PAYMENTS ABROAD INSTEAD OF DEVELOPMENT AT HOME

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Although Mexico's foreign debt problem has been critical since August 1982, and although endless meetings, studies, analyses and proposals on the theme have been made, as well as three re-negot iations, seven years later there is still no in-depth solution which allows a substantial reduction in service payments. This reduction is absolutely necessary in order to avoid the transfer abroad of national savings and to recuperate a solidly based development.

Before stating our opinion about concrete proposals, we wish to make the following observations:

Incapacity of the Nation to Absorb Foreign Credits

Until 1942 Mexico was unable to receive loans from international banking institutions because payment of the old debt contracted by Porfirio Díaz was still due. Two reconversions of the debt, one direct and one for the railways, made by the then Treasurer, Eduardo Suárez, fixed the amount of principal due at around a tenth of its nominal value, while the amount of interests due was reduced to a practically symbolic quantity. This operation meant that the nation could again apply to international financial institutions for loans, firstly public and then private, and later, that this debt was paid off ahead of schedule around 1962.

During the 50's and 60's, foreign loans gradually assumed growing importance as a source of finance for public investments: it represented 0% during the government of President Lázaro Cárdenas; 7% during that of President Avila Camacho; 11% in that of President Miguel Alemán; 17% during that of President Ruiz Cortinez; 24% in that of President López Mateos, and 26% during the government of President Díaz Ordaz.

It was after the 1954 devaluation, at the beginning of a period of stable development, that the foreign debt grew at an accelerated rate of 16% annually, while export earnings grew only 7% annually. Thus the debt increased until it was double the annual value of exports in 1975. Interest payments, which in 1954 represented less than 1% of the total value of exports, grew to 12% in 1970. In this same year the foreign debt represented only 12% of the Gross National Product (GNP), while the cost of servicing the debt absorbed 26% of income earnings in the current account.[1]

That is, the capacity to absorb foreign credits which necessarily involves payment capacity, reached its limit towards 1970. From then on, net endebtedness should have increased less than export earnings.

According to available estimates on the economy's capacity to pay, whether measured as the export sector's profits once production costs are deduced, or as global rentability once the cost of imports necessary for economic growth at an annual rate of 1.6% are deducted, external financing was maintained within recuperable limits until 1973. The world wide inflation which was provoked by the devaluation of the dollar in 1971 and the following rise in oil prices in 1973, obliged the government to increase its fiscal deficit and balance of payments so as to finance its investment program.

The first symptoms of payment incapacity appeared in 1974, in the sense that current foreign currency earnings —after deducting the cost of imports necessary for growth of the GNP— were not sufficient to cover the interests on accumulated and newly contracted debts. In the future it would be necessary to seek new loans or reduce economic growth rates in order to service the foreign debt. It can be said that with the 1976 crisis, which led to a necessary modification in the exchange rate that had been stable during 22 years (although the peso had really been over-valued since the beginning of the decade), the model of development where internal savings are complemented by external credits, reached its limit.

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[1] SHCP (State Treasury): *National Finance Plan 1984-88.*

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Thanks to the spectacular expansion of oil export earnings, the weight of the foreign debt during the following years (1977-79), was lightened. However the brutal rise in interest rates, both in nominal and real terms, falling oil prices and the deterioration in conditions for commerce, combined with unlimited freedom in currency exchange, the kind of fixed exchange rates —with the peso once again overvalued— and the transfer of capital abroad, accelerated the amount of the debt in 1981 and exhausted the country's international reserves in August 1982. Thus began the great foreign debt crisis, which, due to mistaken management, has spread to the rest of the economy and threatens to cancel the right to sovereign independent development.

In 1983 the foreign debt was more than four times greater than the value of export earnings, and interest payments absorbed 43% of these earnings. In this way the foreign debt represented twice the estimated value of the capital reserves of the export sector's productive assets, and there fore, even if all shares were handed over, they would not be enough to pay the debt. That is, the debt is upayable in terms of the conditions originally contracted.

