part of it. Exemplary is the government decision to raise interest rates sky-high to keep foreign capital rolling in. That move bankrupted the domestic banking system. On Jan. 4, the Mexican Bankers Association petitioned the government for emergency relief, citing the soaring rates of defaults on loans, the high cost of money, and the effect of the devaluations on the banks' own dollar obligations.

Preparing the lifeboats

Meanwhile, the debts and banking systems of the rest of Ibero-America are also beginning to blow out. Argentina is very much like Mexico, where "the dike broke," economics editor Daniel Muchnik of the Argentine daily *Clarín* wrote on Jan. 1. Since Mexico and Argentina have implemented similar economic policies, the "million-dollar question" is whether the Mexican peso devaluation has unleashed a broader financial crisis which is "more unpredictable" throughout the continent.

The economic team of Brazil's new President, Fernando Henrique Cardoso, is convinced that the Mexican crisis is not over, and that Mexico may have to declare a debt moratorium, the daily *Jornal do Brasil* reported on Jan. 2. If that were to happen, or if the shaky Argentine financial system were to blow, Brazilian officials believe that all of Ibero-America would be placed on the investors' "black list."

Quiet recognition is growing, that those nations which kept a degree of protection from the free trade swindle, are today the best prepared to face the crisis. Venezuela, whose government declared exchange controls in 1994, is the most notable case. The Mexican economic crisis dominated discussion at the first cabinet meeting of 1995 in Venezuela, with various ministers noting that Mexico was a victim of "neo-liberalism" (as the radical IMF-free trade school is known in Ibero-America), the Venezuelan daily *El Globo* reported Jan. 5. One minister pointed out that Mexico adopted the decisions which the neo-liberal theoreticians wanted; had Venezuela done so, it would be in a similar condition, he argued.

Documentation

EIR called the shots on Mexico's debt crisis

For nearly four years, as the world's governments and financial elites held up the market liberalization and debt reorganization in Mexico as a "success model" for the rest of the world to emulate, *EIR* repeatedly warned that Mexico was suffering a breakdown of its physical economy, which the free market reforms, privatization, austerity, and the North American Free Trade Agreement (NAFTA) would only accelerate. The only ones to benefit, *EIR* warned, would be the special banking interests that have been able to continue looting Mexico through its foreign debt payments and through speculative manipulation of the stock market.

In three cover stories and one 75-page Special Report issued during that period, and in a multitude of other articles, we showed that the looting schemes being imposed on Mexico must lead to a financial blowout. In April 1993, the cover story entitled "Mexico's Economic Model: How to Destroy a Nation" asked: "The charade about the 'Mexican success story' is about to end. Will the nations of eastern Europe, of Ibero-America, and of the rest of the Third World wake up in time?" Here are some highlights of the record: what we said, and what the others said:

Feb. 4, 1990: On the occasion of the signing of the Brady debt restructuring plan, U.S. Treasury Secretary Nicholas Brady declares: "Mexico is on the move again. Jobs are being created. Flight capital is returning. Investor confidence is growing. In short, a new dawn is rising. Mexico stands as a beacon of hope for other debtor nations."

Mexican debt neN$%1M9+.HPMgel Gurria: "We are beginning the period of life after debt in Mexico."

September 1990: Citibank's William Rhodes, speaking at the annual trade fair in Leipzig, Germany, says that the Mexican model for dealing with debt should be used as a solution for Poland and other eastern European countries.

May 1991: *EIR* publishes a Special Report, "Auschwitz Below the Border; Free Trade Pact Is George 'Hitler' Bush's Mexican Holocaust," which describes the North America Free Trade Agreement as follows: "NAFTA and its sequels are designed to bolster the shaky, overextended international credit pyramid by vastly increasing and solidifying the flow of Third World debt payments to the international banks. It will do this by thoroughly absorbing the economies of the nations of Ibero-America into an extended dollar zone, annexing their raw materials (such as oil), and using their labor forces as captive cheap labor in runaway shops, principally for production for export back into the United States.

"Along with this projected new looting of Third World economies, NAFTA will also reorganize the entire Ibero-American banking structure, and thereby create the conditions under which the vast financial flows originating in the Ibero-American drug trade can be more readily laundered into the cash-strapped Anglo-American banking system."

June 21, 1991: *EIR* warns that Mexico is "becoming a world paradise for financial speculation and fraud," and that the means by which Mexico will be "kept current on its over $9 billion in yearly interest payments" on its debts is to "hand over to the creditors title to more and more chunks of the Mexican economy, and use the Mexican stock market to do this.".

July 3, 1992: An *EIR* report on the June 17, 1992 stock market plunge says: "The Mexican market is saturated with new and not very marketable bonds. . . . The immense speculative bubble that has been created on the basis of *expectations* of Mexico's 'economic miracle' has already reached its limit, and can no longer *pay itself* the superyields that its own speculative dynamic imposes."

