Tells the Facts and Names the Names

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How Rubin Saved Himself:

"L'État C'est Moi"

The paramount hemispheric drama this March remains the economic disintegration of Mexico, together with the plunge of the dollar, shackled by the U.S.-sponsored bail-out to a peso on the ocean floor. The Clinton administration, leading Republicans and Democrats on the Hill, along with the press, have made an extraordinary, concerted effort to suppress any unpleasant questions about the handling of the debacle by the nation's de facto chief-of-state, Treasury Secretary Robert Rubin.

This bipartisan cover-up has thus far shielded Rubin from conflict of interest charges stemming from his past ties to Mexico while serving as co-chairman of New York's Goldman, Sachs investment house. The nation's political and communications establishments are completely untroubled by practices which, to the average eye, are flagrantly corrupt.

Defenders of the treasury secretary have managed to equate any call for a probe of Rubin's role in the bail-out with holding a public reading of the *Protocols of the Elders of Zion*. At *The New York Times*, Frank Rich labelled Rubin's critics anti-Semitic. Almost simultaneously, House Banking Committee Chairman Rep. Jim Leach of Iowa was given space on *The Washington Post*'s editorial pages to denounce the "Rothschildean" fantasies of people who question the treasury secretary's motives in riding to the rescue of U.S. and Mexican financial elites.

It's therefore tasteless to mention that during his years on Wall Street, Rubin was so intimately involved with Mexico that when he joined the administration in 1993 – as head of the National Economic Council – he recused himself for a year from Mexican-related matters. Among Rubin's clients while at Goldman, Sachs were the Mexican government, five major Mexican firms or state agencies, and a number of U.S. companies with substantial business in Mexico.

Rubin's Mexican operations were a gold mine for his firm. One banking analyst tells us that in recent years one-third to one-half of Goldman, Sach's profits came from its emerging markets trading, with the lion's share being generated by profiteering in Mexico.

The degree to which Treasury Secretary Rubin faced enormous personal exposure after Mexico's economic collapse is a topic on which there has been a tomb-like silence. Rubin's 1994 financial disclosure statement says that he "may be subject to liabilities arising out of the activities of Goldman, Sachs during the period" when he worked at the firm. The investment house is a limited partnership. So if Goldman, Sachs is sued by a client who took a beating on "safe" Mexican bonds purchased while Rubin was at the firm, the treasury secretary and other partners are personally liable, possibly for very large sums.

By enabling Mexico to make good on its commitment to bondholders, the bail-out was, *inter alia*, a publicly-financed insurance policy for Rubin and Goldman, Sachs, along with other large investment houses and banks. Rubin's former colleagues have doubtless been further reassured by the "Framework Agreement For Mexican Economic Stabilization" signed by the U.S. treasury secretary and the Mexican Ministry of Finance on Feb. 21, which gives the Treasury Department "the right to distribute, in such manner and in such order of priority as it deems appropriate" the Mexican export revenues it now controls. In other words, Rubin has the power to grant first right of payment to, say, holders of Mexican bonds purchased from Goldman, Sachs.

IN THIS ISSUE

The Dismal Science

"The stock market, apparently giddy over the announcement of a plan to rescue the Mexican economy, soared to record levels today despite reports of new job growth that in the past have put investors in a sour mood."

– *The Washington Post*, March 11, 1995, on Wall Street's reaction to Mexico's new austerity measures, which are expected to put one million people out of work.

This buttressing of private risk with public money extends beyond Rubin's stay at Goldman, Sachs. During the last few years, the firm was the leading underwriter of Mexican stocks and bonds, marketing $5.17 billions' worth of securities (well ahead of second-place J.P. Morgan, which had $2 billion in sales). As recently as February, as Mexico's economy crashed in rubble, Goldman, Sachs and several other major financial institutions underwrote the sale of $137 million of bonds from Pemex the state oil monopoly.

In such perilous hours for investors, no disquiet disturbed the purchasers of these notes. They were guaranteed by the U.S. Export-Import Bank, which is headed by Kenneth Brody, Rubin's friend and former colleague at Goldman, Sachs.

Sensing that Clinton could be badly hurt by the bail-out, top Democrats have rallied around their leader. When Rep. Ernest Istook (R-Okla.) discreetly raised Rubin's role at a Congressional hearing in early-March, Sen. Paul Sarbanes, the liberal Democrat from Maryland, charged him with "character assassination" and called even the suggestion of impropriety on the part of the treasury secretary "an outrage."