From 1983 to 1988 the net amount of the debt continued to grow, although at a lesser rate. New loans were contracted, mainly to service payments on the accumulated debt and for the restitution of international reserves, but at the cost of suspending general economic growth and fomenting widespread social poverty. The net transfer of resources abroad during the past government of Miguel de la Madrid is estimated at 66 billion dollars, which represents the internal savings which we have been sending abroad without receiving any real goods or services in return.[1]

To Try and Pay an Unpayable Foreign Debt Threatens the Right to Development

Due to the irresponsible spending of international reserves during the months February through August 1982, mainly in order to finance capital transfer, but also for the purchase of imports, stimulated by the over-valuation of the peso, a crisis

[1] For renegotiations of the debt, it is convenient to separate the accumulated debt from commercial loans or new loans needed by the country to finance its exports and the operations of its balance of payments. Not to have done this has been a serious error by the debtor nations.

Chart I
MEXICO'S FOREIGN DEBT 1958-1988
All figures in billions of dollars

Year	1958	1970	1976	1982	1988
I. Gross National Product	10.5	35.5	88.8	213.7	212.7
II. Income in current account (total exports)	1.3	3.3	8.2	28.0	31.1
III. Foreign Debt					
Total	0.7	6.1	27.9	87.6	104.7
Public	0.7	4.3	21.6	68.3	87.4
Private	—	1.9	6.3	19.1	13.6
IV. Service of external public debt	0.2	0.9	5.3	24.9	13.0
Interests	0.02	0.3	1.3	10.0	8.1
Capital Payments	0.1	0.0	4.0	14.8	5.0
V. Net endebtedness				6.4	
VI. Net transfer of resources from public sector	0.5	3.4	4.3	—0.9	—8.0
VII. Total external debt as % of nominal GNP	6.6	17.0	31.4	41.0	49.2
VIII. Total service of debt as % of total exports	—	—	102.0	120.7	63.5
IX. Total service of public debt as % of total exports	15.4	27.3	64.6	88.9	41.8

Sources: Budget and Planning Department, (SPP),*Mexican Historical Statistics,* 1985. CIEMEX-WHARTON: *Mexican Economic Perspectives,* October 1988 and July 1986.

The great foreign debt crisis began in 1982, and due to mistaken management has now spread to the rest of the economy and threatens to cancel the right to independent development

broke out which the Treasurer described as a "cash flow crisis." There was no desire at the time to acknowledge that the problem was deeply rooted, and that it still remains one of insolvency. Net profits of the export sector are not sufficient to pay the high amount of the debt and its service payments, and at the same time purchase imports needed for the growth of the GNP.

The management of the Latin American foreign debt has been based on a mistaken diagnosis. The IMF's adjustment plans, the so-called Baker Plan, and even analyses of international research centers of creditor nations, have maintained that the problem of the foreign debt is a cash flow problem and not one of insolvency; that nations such as Brazil, Mexico, Argentina, Venezuela and Peru, among others, have enormous natural resources and cheap labor which will enable them to pay their debts in time. But this approach side-steps the problem of limits imposed by any guarantee. In the case of debts between individuals, the payment of a debt cannot be demanded if it costs the flesh and blood of the debtor. In mercantile law, the guarantee for the payment of debts is based, in the final instance, on the company's assets. In the case of nations, payment of the debt cannot be forced because the limit of the guarantee cannot be other than the net productivity of the export sector, after development needs have been met. It is now time to reject the idea that in order to pay interests, development has to be cancelled and the economy operated with unemployment and unused capacity, reduction in real wages, greater impoverishment of the population, liquidation of the public economy, acceleration of inflation rates, permanent devaluation of the currency and under-pricing of resources.

During the recessive readjustment, Mexico lost, during the period 1983-88, an internal potential production worth some 400 billion dollars, due to the

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"Only development will enable them to fulfill their commitments". Photo by Angeles Torrejón/Imagen Latina

reduction of its growth rates to under the historic level of 6%. Besides, in the same period, Mexico made payments abroad equivalent to 6% of its GNP, that is, 66 billion dollars, in payment of interests and dividends. *(See Chart 1)*

We have to insist on this point: the accumulated foreign debt cannot and should not be paid under the actual conditions, because the quantity is far superior to the payment capacity of the economy's export sector. The payment of the debt side-steps the problem of guarantees and damages the economic sovereignty of the country, as neither the nation, along with its natural resources, nor the work of its people, were offered to the pawn-broker.

The debt has been serviced over the years at the price of retarding economic growth, and cannot be paid without reducing reserves or without asking for new credits. This latter solution does not solve the problem, only makes it worse.

