The Bankruptcy of Mexico

CounterPunch

JANUARY 1, 1995 | Written by Ken Silverstein & Alexander Cockburn | VOL. 2, NO. 1

Case of the Plummeting Peso

A Hyped Economy's Rise and Fall

The end of the dream life of the Mexican peso came suddenly in mid-December, when new President Ernesto Zedillo was forced to allow it to trade freely against the dollar. The Mexican currency promptly crashed, falling forty percent in a week. No **CounterPunch** reader should have been surprised.

Even as newspapers here were trumpeting the achievements of outgoing president Carlos Salinas and heralding Mexico's emergence as an economic superpower, **CounterPunch**'s Dec. 1 issue detailed the crumbling foundations of that country's fictitious "boom." Weeks later the Mexican economy collapsed for precisely the reasons that we had pointed to in our report.

Echoing the Mexican government's official line, the U.S. media laid much of the blame for the current turmoil on political instability caused by renewed tensions in Chiapas. In reality, Subcomandante Marcos and the Zapatistas played only a minor role in the peso affair.

The immediate cause of the crisis was the overvaluation of the peso, which had been trading at a government-imposed ceiling of 3.45 to the dollar. A Mexican business could take its pesos to the Central Bank, convert them to dollars at this immensely favorable rate, and use the money to finance company imports with cheaply bought U.S. currency. Imports to Mexico were thus also absurdly cheap and exports ridiculously expensive, leading to an enormous – and unsustainable – trade deficit of $30 billion for 1994.

Salinas, darling of the press, was responsible for the overvaluation of the peso. Such a policy was demanded by major U.S. investment houses – which have been pouring money into Mexican stocks and bonds, thereby allowing the government to finance the trade deficit – because it protects the value of their Mexican investments by allowing favorable conversion back into dollars. The Harvard-trained Salinas, who skimmed generously from the rich flow of foreign money, was only too happy to accommodate his First World friends.

With the peso's collapse, U.S. holders of Mexican securities were massacred. According to a financial specialist we spoke with, losses for U.S. holders of Mexican bonds will come to some $25 billion, far higher than the $10 billion in total losses being talked about in the press.

Big institutional investors, not being stupid, knew that the roof would one day fall in; but they have the wherewithal to take an occasional beating. As always, the main losses will be borne by the small fry, many who were lured into Mexico by U.S. brokers promising easy pickings.

Foreign investors were horrified by the peso's devaluation, all the more so because under Salinas such unpleasing surprises were unthinkable. *The New York Times*'s Anthony de Palma contrasted the brusque policy shift with the comfortable situation previously existing, saying that Salinas's Finance Minister, Pedro Aspe ("a distinguished aristocrat"), had always made sure that "important New York investment bankers and money-fund managers ... were consulted before any significant shift in economic policy."

De Palma's colleague at the *Times*, Tim Golden, also expressed displeasure with the Mexican authorities. The devaluation, he wrote with grave distress, marked a tragic end to the prosperity of the Salinas era, when "a closed economy [was] thrown open by bold technocrats

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Back from the Future

"[A Mexican] confronted with the phrase 'underdeveloped nation' is apt to assume the expression of a man trying desperately to recall something vaguely familiar but far, far away."

– from *The New York Times* 1964 survey of Latin America

USAir, Safety and the Fate of Flight 1016

With five of its commercial airliners having crashed since 1989, USAir in late November launched a $2 million advertising campaign to try to convince the public that its planes are safe. An open letter from USAir Chairman Seth Schofield, which ran in 47 newspapers, announced that the company had appointed retired Air Force Gen. Robert C. Oaks as corporate vice president for safety and regulatory compliance. "We will not rest until each and every member of the flying public shares in the certainty of our commitment to be the safest of airlines," Schofield declared.

But air safety may not be amenable to clean-up on the brisk schedule trumpeted in USAir's public relations campaign. An aerospace engineer has described in detail to **CounterPunch** how:

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Published twice monthly except August, 22 issues a year:
$40 individuals,
$100 institutions,
$25 students/low-income.
CounterPunch.