Some left-of-center Democrats also opposed a resolution of inquiry introduced by Rep. Marcy Kaptur (D-Ohio), which requires the administration to provide Congress with documents detailing what top officials knew about the true state of the Mexican economy prior to the peso's collapse. While the resolution passed by a vote of 407-21, prominent liberals such as John Conyers, Barney Frank, Richard Gephardt and Charles Rangel were in the tiny handful who opposed it. "The timidity of the party's liberal wing [on Mexico] is proportional to perceptions about Clinton's political vulnerability," one Democratic staffer told us. "There's a sense that we could knock him over on this one."

Key Republicans have been aiding the Clinton administration in blocking a probe into Rubin's handling of the bail-out. Jim Leach, that quintessential establishment figure, opened an enormous loophole in Kaptur's resolution by attaching an amendment which allowed the administration to withhold documents from Congress if their provision was "inconsistent with the national interest".

A congressional staffer also tells us that at a meeting in late January, Leach and several other GOP figures, including Senate Majority Whip Trent Lott (R-Miss.) and House Speaker Newt Gingrich — whose political action committee, GOPAC, has received more than $80,000 from Goldman, Sachs executives — concluded that Clinton's original bail-out plan was dead in Congress.

One member of the group — the staffer guesses it was Leach — called Rubin to urge him to use the Treasury's Exchange Stabilization Fund to "rescue" Mexico. Rubin hesitated, saying that use of the Fund, which requires no authorization from Congress, could cause a political uproar. The caller assured Rubin that "no one in Congress is going to complain". A gratified Rubin replied that this pledge "would change everything".

Even then, it looked as if Republican ultras might rock the boat. Sen. Al D'Amato has been hospitable to vivid excoriation of the bail-out, even inviting Ralph Nader to testify before his Senate Banking Committee. But D'Amato's resolve in exploring Rubin's role in patching together the Mexican package has been draining away. At a recent hearing, he chastised a Republican colleague who touched upon the subject, saying "I don't think we should go down that track."

Our congressional source suspects that D'Amato's sudden adoption of a demure posture is linked to the fact that Bob Dole — an ardent behind-the-scenes bail-out supporter — recently named the New York senator to a top post in his presidential campaign. "I think there's a gut-level recognition by D'Amato that he shouldn't embarrass Dole by being too aggressive on the subject of Rubin," this person says.

The usual coarse inducements may also have played a role. D'Amato has received substantial financial backing from Rubin's old firm, earning him the nickname of "The Senator from Goldman, Sachs." Bob Guiffra, a D'Amato staffer and the senator's point man on Mexico, formerly worked for Sullivan & Cromwell, a leading law firm whose client list includes Goldman, Sachs.

In regard to Rubin, even the normally rabid Rep. Spencer Bacchus (R-Ala.), chair of the House Banking oversight and investigations subcommittee, has become mannerly. He still plans hearings on the bail-out at the end of the month, but his staff is under intense pressure from the GOP leadership to proceed with caution.

Rubin's former intimacy with Mexico's kleptocrats, a relationship established beyond question, demands investigation. The treasury secretary's private sector clients while at Goldman, Sachs included major companies owned by men whose close ties to Carlos Salinas allowed them to loot Mexico during the former president's six-year term. Especially lucrative to Goldman, Sachs' clients was Salinas' privatization program, by which state assets were transferred to well-connected cronies on immensely favorable terms.

One Mexican firm Rubin worked with was Telmex, whose post-privatization holder is Carlos Slim Helu, the richest man in Latin America with a fortune estimated at $6.6 billion. Because the Mexican government allows it to gouge consumers with extortionate rates, Telmex has the enviable status of being the most profitable telecommunications company in the world.

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Another of the treasury secretary's clients was the Banco Nacional de Mexico, privatized in 1992 and now directed by Roberto Hernandez Ramirez. He merged it with other properties to create Banacci, Mexico's biggest financial group with a market value of $10 billion.

According to *Forbes*, of the 22 Mexicans who became billionaires after 1991, 12 had fortunes distended overnight by the Banco Nacional's privatization. "Banacci helped underwrite many of Mexico's biggest stock listings," reported the magazine. "For the 12 Banacci billionaires, getting in early on the *bolsa* boom meant first pickings at the feed line."

Among other Goldman, Sachs' clients during Rubin's years was Gemex, the largest independent Pepsi bottler outside the U.S. In 1992, Goldman, Sachs arranged the sale on the New York Stock Exchange of $135.5 million worth of the company's stock.