To pay an unpayable debt is the same as paying a colonial tribute, and can only be paid at the price of an economic recession and with the empoverishment of the working classes. Governors and experts of great vision accept that the debt is unpayable in its current terms, and the Group of Eight has reaffirmed the need to create a general framework to reduce the Latin American debt.

Chart II

MEXICO: LOSSES DUE TO RECESSIVE ADJUSTMENT AND PAYMENT OF FOREIGN DEBT, 1982-1988

All figures in billions of dollars

Year	1981	1982	1983	1984	1985	1986	1987	1988	1982-1988
I. GROWTH OF GNP									
a) Nominal	203.9	213.7	190.1	196.6	195.1	197.6	207.3	212.7	1 413.1
b) Real growth rate	7.9	—0.5	—5.3	3.7	2.6	—4.0	1.4	—1.3	
c) At 6% annually	203.9	213.7	226.5	240.1	254.5	270.0	285.8	303.0	1 793.6
d) Loss in GNP (c-a)	0.0	0.0	36.4	43.5	59.4	72.4	78.5	90.3	380.5
e) GNP per capita									
pesos of 1980	68 242.0	66 079.0	61 736.0	62 457.0	62 658.0	58 941.0	58 608.0	56 803.0	
annual % variation	—	96.83	93.4	101.2	100.3	94.1	99.4	97.0	
II. Balance of goods and services: non manufacture sectors									
a) Exports	—	26.2	27.2	30.0	28.1	22.8	27.5	28.4	190.2
b) Imports		20.2	12.8	16.2	18.8	17.0	17.1	19.2	121.3
c) Total	—	6.0	14.4	13.8	9.3	5.8	10.4	9.2	68.9
III. Balance of manufacturing sector:									
a) Income	—	1.5	1.5	2.3	2.0	1.8	2.3	2.2	13.6
b) Costs	—	14.0	10.8	12.5	10.8	10.6	9.4	10.6	78.7
c) Balance	—	—12.5	—9.3	—10.2	—8.8	—8.8	—7.1	—8.4	—65.1
d) % of GNP	—	5.8	4.9	5.2	4.5	4.5	5.0	4.7	5.0
IV. Balance of current account (II-III)	—	—6.5	5.0	3.6	0.5	—3.0	3.3	0.8	3.7

Sources: Budget and Planning Department, (SPP), *Mexican Historical Statistics*, 1985. CIEMEX-WHARTON, *Mexican Economic Perspectives*, October 1988 and July 1986.

Indebted governments, creditor banks, creditor governments and financial institutions, equally responsible

Indebted governments and creditor banks are equally responsible for the creation of the phenomenon which can be described either as over-borrowing or over-lending. This co-responsability has been acknowledged since the Cartagena Agreement of 1984.

Creditors share the responsibility for exceeding the payment capacity of the indebted nations. Banks did not give personal loans, but institutional credits, and they had the obligation to make an adequate estimate of the debtors' payment capacity. While lenders had no scruples when they were hoping for juicy profits, they have to recognize that a mistaken estimate leads to losses. It is a basic principle in banking that a reserve is created to cover bad loans, as all lending operations involve risk.

Up until now the cost of re-adjustment has fallen exclusively on sovereign debtors. But the exercise of sovereignty by governments involves the duty of responding fully and permanently to the people's will. In the current conditions, to pay the services of the foreign debt by exporting internal savings, cancels the right to develop and damages national sovereignty.

The governments of the United States and of other industrialized nations, and the international financial institutions, are also equally responsible to a greater or lesser degree. Washington's monetary and fiscal policies affected the variables of the macro-economy which operate in the international markets of goods and capital, and the international financial community participated happily in the international financial disorder. In other words: the structural deficits of the U.S. economy in the fiscal area, in its balance of payments, in saving-investment patterns and in income-spending patterns, have been managed in such a way so as to permit a boom in the U.S. economy, with a continuous increase in that population's consumerism, while affecting negatively the rest of the world economy. Reagan's economic miracle, which consisted in financing extravagant military spending and colossal fiscal and commercial deficits without inflation and without additional costs for taxpayers, was acheived thanks to the fact that the U.S. could export its lack of equilibrium and impose a tribute on the endebted nations of the Third World. Thus the world's richest nation could keep on living happily beyond its means.

