agents like Henry Kissinger understand all too well that even the broadly focused organizing taking place in Ibero-America represents a threat to his policies. The July 30 "palace coup" against Panamanian President Aristides Royo (see *EIR*, Aug. 17) was intended to convey a distinct message from Henry Kissinger to the leaders of Ibero-America and to Lyndon LaRouche: stop organizing for a new world economic order.

In the face of these threats, leaders like new Colombian President Belisario Betancur have taken initial steps to fill the vacuum left by Royo's *forced* resignation. In his Aug. 7 inaugural speech, Betancur proposed that Ibero-American heads of state meet in Cartagena, Colombia before the end of the year to discuss the reorganization of the Inter-American system. Such a meeting is urgently required, Betancur said, to reverse the crisis which threatens to dissolve that system "before our stunned and passive eyes." The new Colombian President held lengthy discussions with certain visiting heads of state on his proposal.

Betancur's initiative coincided with that of Ecuadorian President Osvaldo Hurtado, who released a draft resolution calling for the creation of a "Coordinating Committee of Ibero-American Foreign Ministers" which would function in parallel to the Organization of American States (OAS), but would exclude both the United States and the nations of the English-speaking Caribbean, but not Cuba.

According to the draft proposal, the Committee would provide a forum for unified decisions on "pending controversies" between Ibero-America and third parties as well as questions of "development, regional integration, and North-South relations." The Hurtado proposal was distributed to the Ibero-American heads of state attending the Betancur inauguration in Bogota.

As long as the Reagan administration persists in backing policies that threaten the political and economic well-being of Ibero-America's sovereign nations, they will not hesitate to seek alliances—and sources of credit and trade—elsewhere than the United States. The announcement by President Luis Herrera Campins of Venezuela and President Betancur in Colombia that their governments intend to study the possibility of entry into the Non-Aligned movement is one reflection of this. It is notable, too, that one of the agenda items for the upcoming meeting of the Latin American Economic System (SELA) in Caracas will be a proposal to expand trade between Ibero-America and the Comecon nations.

Aside from regional organizing efforts, individual governments are also formulating plans to defend their economies. In Venezuela, Dr. Gumersindo Rodríguez, former director of the state planning agency, Cordiplan, recently put forward a series of proposals for stabilizing the country's reserve position and averting the devaluation of Venezuela's currency, the bolívar, demanded by London and New York bankers. Although Dr. Rodríguez is not a member of the current government, he is a respected economist and planner, and his proposals could become the basis for government policy.

Who is wrecking the and how to defeat the

Mexico's move to a two-tiered exchange rate on Aug. 5 and its even more dramatic move to temporarily shut down all trading in U.S. dollars on Aug. 13, represented an extraordinary response to events during the first week of August, which constituted the dry-run of an attempt to overthrow the government of Mexican President José López Portillo, *EIR* has learned. Facets of the operation included a $2 billion avalanche of capital flight during a three-day period beginning Aug. 2, and contingency planning for a military coup.

Conspiratorial meetings among those Mexican so-called business circles dominated by the oligarchy, including a meeting the first week of August at the resort retreat of Chipinque outside Monterrey, plotted to turn this economic chaos against the Mexican constitution. According to Abraham García Ibarra, a columnist in the daily *El Dia,* top business leaders circulated a document surreptitiously among the audience and the press at an event at the presidential palace Aug. 7, where López Portillo and cabinet members spoke. The document called for the removal of López Portillo and his top cabinet officers from government.

On the same day, José María Basagoiti, president of the Mexican Employers Confederation, demanded in an interview printed by the daily *Excélsior* that the Mexican constitution be changed so that López Portillo could be eased out of office before his term of office ends on Dec. 1.

Circles involved in the plotting, in the orbit of Bancomer chief Enrique Espinoza Iglesias, of private-sector economics think-tanker Gastón Azcárraga Tamayo, and Mexican Mont Pelerin director Agustín Navarro Vázquez, have given directives that Mexico's state-directed economic system be destroyed at all costs, and the grotesquely misnamed "free-

Mexican economy monetary warfare

market'' economics of Friedrich von Hayek imposed instead. Von Hayek, creator of the Vienna School of economics, was the post-war founder of the secret Mont Pelerin Society; von Hayek's Vienna School doctrines of savaging industrial investments and the labor force in order to finance bankrupt paper were the basis of Nazi Finance Minister Hjalmar Schacht's program.

