . . . by borrowing again! Thus, they fabricated something called "Global Bonds," which they tried to market in early May. According to the official explanation, the operation involved replacing so-called Brady Bonds (with which $30 billion in Mexican foreign debt was restructured in 1989-90 with U.S. Treasury bill backing, and which come due in the year 2019), with new bonds bearing a 30-year maturity, due in 2026—which have no collateral at all.

The *Wall Street Journal* described the deal as follows: "Investors," such as hedge funds, already take Brady Bonds of various countries, "strip" them of their collateral, "so they can make a pure bet on a country's fortunes, be it Mexico, Brazil or Argentina." So why not just cook up a Global Bond to do the same?

But "investors" only bought about 45% of the $2.5 billion offered—the rest had to be picked up by the issuing agencies, or were forced down the throats of pliant Mexican banks—because the new bonds offered a dollar-denominated interest rate of "only" 12.4%, compared to U.S. Treasury bond rates of 7%. Were the Mexican government to try to raise the full amount of cash it needs in 1996 through such bonds, experts estimate that it would have to offer interest rates of 20%.

Already, foreign debt service payments will absorb about 4.5% of Mexico's GNP in 1996. If rates soar to 20%, the bite taken out of GNP will also soar. But this foreign debt bubble is the *lesser* of Mexico's financial problems. The domestic debt is the real time bomb.

As noted above, the entire Mexican banking system is holding levels of non-performing debt of about 48.5%, which by all rights means that the whole banking system should be written off as insolvent, or put through emergency bankruptcy reorganization. But the Mexican government, on IMF instructions, has instead chosen to pump huge amounts of taxpayer money into salvaging those banks. Since the December 1994 crisis, the government has handed over an estimated $14 billion to the banks to bail them out. And then, on April 30, the government announced yet another program to restructure domestic mortgage, industrial, and agricultural debt, which will cost another $3 billion or so. That means that the government of Mexico has now spent over $17 billion on the hopelessly bankrupt banks, which amounts to about 12.5% of the GNP.

Mexico driven to outright starvation

So, between the foreign and the domestic debt, over 17% of GNP is being sucked away to feed the cancerous speculation. That is 17% which is being squeezed out of living standards, investment in plant and equipment, food production, and other vital necessities of the physical economy. As we have repeatedly reported, Mexico is being driven from hunger over the edge to outright starvation.

That doesn't bother the British banking crowd, in the least. Their latest proposal, as per the London *Economist* of May 18, is to build a new bubble out of the old bad debt. They call for setting up a secondary market in non-performing mortgage and other debt, making it attractive by pushing through legislation "to speed the process of foreclosing on properties," and then selling this garbage to newly privatized Mexican pension funds. In other words, they intend to use the much-touted privatization of pension funds, à la the Chile model, to simply steal those assets from workers, and use them to prop up yet another round of speculative paper.

Mexico's three largest political parties (the PRI, the PAN, and the PRD) have each issued proposals to deal with the domestic problem, and the growing social ferment which it has awakened. Each is worse than the other, and all are premised on two central ideas: keep the banking system afloat by throwing more good money after bad; and backstop the entire speculative bubble with national assets, including the prized state oil company, Pemex. Although groupings and factions in each of the parties have expressed opposition to such a sellout, none have provided a systematic alternative to the looming catastrophe. That task has fallen to the Ibero-American Solidarity Movement (MSIA), which in mid-May issued a policy statement which we excerpt below. It argues that the only viable approach is the total bankruptcy reorganization of the Mexican, and world, financial systems, the which is now widely known throughout Mexico as the "LaRouche plan."

Documentation

Treason to Mexico and the debtors

The following are excerpts from a manifesto issued jointly, on May 20, by the Ibero-American Solidarity Movement, the Permanent Forum of Rural Producers, the National Federation of Micro and Small Industries, the Association of Mexican Micro-Businessmen, the Catholic Union for the Dignity of Mexico, and the Guanajuato-based "El Barzón" Federation of Agricultural and Industrial Producers-Debtors.