It is now time to reject the idea that in order to pay interests, development has to be cancelled and the economy operated with unemployment and unused capacity, reduction in real wages, greater impoverishment of the population, liquidation of the public economy, acceleration of inflation rates, permanent devaluation of the currency and under-pricing of resources

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Asymmetry and Inequality in Adjustment Mechanisms

The asymmetry in adjustment mechanisms applied by the main country in disequilibrium —the United States— and those applied to the debtor nations, is notorious and scandalous. The contradiction between the objectives of adjustment plans applied by the IMF —which in turn is inspired by the U.S. Treasury— to the debtor nations, and those applied to the U.S., is also notorious. That is, for the indebted developing nations: recession, drastic falls in investment, unemployment, reduced public spending and consumption, inflation, permanent devaluations, re-orientation of the economies towards exportation; while for the United States, the most powerful debtor in the world market economy: fiscal deficit, import surplus, absorption of international savings, sustained growth, lower unemployment rates, and high consumer levels.

Up until now the weight of readjusting the overlending has fallen mainly on debtor nations and their populations, and there has been no agreement to share losses with creditors nor to establish a fund which would bring some relief to insolvent debtors and allow them to possess future credit capacity.

From the point of view of international law and justice, the payment of a debt where its amount and cost have passed the debtor's real payment capacity, involves damage to the entire international community. The creditors, their governments and the world economy have sufficient economic capacity to absorb the losses of the adjustment of the accumulated debt. The economies of the most important creditors have fully recuperated and they have sufficient capacity to absorb the losses caused by the Third World debt. Besides, the creditor governments are in a position to design a package of regulatory monetary and fiscal measures to help relieve the cost of re-adjustment, which, in the final analysis, can have repercussions on the entire world economic system. This has already occurred: a) with the rise of oil prices, which had negative effects on consumers in industrialized nations; b) with the expansion of international liquidity and the rise in interest rates, which provided benefits for the private banking sector; and c) with the current fall of oil prices and prices of other raw materials, which constitutes a transfer of income from producer nations to the grand consumers of Japan, Europe and the United States. Undoubtedly, multiple operative mechanisms can be created or applied to resolve the problem if there is real political will to do so.

An unpayable debt. Photo by Rossy Alemán/Imagen Latina

The past Mexican government which assumed power on December 1, 1982, with a foreign debt estimated at 86 billion dollars, ended its term six years later with a debt that amounted to 108 billion dollars, in spite of the fact that there was no economic growth during the period, while there were three re-structurings of the debt, with their respective additional costs, and fluctuating interest rates (prime rate or libor) which knew no limits. Consequently, the official information about the advance in resolving this problem is false and illusory. With payments of more than 13 billion dollars annually due in 1989, 1990 and 1991, the truth is that we are worse off now than we were six years ago.

The Mexican government has the undeniable right to take the initiative to design a proposal for the reconversion of the foreign debt which would allow a discount on the principal of the loans in different proportions, according to the profitability of

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its foreign currency earnings; at the same time it should adjust interest rates to make them compatible with the productivity of endebted institutions or of the entire export sector. The idea is to construct a reconversion package on Mexico's foreign debt which would include the proposal, on solid technical and juridical bases, to reduce capital and interest rates due, according to the external rentability of the various indebted institutions, so as to protect the creditability of more efficient enterprises, and thus affect their normal operations as little as possible. This should be the basis for a realistic and congruent negotiating position of the sovereign debtor which is the government of this Republic.

Thus, we propose:

1) that the servicing of the accumulated external debt on the current conditions, be suspended immediately.

2) that the Executive, together with the Congress, prepare a package for the new renegotiation, according to the net productivity of external credits.

3) that the principal, interests, terms and periods of grace be adjusted, taking into account the real payment capacity of the indebted institutions, and the kinds and characteristics of creditors.

4) Until a new equitative and realistic agreement is reached, fresh foreign currency received by the country for its export sales, be used to finance the reactivation of the economy, and that only 10% of these earnings be destined to pay the accumulated debt, giving preference to those creditors who demonstrate a disposition to accept new payment terms.

5) An immediate exploration of access to new credit institutions, especially Latin American ones, to finance profitable exports and investment projects, and that contracts be made with those institutions which accept the country's new negotiating position, whether or not they are affected by it.

6) That political parties which agree with this proposal, support the country's new negotiating position, through wide spread popular movilizations, and that they encourage the concertation of productive factors with this same aim. □