The Chipinque session, where these directives were promulgated, carried overtones of a notorious secret meeting at the resort in 1976, at which the same oligarchic bankers and businessmen plotted a coup against then-president Luis Echeverría. Echeverría responded with public denunciation of the ''hooded ones.''

Though the preconditions for a military coup have not yet been achieved, discussion is known to be rampant among the ''von Hayek'' circles and foreign accomplices over how to engineer a situation in which the military could be united around a program to take power. Their goal is a bloody replay of the Pinochet coup in Chile of 1973. Columnist Fairlie Fuente, a Pinochet enthusiast, broke a Mexican press taboo two weeks ago by publicly urging a military takeover in the country. U.S. figures linked to the Committee for the Free World say they are searching for the right ''charismatic'' leader to lead a coup attempt. However, should the institutional order break, a nationalist alignment might in fact be the outcome.

Mexico's Aug. 5 and Aug. 13 moves to staunch the speculative hemorrhage of dollars is part of a battle which will determine whether Mexico's republican order survives.

The trigger for the sequence of events in Mexico was a cut-off of Mexico's access to international financial markets. Reports from sources in Mexico, confirmed in Europe, say that Mexican Finance Minister Jesús Silva Herzog scoured the lending markets for 16 days at the end of July and the beginning of August, looking for the approximately $500 million a week in gross financing the country needs if it is not to default on its $75 billion in public and private foreign debt.

Credit cut-off

By all accounts, he came up dry. Abroad, the decision had been made to ''pull the plug.'' It was this knowledge which emboldened the von Hayck circles to organize the early August orgy of flight capital—an outflow three times as heavy as the one which forced the first peso devaluation this February. Price hikes decreed Aug. 2 for commodities, including tortillas and gasoline, forced on Mexico by international creditor demands, were merely the pretext.

Some among the international forces orchestrating the cut-off seem to be playing a worldwide collapse game, deliberately courting a Mexican default that would crash almost three times the magnitude of the Polish debt. A prominent European economist commented to *EIR* that ''the Bank of England wants Germany and the United States to take the brunt of the crisis. That's why Mexico was taken off the market—to hurt the U.S.''

An official of Robert McNamara's Overseas Development Council (ODC) stated just prior to the credit cutoff decision that ''the only way'' to get President Reagan to go along with an IMF-centered overhaul of the bankrupt world monetary system is to force a debt crisis ''in a country which will get Reagan's attention—Mexico.''

The next step being contemplated in international financial centers is a giant bailout, in the $5 to $10 billion range, to be centered on a combined U.S.-IMF ''financial package.''

The terms of renewed financing, whether inked or merely ''understood,'' include:

1)An open role for the IMF. Since late spring, circles linked to the New York Council on Foreign Relations have argued that Mexico is successfully implementing an ''IMF program without the IMF,'' in the style of Brazil during the past two years, and therefore it was unnecessary to directly buck Mexico's intense political resistance to a formal pact with the IMF. However the orders from London, echoed by the overwhelming majority of U.S. bankers, are that Mexico go to the IMF. In the words of the lead *Financial Times* editorial of Aug. 10, Mexico must ''swallow national pride'' and ''accept help from the IMF.''

2) A new ratchet of austerity, just as the previous cutbacks have begun to translate into sharply rising unemployment rates. ''Postponing an ambitious nuclear program and two devaluations'' have not been enough, pronounced the *Financial Times* editorial. ''Further supporting measures would be needed . . . to put [Mexico's] house in order.''

3) Long-term contracts to sell enhanced volumes of oil to U.S. and other multinationals, with oil revenues pledged to debt repayment, not internal development.