Aug. 7, 1992: *Forbes* magazine Editor-in-Chief Malcolm S. Forbes, Jr. interviewed Mexican President Carlos Salinas and suggests: "Spend time with Mexican President Carlos Salinas and with his personable, brilliant Finance Minister Pedro Aspe, and you'll wish they could be cloned for the rest of the world's countries. The Mexican government is performing a miracle rivaling those of Germany and Japan after World War II, and of Korea and the other so-called Asian Tigers in recent years. . . . [The U.S.] Congress should take a crash course in economics from Carlos Salinas. . . . His almost revolutionary program of economic liberalization . . . has lots to teach our own politicians."

Nov. 27, 1992: *EIR* details the problems already surfacing for Salinas's "Mexican miracle," and asserts: "What is in crisis is not the Mexican model per se, but rather the economic model applied by the international financial institutions to enable Mexico to continue to pay its foreign debt . . . based on looting of Mexico's natural wealth. . . . If the Mexican economy was presented to the world during 1988-89 as the model for those nations wishing to escape insolvency, the crisis of the Mexican economy today can only be seen as the *prelude* to what is happening to the entire international financial system which spawned the so-called Mexican miracle in the first place."

April 23, 1993: *EIR* runs a cover story on "Mexico's 'Success Story': The Charade Is Ending." *EIR*'s forecast singles out the soaring current account deficit as the gravest symptom of the crisis, covered over by massive speculative capital inflows: "The government's policy for the current account deficit is simply to keep interest rates very high. It is doubtful how long that measure alone can keep the floating crap game going. It is increasingly likely that Salinas will be forced to devalue the peso—a measure which he has desperately tried to avoid, as it will deflate the international myth of the 'Mexican model,' and bring the country's foreign debt crisis back to center stage."

Noting that countries from Russia to Poland to Kenya have been told that Mexico's "success" proved that shock policies work, *EIR* warns: "Not only has Mexico's physical economy been looted to the point of collapse, but the figures show that even the final phase of bankers' speculative gain has been reached, and a financial blow-out is imminent. Other Ibero-American economies that have followed similar regimens, such as Argentina and Brazil, are also rapidly approaching a blowout phase."

The feature concludes: "In short, the charade about the 'Mexican success story' is about to end. Will the nations of eastern Europe, of Ibero-America, and of the rest of the Third World wake up in time?"

June 4, 1993: *EIR* publishes a story entitled "Mexican Farmers Demand Debt Moratorium, As Protests Mount," which details the collapse of the Mexican farm sector due to the failure of Salinas's economic model. Brutal deregulation, the elimination of agricultural subsidies, and increasing the costs of production while indiscriminately opening up trade "has made for an exponential increase of the farm debt of such magnitude that is now physically unpayable," setting the conditions for widespread defaults, dislocation of farm populations, and consequent impulse to mass migration to the United States.

Aug. 6, 1993: *EIR* publishes an interview with U.S. economist Lyndon LaRouche, conducted July 20, 1993 by Monterrey radio station XEAW, in which LaRouche warns that "Mexico cannot continue to survive as a nation, if the present trends are continued. . . . Mexico is suffering the spillover of a global pattern typified by the growth of the derivatives bubble. . . . When it will pop, we can't say; but looking over the period of the next 9-12 months, we must expect *major financial implosions*, monetary implosions, coming out of the activities of pirates, buccaneers, thieves, such as George Soros."

Oct. 8, 1993: *EIR* publishes a feature entitled "Secret NAFTA Accord Threatens U.S. Sovereignty," which charges that secret financial agreements built into the NAFTA agreement would 1) "actually increase Mexico's more than $100 billion nominal foreign indebtedness through the brutal looting mechanism of the ongoing so-called privatization program"; 2) "transform such increased dollar indebtedness into a source of offshore dollar credit through the proliferation of derivatives markets"; and 3) "use the offshore dollar credits thus generated as a lever for a new form of financial control over the United States itself."

Oct. 15, 1993: *EIR* says that Mexico's "debt bubble" requires a massive looting scheme to keep it afloat, ranging from raising interest rates and expropriating millions of Mexican farmers through foreclosure, to setting up secondary mortgage and other derivatives markets, looting Mexico's pension system, and taking over its oil industry. Since the 1989 "Brady Debt Reduction Plan," Mexico's debt has *risen* an incredible $27 billion. "The only factor which has prevented the payments on this debt from causing a financial blowout, is today's relatively low international interest rates which, should it rise, would plunge Mexico back into a monetary catastrophe" comparable to 1982, or worse.

Oct. 25, 1993: *Forbes* carries an article by self-proclaimed expert on the Mexican economy David P. Goldman, entitled "The Mexican Revolution, Phase II," which claims that Mexico's "dynamic economy is on the move and will stay that way, NAFTA or no." Writes Goldman, "In my view, nothing can stop Mexico's economic modernization."