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- His warnings about a flawed Windshear Computer (WSC) were apparently bushed aside by his employer, the Douglas Aircraft Company (DAC), a division of McDonnell Douglas Corporation, which builds USAir's DC-9 aircraft. One DC-9 equipped with the WSC was involved in a fatal crash last summer.
- His efforts to alert the Federal Aviation Administration (FAA) led swiftly to the usual fate of whistleblowers: summary dismissal;
- After the above-mentioned crash, his letters to USAir and to Delta, another company which flies DC-9s equipped with the flawed windshear computer, were ignored; his further attempts to interest the trade press – notably *Aviation Week* – in the case were brushed aside.

On July 2 USAir's Flight 1016 crashed as it neared the Charlotte/Douglas International Airport in Charlotte, North Carolina. Thirty-seven passengers died and 18 were seriously injured.

The cause of the crash was the failure of the Honeywell Windshear Computer, which is designed to alert pilots when they have entered rapidly shifting air, an especially dangerous phenomenon during take off and landing.

Though the Charlotte incident involved one of the most severe cases of windshear ever observed, the WSC aboard USAir's DC-9 never alerted the pilot prior to the crash. Perhaps because the computer offered no warning, the crew ignored an advisory of severe wind shear transmitted from the Charlotte tower a minute before the plane hit the ground.

Denis Brasket, a retired aerospace engineer in Minneapolis who has worked for Honeywell and McDonnell Douglas, was not surprised to hear about the disaster. In February of 1987 Brasket was hired to work at DAC in Long Beach, California, as a contract engineer. His task was to provide the company with an understanding, and a computer simulation, of a WSC that Douglas had purchased for installation on its DC-9 aircraft.

Douglas purchased the WSC from Sperry – a division of that company later bought by Honeywell – after reviewing bids from half a dozen firms. Brasket says the decision to go with Sperry, made after junior engineers hastily evaluated the competing proposals during the course of one week – was made on the basis of cost and past business relationships.

During the next year Brasket produced a computer-generated simulation model which he used to analyze the performance of the WSC. He found a number of potentially disastrous software flaws in the system, and became convinced that the WSC needed a major redesign. "I encountered resistance, first in selling the necessity of changes to Douglas engineers, and then more difficulty in getting the changes accepted by the WSC manufacturer," Brasket recalled to us.

Brasket's efforts to alert the FAA led swiftly to the usual fate of whistleblowers: summary dismissal

By April of 1988, Brasket had gotten several of the flaws in the system corrected but he believed the WSC remained a dangerous system. Concerned by the potential for catastrophe, Brasket turned to local FAA authorities, conveyed his fears and urged the agency to conduct substantial in-house computer simulations to review the system.

Two months later Brasket was summarily fired after Douglas learned that he had spoken to the FAA. It was, in fact, the FAA which informed the company that he had contacted Aviation Administration officials. That the FAA relayed Brasket's report back to his employer isn't surprising given that the agency has traditionally maintained an exceedingly warm relationship with the industry it is supposed to regulate and monitor.

In early 1989, the FAA certified the DC-9 and its WSC. "The production schedule was paramount," Brasket commented "They just wanted to sprinkle the system with holy water and get it out the door."

John DeLisi of the National Transportation Safety Board, which investigated the crash, says Brasket, with whom he has spoken, didn't provide specific details of the problems he encountered while analyzing the system. Therefore, he says, the WSC manufacturer might have corrected the problems Brasket pointed to after he was fired.

But DeLisi concedes that the NTSB's general findings were consistent with what Brasket told him. The Board recently concluded its investigation of the crash. In a Nov. 28 report it found that the "onboard windshear warning system failed to annunciate any warning to the flight crew ... The Safety Board believes that the FAA should initiate action to correct this safety deficiency and to alert flight crew members of the current limitations of this system."

Brasket says that at the time of his firing he was the only person at Douglas familiar with the Wind Shear Computer. Since the system was approved some six months later, he's convinced that the WSC went into production in the same shape it was in when he saw it: "In 1988 I knew, with absolute moral certainty, that the WSC being put into Douglas aircraft was a piece of junk ... I've been waiting ever since for an aircraft equipped with that WSC to crash in episodes of wind shear."

After Flight 1016 crashed Brasket sent letters to J.R. Powers, the director of engineering at Delta, which also uses the Honeywell WSC, and to Frank Salizzoni, president of USAir. Neither was answered. Brasket also wrote Sen. Paul Wellstone of Minnesota, who forwarded his letter to the FAA, which has not yet replied.

Despite lengthy conversations with Brasket, *Aviation Week* – a magazine which shills for the aerospace industry – refused to publish his letter to the editor sent in response to several pieces it had published about the July crash. FAA officials in Long Beach and Minneapolis were not interested in hearing Brasket's story.

Perhaps USAir might devote one of its full-page ads to commentary on Brasket's experiences. ■

Tales of Two Hats:
The Ms. from Monsanto

By day Carol Tucker Foreman bustles through the corridors of Washington, lobbying for the outfit she founded, the Safe Food Coalition. A former assistant secretary of agriculture in the Carter era, she's a familiar sight on Capitol Hill, lobbying for tougher standards on inspection of meat, poultry and fish products.

But Foreman also lobbies for Monsanto, the St. Louis-based chemical giant that markets the milk-inducing cow drug, recombinant bovine growth hormone (BGH). For some food safety groups BGH is as prime an enemy as cancer-causing pesticides, of which Monsanto is also a leading producer. Certainly, BGH is the death knell for many small dairy operations or those farmers unwilling to add yet another substance to the extant array of additives to animals and milk.

When Foreman's twin-hat roles were disclosed in the Madison-based newsletter *PR Watch* last fall, her pals in Washington's public interest world were inclined to be forgiving. Tom Devine of the Government Accountability Project – part of the Safe Food Coalition – told *PR Watch* that "as an effective ally Carol is unsurpassed". Other members of the coalition include Public Citizen, Center for Science in the Public Interest and Public Voice for Food and Health Policy.

Foreman herself won't disclose the hefty retainer paid by Monsanto. She concedes that "it puts me in a grey area," but says that her relationship with Monsanto "has never been a secret." At least two members of the Safe Food Coalition – from the Consumer Federation of America and the American Association of Retired Persons – have told *PR Watch* that Foreman's lobbying for Monsanto was news to them.

Foreman heads a public policy consulting firm, Foreman and Heidepriem, whose clients include Aetna Life and Casualty – commonly regarded as the mad dog of the insurance pack – and Emily's List, the PAC that puts up money for Democratic women candidates. The Center for Responsive Politics listed Emily's List as the second largest "ideological/single-issue" contributor in 1992, sandwiched between the National Rifle Association and the National Committee to Preserve Social Security. In 1992 Emily's List unbuckled $6 million.

Foreman has been on the boards of several public interest groups, sitting cheek by jowl with some of the most notorious influence peddlers in the capital: at Public Interest with Agriculture Undersecretary Ellen Haas and Commerce Secretary Ron Brown; at the Center for Public Policy with Hill and Knowlton's Anne Wexler; at the Food Research and Action Center with former Agriculture Secretary Mike Espy and David I. Greenberg of Philip Morris.

With such connections Foreman is a heavy-hitter in Democratic Party fundraising circles. Her brother, Jim Guy Tucker, was lieutenant governor of Arkansas, graduating to the governor's mansion in Little Rock when Clinton went to Washington. Tucker has come under a Whitewater-related cloud, in the form of inflated property estimates used to support loans to him from Madison Guaranty Savings and Loan.

A press release issued by Foreman's Safe Food Coalition back in early November of 1993 praised then-Agriculture Secretary Espy's untiring efforts to "overcome the combined effects of inertia, ineptitude and industry influence that permeate Food Safety and Inspection Service." In due course it turned out that inertia and industry influence were high on Espy's personal list of priorities as agriculture secretary, as symbolized in his friendly relations with Tyson's Chicken, the poultry behemoth of Arkansas.

Grassroots activists for clean food have reported how Foreman uses her status as coordinator of the Safe Food Coalition to inveigle these activists to Monsanto hq in St. Louis. There they are wined, dined and treated to rapturous disquisitions on the merits of bovine growth hormone by Dr. Virginia Weldon, Monsanto's main PR flack for BGH and, last August, named by Clinton to his new Committee of Advisors on Science. ■

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trained in the Ivy League." (We hear that Golden – whose position at the *Times* surely owes much to the Sulzberger blood trickling through his veins – is furious over our Dec. 1 revelations about his shoddy performance as head of the newspaper's Mexico bureau.)

The peso's devaluation spells hard times ahead for Mexico. Inflation for 1995 is expected to double, to a rate of roughly twenty percent. The weaker peso also means, *ipso facto*, a huge increase in the country's foreign debt, which at $166 billion is already far higher than in 1982 when Mexico's bankruptcy set off the Latin debt crisis. "There's no way they'll be able to service their debt with the new exchange rate," an investment consultant told us. "Mexico is quickly headed in the direction of a new debt emergency."

The combination of devaluation and the fury of U.S. investors also means an end to the inflow of foreign capital into Mexico, which has allowed Mexican authorities to cover the trade deficit. At an auction in late December the government was unable to sell a single one-year bond, even after hiking interest rates on those notes to more than 20 percent.

Given the economic environment, most foreign investors – who hold roughly $29 billion in bonds coming due in 1995 – will cash out instead of rolling over their notes. The government will have no way to make payments to those bondholders. Its reserves have fallen from $25 billion a year ago to a current level of perhaps $6 billion (between $5 to $7 billion was spent during the last few weeks in a futile effort to prop up the peso). In short, Mexico is bankrupt.

A final result of the peso's dive is the shattering of the myth, cooked up by the Clinton administration and peddled by the press, that a NAFTA-generated export boom would create hundreds of thousands of new U.S. jobs. With its currency weakened, Mexico's ability to buy goods from the U.S., or anywhere else, has been reduced to near zero.

To prevent immediate catastrophe, the Clinton administration is preparing an $18 billion rescue package, with much of that money being in the form of new loans. This will merely provide short-term relief, while aggravating the overall debt problem. "The U.S. Treasury Department is off its gourd," one of our informants on Mexico told us in summing up the administration's proposed strategy. "Using new loans to muddle through the crisis is a totally stupid use of borrowed money."

To prevent the IMF, the Paris Club and other international lenders from exercising even greater control over its economy, Mexico would be better advised to keep new debt exposure to a minimum. This will make life difficult in the short-term, but is far preferable to the alternative posture of prostrate subservience to the whims of First World financial technocrats and saber-toothed bankers.

Our sources tell us that in exchange for the bailout the U.S. Treasury Department has extracted pledges of "mature" policies from the Mexican government. Zedillo is already pledging to cut this year's federal budget by 5 percent of gross domestic product and demanding "wage restraint" from unions. This latter news was seen as a silver lining by *The Wall Street Journal*. In a Dec. 30 report, the newspaper said that "even if Mexico goes into a recession next year, analysts say many Mexican companies won't be hurt much. And the lower wages [in Mexico], when calculated in dollars, should attract much more U.S. interest after a few months of uncertainty."

American journalists are forever predicting economic "boom" and imminent First World status for Latin America. *The New York Time's* 1957 regional roundup proclaimed that the region was "forging ahead, " with trade "at a peak." Mexico was "prospering despite drought"; Venezuela was exploiting a "growing bonanza"; and Argentina – "her stocks soar" – was becoming "one of the world's greatest breadbaskets and meat lockers." Those countries, and the rest of the region, soon tottered into prolonged crisis.

The same pattern is emerging now. Mexico, hailed in recent years as a "model" for the Third World, is confronting political and economic chaos. In Venezuela, proclaimed a "star" at the start of the Nineties when annual growth rates were 10 percent, the economy has collapsed and free-market champion Carlos Andres Perez was driven from the presidency on corruption charges. Despite current appearances of well-being, Argentina suffers from the same problems which brought down Mexico, namely an overvalued currency and huge trade deficit, not to mention a thief as president, in the person of Carlos Menem.

Unlike other Latin nations, the U.S. can't afford to let Mexico go completely down the drain, due to its location and effective insertion into the American economy. However, the peso affair brings to a sudden end Mexico's brief reign as This Year's Model. ■

EL FINANCIERO ♦ MIERCOLES 7 DE DICIEMBRE DE 1994

Homenaje al exmandatario en Washington

Salinas puso a México a disposición de Wall Street: Silvertein y Cockburn

Our disclosures in the Dec. 1 edition of *CounterPunch* generated a major story six days later in *El Financiero*, Mexico's leading newspaper for the business class.