Gemex is owned by Enrique Molina Sobrino who, Mexicans joke, is the only Pepsi bottler whose primary business is distributing "coke". A few years back, Molina Sobrino bought 10 state-run sugar mills from the Mexican government for $1 billion. No down payment was made and, according to insiders we have consulted, Molina Sobrino was in default on his payments last November. In this crisis of Molina Sobrino's affairs, President Salinas hastened to the rescue. Shortly before his term ended, Salinas granted him a 10-year grace period during which time no payments are due.

The Molina Sobrino deal was only one of the sweetheart arrangements endemic to Salinas's privatization program. Amid such epic plunder, it's simple to see why the peso collapsed last December.

As U.S. investors and their political allies engineer financial bail-out and political cover-up, Mexico descends into the abyss. President Zedillo's new austerity measures — announcement of which sparked a stock market rally in New York — will put an additional 1 million workers on the street.

Little of the bail-out money will be available to cushion the blow. Mexico received $10.9 billion in international assistance during the first two months of the year. Nearly $9 billion of that was used to pay off holders of maturing government bonds and bank certificates of deposit. ■

From Electronic Battlefield to Electronic Dungeon

One of the few vibrant sectors of the nation's economy is the prison-industrial complex, with penitentiaries — some of them scheduled to be entirely underground — under construction from coast to coast. But with somewhere around 1.4 million people already incarcerated and with millions more headed for the slammer in years to come, there's already a serious capacity problem.

The 1994 Crime Bill partly addressed this by severely circumscribing the power of judges to rule that overcrowding violated a prisoner's constitutional rights. Even so, there is a physical limit to how many humans can be crammed into a cell.

"True electronic incarceration would involve active restraints, such as a remotely applied zap of electricity."

U.S. engineers are edging toward a solution, which has the enormous advantage of putting some high-end, high-wage R&D from the military-industrial complex into the lamentably low-end, low-wage prison-industrial sector.

Since 1993 the Pentagon's Advanced Research Projects Agency has been pumping money into TCIMS, aka the Trauma Care Information Management System, whereby monitors worn by soldiers transmit their vital signs over wide areas, enhancing rescue possibilities and — presumptively — triage calculations. Recipients of Pentagon money include AT&T and Rockwell, plus universities and other corporations.

Such technology is now being applied to incarceration, as excitedly outlined by three men — Joseph Hoshen of Bell Labs, Jim Sennot of Bradley University and Max Winkler of the Colorado Department of Corrections — in the February 1995 issue of *IEEE Spectrum*, journal of the 300,000-member Institute of Electrical and Electronic Engineers.

The trio deplore the primitive nature of present electronic monitoring systems, especially the electronic transmitting "bracelets" which are now used on nearly 70,000 people. These are designed to keep offenders under house arrest but have a serious flaw: it is impossible to monitor the prisoner if he or she simply leaves the monitored area and strays out of the range of the central tracking system.

Second-generation systems change all that. Prisoners will be under continuous electronic surveillance through such networks as GPS, the satellite system lofted by the Pentagon in the Cold War era to aid navigation, targetting, etc.

But what really brings a glow to the authors' cheeks is the third-generation system, which is capable of stopping offenders from removing or destroying their electronic handcuffs and fleeing justice: "In some eyes, a true electronic incarceration would involve active restraints, such as a remotely applied zap of electricity, for better control of the offender's behavior."

This projection of electronic wardens applying their remote-control cattle prods is a high-tech reprise of past schemes to "reform" criminals by electro-convulsive therapy. Ideas of reform have now been abandoned and we are left with the punitive zapping from afar.

All the old Fifties police fantasies are being rehabbed for the millennium. Los Angeles's Chief Parker used to dream of an overhead seeing eye monitoring every square yard of the city.

Our three engineers note laconically how it will soon be possible to invigilate electronically, and if necessary punish every individual in the polity. "Stalkers" will be deterred from approaching their prey by unseen electronic barriers.

Meanwhile, electronic oversight is reaching into every American home by the simplest mode of entry: the family pet. Cabela's catalogue offers, for $84.95, the "No Bark Trainer". This handy device "emits a safe electrical stimulation that is activated by the vocal chord, so, in effect, the dog punishes himself when he barks." ■

Look, No Warts!