The proposals on defaulted debts made by the National Action Party (PAN), the Revolutionary Democratic Party (PRD)-El Barzón, and the Revolutionary Institutional Party (PRI) are treasonous to Mexico and the debtors. In this case, as in the Nuremberg trials at which the Nazis were judged, the criteria to be applied is, "they knew, or should have known," that their decisions were genocidal.

These proposals maintain the tyranny of usury which caused the current economic debacle, and they avoid reality: The current banking system is unsalvagable; it is bankrupt. Overdue debts already represent 48% of the total debt portfolio—and no partial solution, such as trust funds, partial write-offs for the debtors, or injections of capital by the government, can save it. This is the reason that . . . all previous [debt] restructurings failed.

The reason for this, is that our banking system is appended to the rotten international financial and monetary system, which is disintegrating as a consequence of the decoupling of the cancerous speculative bubble of the debt . . . from the physical economy . . . which is contracting, exponentially. . . .

Whether they know it or not, the three parties are playing into the British Empire's plan to destroy Mexico. On the one hand, they propose to dismantle our national wealth: Pemex and other strategic state companies. On the other hand, they promote the balkanization of Mexico, covering for the separatist activities of the narco-terrorist EZLN in the southeast, to facilitate the takeover of our oil by the Anglo-American multinationals.

It is not accidental that both the PAN and the PRD-Barzón support "Marcos's" and the EZLN's aberrant demands for "indigenous autonomy," and defend the narco-terrorist Javier Elorriaga. They are ready to legislate an amnesty for narco-terrorists, but they refuse to grant an amnesty to debtors.

The PAN's populist verbiage that the state companies "awaiting privatization" should back [proposed] "FAD bonds" to "pay off the private domestic debt," because "they are the property of the nation," as the PAN's proposed bill states, seeks to transform the debtors into accomplices of the current government's policy of handing over the country's wealth. . . .

The three parties propose that the debt arrearages be securitized, which is nothing other than to bring the internal private debt into the worldwide casino of betting and drug-money laundering which the international financial and monetary system has become. . . .

The proposals of the PAN and the PRD-Barzón laid out a red carpet . . . for the government's proposal to securitize mortgages. This is how the PAN/PRD-Barzón duo always acts. . . . [PRD-Barzón head] Juan José Quirinos says the PAN's proposal for the defaulted debt "is the most viable." Moreover, the PRD-Barzón proposal, that "FDR bonds should be backed by the collateral offered by the debtors themselves," means that they are going to take from the debtors everything which they have left, down to the last pound of flesh!

Moratorium on the foreign debt, now!

As established in the Bill to Reactivate the National Economy, proposed by the "National 'Yes, There Is Life After the Death of the IMF' Forum," the only real means of preventing the country's disintegration, is through a bankruptcy reorganization of the national economy, creating a new financial and monetary system based on the protectionist system of national economy and national banking. This would allow us to end any relationship with the policies and conditionalities of the International Monetary Fund (IMF) and related agencies.

The bill . . . proposes to nationalize the Bank of Mexico, placing it under the control of the Executive branch in collaboration with the Congress; declare a moratorium on foreign debt and certain parts of the internal debt; separate the legitimate from the illegitimate portion of debt arrearages . . . ; and issue new, long-term, low-interest credit for industrial and agricultural infrastructure. Nothing for speculation!

The bill instructs and authorizes President Ernesto Zedillo to meet with President William Clinton, to convene a new International Monetary Conference . . . in which [the moribund IMF system] can be declared formally dead, and a new one, which prohibits usury, founded.

This is now an international cry. Regions of the planet which have been economically destroyed by neo-liberalism, such as Russia and Ukraine, which are still nuclear powers, will effectively ally themselves with this proposal. Within the United States, a political earthquake is taking place. Lyndon H. LaRouche, the main Presidential candidate opposed to the free market, is systematically receiving between 7 and 10% of the vote in the Democratic Party primaries. This is due to the debates taking place within both the Democratic and Republican parties in opposition to the International Monetary Fund's Nazi policies. . . .