4) The wholesale turnover of Mexican raw materials and manufacturing assets to foreign control. This binge of de-nationalization is envisioned as starting with a rollback of Mexico's 1974 legislation which limited foreign investment to 49 percent of any joint venture. Much of this "investment" is projected in the form of transfer of assets in lieu of debt payment—one of the underlying issues of the current Alfa Group bankruptcy and reorganization. "Increased foreign investment would be like a sort of debt restructuring," stated an official of the Swiss-controlled Mexican banking giant Banamex, "because creditors could become asset owners." Some even dream of de-nationalizing the Mexican state oil monopoly, Pemex.

The target of the pressure is President-elect de la Madrid, not only López Portillo. It is possible, as London sources predict, that López Portillo can be induced to accept an IMF package as an "act of political self-sacrifice" before leaving office. Yet everyone knows that the only one who can deliver on the conditions of a resumption of credit is de la Madrid. He has not yet demonstrated how he will act.

Government clampdown

Measures announced by Finance Minister Silva Herzog on Aug. 5 established a "preferential" peso exchange rate of 49 to the dollar (a tick down from the previous rate of 47), to be used for payments of vital imports such as food and some categories of capital goods, and payment of certain categories of foreign debt. A "market" peso allowed to float down on the "open market" was to handle all other transactions. In the days immediately after the decree, this peso fluctuated in the 80-90 pesos to the dollar range—a drop of more than 40 percent in value.

U.S. economist Lyndon LaRouche, who described the Mexican peso as undervalued on a trip to Mexico in May, during which he met with López Portillo, stated Aug. 10 that the peso should in fact be set at 24 to the dollar if its true value were to be reflected.

As López Portillo described the new exchange rate system in a press conference two days later, the aim was to reassert government control over the use of Mexico's oil revenues, the overwhelming source of its dollar exchange. These will be channeled into government-defined priority uses, he said. "The time when the state subsidized speculation with dollars is over. We will not allow the vultures of speculation to eat our insides any more." He stressed, however, that the new exchange regime was intended to "gain time." (See excerpts below.)

The rapidity of the international collapse means López Portillo has *no* time, nor will de la Madrid. This lesson was brought home one week later, when in response to the continued outflow of dollars, all dollar accounts were frozen. Any dollar holder could get his money in pesos at 69.5 pesos per dollar, but no dollars could be traded or taken out of the country. The real direction of this new move toward exchange controls remains to be fully defined. Will Mexico's leaders follow through on its dirigistic character, and decree an enduring program of full-scale exchange controls? Will there be coordinated action with other major developments sector debtor countries, to force a new gold-based monetary system and a moratorium on existing debt? That is the program outlined by Mexican Labor Party (PLM) General Marivilia Carrasco in a press conference on Aug 8. Carrasco called as well for cheap new credit for productive investment inside the country, and the formation of peasant and worker militias to stop any armed threats against the constitutional order.

Officials in the monetarist-controlled Finance Ministry and the Bank of Mexico told *EIR* they had no intention of making the new system work. And the international banking circles running the credit cutoff think they have de la Madrid cornered. They know that de la Madrid is finished if he *does* play ball: no Mexican president can politically survive the kind of nationalist backlash that is guaranteed if the IMF-instigated demands are met. Note that it was in a similar situation of international pressure in 1938 that President Lázaro Cárdenas took the action defined by Mexicans to this day as the country's "declaration of economic independence," the nationalization of Mexican oil.

Documentation

President López Portillo: *'We must crush speculation'*

Excerpts follow from Mexican President José López Portillo's Aug. 7 address to the nation explaining why Mexico has ended free convertibility of the peso:

"We are gaining time while things happen abroad. We have to win a lot of time against the evil pincers which is destroying raw-materials price levels—including oil prices—while it is also raising interest rates. . . . No country, including the developed ones, is without problems. Even allied solidarity is under dispute at this moment. There are disputes over a gas pipeline investment. . . . there is war; there is recession. . . . This recession has now reached us. For many reasons, they no longer want our products while they force us to buy theirs. . . .

Credit is being closed off to all countries, because there is no money, and what there is is channeled toward the best conditions; the U.S. money market is offering extremely high interest and is siphoning off all the money in the world.

Gentlemen, we must win time, at home and abroad.