Nov. 19, 1993: *EIR* carries in full the testimony submitted by Alberto Vizcarra of the Permanent Forum of Rural Producers in Sonora, Mexico to a hearing on NAFTA of the U.S. House Banking Committee on Nov. 8, chaired by Rep. Henry Gonzalez (D-Tex.). Vizcarra's testimony details the fabulous growth of the Mexican foreign debt *since* the Brady debt restructuring plan, and warns that "the only thing that has thus far kept these onerous debt payments from causing a financial collapse has been international interest rates, which are relatively low at present: should these rise, Mexico will find itself in total financial castastrophe."

Vizcarra details the disintegration of the Mexican banking system, which he estimates at the time to have a non-performing loan portfolio as high as 20-30%; he describes the collapse of farming because of the impossible cost of credit and inputs, and the lack of protection from imports of milk, meat, and other products. He concludes with a demand for a thorough investigation of the financial accords of NAFTA, secret and otherwise, which he charges were opening up the Mexican economy to unprecedented looting schemes and to its virtual annexation by the U.S. Federal Reserve.

Dec. 3, 1993: *EIR* carries a report on a meeting of 250 agricultural producers in Sonora held Nov. 11, where the farmers demanded that the Mexican Congress "launch an immediate in-depth investigation into probable financial accords of a secret character concluded by Mexican officials with the U.S. Federal Reserve" in the $QYMnis Small, who addressed the meeting, explaining that the illegal Mexican farm debt was but one element of the cancerous bubble of usurious debt, speculation, and drug money that was corroding the world financial system and destroying useful production, in Mexico and everywhere. Small warned that Mexico's *real* foreign debt was as much as 50% higher than its *official* foreign debt of $119 billion.

May 13, 1994: *EIR* reports on secret IMF-World Bank discussions on the indebtedness of the Mexican banking system and, in particular, on the high degree of foreign involvement in Mexican banking, largely in the form of dollar deposits and dollar borrowings by individual banks. "These dollars can leave at any moment, triggering a huge financial collapse," warns the article, which adds that from January through May 1994, Mexico had already drawn down one-fifth of its central bank foreign reserves, and $10 billion had pulled out of the stock market, and fled the country.

June 3, 1994: *EIR* runs a cover story, "About to Explode Again: Ibero-America's Debt Bomb." It begins: "You've heard it said that the Third World debt crisis of the early 1980s has been solved permanently. You've been told that the countries of Ibero-America, with Mexico in the lead, have reformed their economies and are back on the road to recovery. . . . Well you'd better think again. Because it is highly likely that 1994 is going to witness an explosion of the Ibero-American 'debt bomb' that is going to make the 1982 crisis pale in comparison, and could well bring down the entire international financial house of cards with it."

After reviewing the Bush scheme to "resolve" the debt crisis with Brady bonds, *EIR* warns that the resulting "globalization" of the world economy would destroy the United States, along with the rest of the world economy: "The result of these measures . . . has been the full 'dollarization' of their economies. This does *not* simply mean that the dollar has become increasingly used throughout Ibero-America. It means that . . . entire national financial systems are becoming mere *onshore enclaves* of the giant *offshore* (i.e., unregulated) international financial system. This means that the national banking systems of Mexico, Argentina, and other countries are rapidly becoming virtual branch offices of the U.S. Federal Reserve System. . . . This means the elimination of U.S. sovereignty as well."

Specifically on Mexico, the report notes that while the country's "official" public and private foreign debt in 1993 was $119 billion, foreign-held treasury bonds (Cetes) and cumulative foreign portfolio investments—which constitute a de facto foreign obligation—bring the real foreign debt to an estimated $183 billion.

Aug. 7, 1994: *EIR* financial columnist Richard Freeman speaks at a seminar in Mexico City on LaRouche's analysis of "The Coming Disintegration of the Financial Markets," in which he warns, according to the Mexico City daily *Excélsior* of Aug. 8, that the only solution to the collapse of the speculative system is "to reorganize the international financial system on the basis of banking systems which correspond to each nation's interests and their real economy, and not to the particular interests of speculative profits; we must return to the basic system of production."

Sept. 16, 1994: *EIR* reports on the crisis hitting the Mexican banking system, including the government's forced takeover of the Banco Unión-Banco Cremi: "What underlies these developments is the fact that the Mexican banking system is beginning to crumble, much as the Venezuelan banking system did earlier this year. Both cases are symptomatic of the fundamental insolvency of the entire world financial system, which has begun to shred at its weakest points."

Nov. 9, 1994: The New York *Journal of Commerce* editorializes that "Carlos Salinas, Mexico's President, leaves office later this month with a record most other leaders would envy. . . . The turnaround in Mexico's public finances offers a good lesson for most other countries."

January 1995: *Harvard Magazine* runs a piece, evidently written prior to the Mexico peso blowout, entitled "Emerging Markets," by New York investment counselor John Train. Train presents Mexico as a "boom market," and laughs at cautious investors who "couldn't believe it. By the time they finally did, the market had boomed and has risen dozens of time since." Train argues that the trend toward "privatizing, deregulating, and letting pension funds buy stocks" is what is making emerging markets like Mexico's so attractive to investors.