The Re-Making of a President

To reassure U.S. investors and voters that Mexico and American bail-out money is in safe hands, both the Clinton administration and press have been nourishing Ernesto Zedillo with a vigorous image-enhancement program. Mexico's new president is now routinely portrayed as a bold reformer determined to bring democracy to Mexico. This last sentence may have a familiar ring, and indeed it is part of a time-encrusted tradition by which government and media cheer each incoming Mexican president's supposed zeal to discard the corrupt practices of his predecessor – the very man who himself had been lauded at the inauguration of his term as a doughty democratic champion flourishing the clean broom of reform.

This cosmetic enterprise has reached ludicrous levels with Zedillo, a hack who has figured prominently in PRI affairs for decades. In recent stories, *The New York Times*' Tim Golden found Zedillo "accelerating the pace of political change," while Robert Bartley, editor of *The Wall Street Journal*, reported from Mexico that the new president sees his mission as "cleaning up the political system." Bartley mentioned the clouds of scandal swirling around Salinas, but failed to note that the ex-president recently joined the board of Dow Jones & Co., the *Journal*'s publisher.

Similarly respectful of Zedillo's passion for reform has been Thomas Friedman of the *Times*, who spent several days in Mexico interviewing Zedillo's aides and ministers – described as "nice guys who are in a bit over their heads." Friedman listed a long string of measures implemented by Zedillo, including sacking the "entire corrupt" Supreme Court, "empowering" the previously "rubber-stamp" legislature and, apparently a sure sign of Zedillo's "reforms," suppressing "the guerilla insurgency in Chiapas." Friedman wrote that if Zedillo succeeds, "we will finally have the sort of democratic Mexico as a neighbor that we have long coveted."

Perusing these inanities, one nostalgic Mexico watcher compared Friedman's reporting to the work of the late Joseph Kraft, a peripatetic pundit whose specialty was the discovery of Periclean wisdom and Solon-like integrity in whatever scoundrel was deemed at the time of travel to be supportive of U.S. interests.

Zedillo has decreed some democratizing measures, but such impulses stem more from the requirements of political survival than from a desire to assist the poor. "Zedillo is surrounded by people who are loyal to Salinas," says Eduardo Valle, the ex-head of the attorney general's anti-narcotics team who fled Mexico in 1994 after exposing official corruption. "He is fighting for control of the government; if he takes no initiatives on the political front he'll be unable to govern."

Zedillo's career as a PRI apparatchik has also been politely skirted. His political godfather is Miguel Mancera Aguayo, president of Mexico's Central Bank and one of the primary culprits in the collapse of the country's economy. Mancera took a liking to Zedillo when the latter worked as an intern at the Central Bank in the 1970s, and he arranged for the Central Bank to finance Zedillo's undergraduate education in Mexico and his graduate work at Yale.

Also overlooked is Zedillo's service to the Salinas government, including his work as head of the Ministry of Education. This is a vital post – tantamount to ideological commissar – because the ministry controls the hiring of school teachers, considered to be the PRI's shock troops since they offer the party one of its only nationwide presences.

Credulously accepted as well is Zedillo's claim that when he took power he was completely unaware of the gravity of the economic situation facing his country. If this assertion were true it would be a sad testament to the Mexican president's intellectual capacity, since Zedillo is a trained economist and has held senior governmental positions for a decade. "Zedillo obviously knew in copious detail the status of reserves at the Central Bank and was aware of the peso's being overvalued," a banking source told us.

Certainly Zedillo was mindful of the fact that the Central Bank spent huge sums of money last year in order to help him win the presidency. Under Mancera's watch, the country's monetary base grew by more than 20 percent in 1994, three-and-a-half times the rate in 1993.

Meanwhile, poor Salinas has been cruelly abandoned by U.S. officials after years of faithful service. Less than two years ago, Henry Kissinger was lauding Salinas for "turning Mexico on its head. He opened it to foreign investment, lowered tariffs, insisted on free competition, quelled corruption and brought into an office an extraordinary group of young, highly-trained technocrats. I know no government anywhere that is more competent." Today, Salinas is viewed as an embarrassment by his former friends in the government and the press.

Still, Salinas' own depredations have received little attention. A long *Washington Post* report on corruption in Mexico on Mar. 12 said that U.S. officials had "generally thought of [Salinas] as untainted".

Eduardo Valle disputes that assessment, saying that Salinas was well informed about his ministers' plundering of the state treasury, especially the notorious former Agriculture Minister Carlos Hank Gonzalez. In an interview, he drolly labelled Salinas *il capo di tutti capi.* ■