Here—so as not to jump into decisions . . . on prices, wages, interest rates and budget expectations . . . which would aggravate the problem. . . . Neither the low prices nor the high interest rates will last; nor can they last. The world economy will either have to solve its problem or collapse. . . .

So long as foreign exchange flowed at a sufficient pace into Mexico, the country has been so generous that it time and again permitted the dollar to serve not only the interests of the country, but a social class which has the capability to use dollars even for speculation. . . . Certain tendentious publications rebroadcast from abroad created alarm about our economic vulnerability, about our lack of confidence, and encouraged the understandable desire to continue speculating. That caused an abnormal and excessive demand for dollars on the exchange market. . . . Hundreds of millions of dollars were pulled out of our monetary system in a matter of days. . . . In two weeks or in another month, our reserves would have run dry and then we would not have had dollars to pay our foreign commitments and Mexico would—but this is not now the case—have had to declare a suspension of payments. . . .

In Mexico . . . the dollar has come to be used for paying for our imports and for servicing and paying our debts.

But in Mexico, and I admit quite legally . . . people feel secure in placing their savings in dollars. The dollar is used to travel abroad in an exaggerated way. And one sector of society which has excessively consumed dollars for that purpose has found dollars useful for buying abroad things that may be cheaper than the ones we make or are unavailable here. And they also buy articles which are available here. There have been excessive purchases. . . .

But the time has come, gentlemen, in which our foreign exchange income has taken on a special condition and demands a special response. The overwhelming majority of dollars which have entered the country recently come from the public sector, mostly from oil sales and debts contracted abroad by the state. Unfortunately, only a tiny proportion of dollars comes from private sector exports. . . .

Under these conditions of limited foreign exchange, we have to guard our income by reserving it for what the country needs most, not what private interests would like to use it for. And the only one who could and should set the priorities is the government of the Republic. . . .

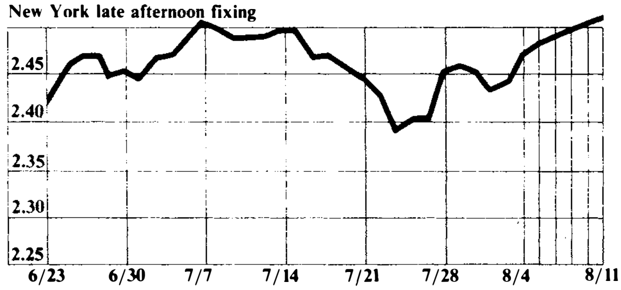
What the government of the Republic categorically affirms is that income from oil sales and public credit will go exclusively for what the country needs and not for waste and speculation. Those days are over. . . .

This is the commitment of the executive of a government which has to make bitter and tough decisions in tough times in which precedents are worthless, since the circumstances are new ones. This is the great burden on an executive who in times like these bears only responsibilities, and, in my case, no longer manages expectations, but only the realities which we must confront. . . .

Currency Rates

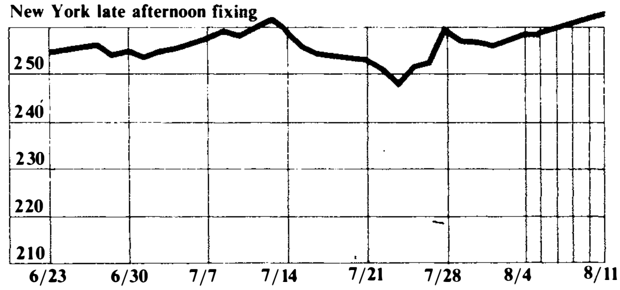
The dollar in deutschemarks

New York late afternoon fixing



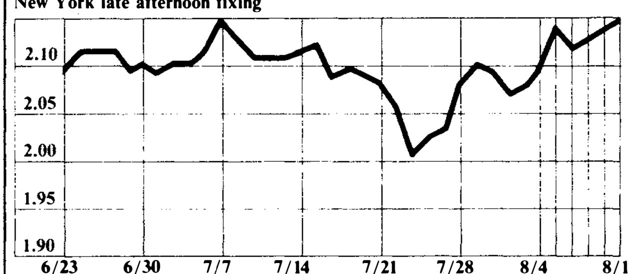
The dollar in yen

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing