The Mexican Debt Crisis and the World Bank

By Eric Toussaint
Global Research, August 08, 2019

Region: Latin America & Caribbean, USA
Theme: Global Economy, History

In 2019, the World Bank (WB) and the IMF will be 75 years old. These two international financial institutions (IFI), founded in 1944, are dominated by the USA and a few allied major powers who work to generalize policies that run counter the interests of the world's populations.

The WB and the IMF have systematically made loans to States as a means of influencing their policies. Foreign indebtedness has been and continues to be used as an instrument for subordinating the borrowers. Since their creation, the IMF and the WB have violated international pacts on human rights and have no qualms about supporting dictatorships.

A new form of decolonization is urgently required to get out of the predicament in which the IFI and their main shareholders have entrapped the world in general. New international institutions must be established. This new series of articles by Éric Toussaint retraces the development of the World Bank and the IMF since they were founded in 1944. The articles are taken from the book *The World Bank: a never-ending coup d'état. The hidden agenda of the Washington Consensus*, Mumbai: Vikas Adhyayan Kendra, 2007, or *The World Bank : A critical Primer* Pluto, 2007.

*

Robert McNamara and president **Luis Echeverria** (1970-1976) were thick as thieves. The Mexican president had cracked down on the radical left. From 1973 on, Mexico's foreign currency revenue soared thanks to the tripling of oil prices. This increase in currency revenue should have prevented Mexico from borrowing. However the volume of WB loans to Mexico rose sharply: it quadrupled from 1973 to 1981 (from USD 118 million in 1973 to 460 million in 1981). Mexico also borrowed from private banks with the World Bank's backing. The volume of loans from private banks to Mexico multiplied by 6 between 1973 and 1981. US banks led the field, followed in decreasing order by banks from the UK, Japan, Germany, France, Canada, and Switzerland. The amounts loaned by private banks were ten times those borrowed from the World Bank. When the crisis broke in 1982, there were no less than 550 banks to which the Mexican government owed money! Lending money to Mexico was the World Bank's way of keeping its hold on Mexican authorities. From 1974 to 1976, the predicament of Mexican public finances seriously worsened. Yet the World Bank insisted that Mexico should contract more debts while the alarm signals were flashing.

On 3 February 1978 the World Bank boldly projected a rosy future:

> "The Mexican government almost certainly will experience a large increase in the resources at its disposal by the early 1980s. Our most recent projections show that … the balance of payments will show a surplus on current account by 1982… large increases in export revenues, mainly from petroleum and

> products, should make both the foreign debt problem and the management of public finance much easier to manage by the 1980s. The debt service ratio of 32.6% (of export revenue) in 76, will increase progressively to 53.1% en 78, and thereafter will decline to 49.4% in 1980 and about 30% in 1982." [1]

The exact opposite was to occur. Every word of this prediction was contradicted by facts!

In October 1979, when Paul Volcker, then chairman of the US Federal Reserve, decided on a steep rise in interest rates that would inevitably lead to the debt crisis (which was to start in Mexico), the World Bank had reassuring words. On 19 November 1979 we read: *"Both the increase in Mexico's external public debt and especially the increase in the debt service ratio, which in 1979 may become as high as 2/3 of its exports (...), suggest a very critical situation.* ***In fact, the truth is exactly the opposite****."* (author's emphasis). [2] This is quite simply astounding.

The World Bank's message consists of repeating that even when everything suggests there is cause for alarm, actually all is well, the situation is excellent, and you should just contract further debts. What would we think of a crossing-keeper who would tell pedestrians they should cross the railway lines when a red light clearly indicates that a train is arriving? What would a court say if such behaviour had resulted in loss of life?

Private banks of the North loaned exponentially higher amounts to developing countries, starting with Mexico.

One of the Bank's economists in charge of monitoring the situation sent a most alarming report on 14 August 1981. [3] He explained that he disagreed with the optimistic view held by the Mexican government and its representative Carlos Salinas de Gortari, minister of Planning and Budget. [4] He later had serious problems with his hierarchy, and even decided to lodge a lawsuit against the WB (which he won). [5] In 1981 the World Bank granted Mexico a 1.1 billion dollar loan (scheduled over several years): it was by far the largest loan granted by the WB since 1946. In the early months of 1982 the World Bank still claimed that the increase in the Mexican GDP would average 8.1% a year between 1983 and 1985. On 19 March 1982, i.e. six months before the crisis, the president of the World Bank, Alden W. Clausen, sent the following letter to the Mexican president **José Lopez Portillo**: [6]

> "Our meeting in Mexico City with your top aides reinforced my confidence in the economic leaders of your country. You, Mr. President, can be rightfully proud of the achievements of the last five years. Few countries can claim to have achieved such high growth rates, or have created so many jobs... I wish to congratulate you on the many successes already achieved. As I stated during our meeting, **the recent setback for the Mexican economy is bound to be transient**, and we will be happy to be of assistance during the consolidation process" (author's emphasis). [7]

Less than a year earlier, Alden W. Clausen still chaired the Bank of America, which was busy providing loan on loan to Mexico.

On 20 August 1982 Mexico, which had paid back considerable amounts over the first seven months of the year, stated that it could not pay any more. It decreed a six month moratorium (August 1982 to January 1983). It had only 180 million dollars in reserve and was expected to pay 300 million on 23 August. Already in early August Mexico had told the IMF that its currency reserve was down to 180 million dollars. At the end of August the IMF convened with the Federal Reserve, the US Treasury, the Bank for International Settlements (BIS) and the Bank of England. The director of the IMF, Jacques de Larosière, told the Mexican authorities that the IMF and the BIS were willing to grant currency loans in December 1982 on the twofold condition that the money be used to refund private banks and that Mexico implement drastic structural adjustment measures. Mexico accepted. It steeply devalued its national currency, considerably increased domestic interest rates, saved Mexican private banks from bankruptcy by nationalizing them and taking over their debts. In exchange, it seized the 6 billion dollars cash they had on hand. President José Lopez Portillo presented this measure to the Mexican people as though it were a nationalist move. He of course refrained from divulging that the 6 billion dollars would be used to pay back foreign bankers.

Who was really responsible for the Mexican debt crisis? Did Mexico start it?

Generally speaking, the reasons are obvious: a rise in interest rates decided in Washington, plummeting oil revenues and a huge debt are the structural causes. The first two are external factors and Mexico was helpless against them. The third one results from choices made by the Mexican leaders, whom the WB and private bankers encouraged to take on enormous loans.

Beyond these structural causes, which are fundamental, an analysis of how one thing led to another shows that private banks of the North started the crisis in that they significantly reduced the loans granted to Mexico in 1982. Aware that almost all available currency in the Mexican Treasury had been used to pay back the debt, they considered it was time to reduce their loans. In this way they brought one of the world's largest indebted countries to its knees. Seeing that Mexico was facing the combined effects of a rise in interest rates – from which they profited – and a fall in its oil revenues, they chose to act first and move out. An aggravating circumstance was that foreign bankers had aided and abetted Mexican ruling circles (CEOs and leaders of the party-State called the Institutional Revolutionary Party) who were frantically transferring their capital abroad in order to invest it safely. It is estimated that in 1981-1982, no less than 29 billion dollars left Mexico as capital flight. [8] After precipitating the crisis private bankers then further benefited from it – and left it for others to mend matters. The evidence can be seen in the following tables.

Table 1. Foreign banks' loans without any state guarantee and repayments to the banks (in million dollars)

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	Total
Loans from the banks	931	1,565	2,450	3,690	590	0	2,144	1,115	1,700	247	**14,432**
Repayments	860	1,390	1,450	2,090	2,890	1,546	4,630	3,882	3,490	2,453	**24,681**
Net transfer	71	175	1,000	1,600	-2,300	-1,546	-2,486	-2,767	-1,790	-2,206	**-10,249**

Source: World Bank, *Global Development Finance*, 2005

The table traces the evolution of loans granted by private foreign banks without any guarantee by the state. We note that after a huge increase from 1978 to 1981, loans fell drastically in 1982. On the other hand repayments did not decrease. On the contrary they increased by close to 40% in 1982. In 1983 bank loans had completely stopped. Yet repayments were still well underway. The evolution of debt net transfer, which had been positive until 1981, became seriously negative from 1982 on. All in all, between 1978 and 1987, negative net transfer accounted for more than 10 billion dollars in profits for the bankers.

Table 2. Foreign banks' loans with state guarantee and repayments to the banks (in million dollars)

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	Total
Loans from the banks	7,235	9,465	7,625	10,063	8,085	5,284	3,134	1,878	198	4,486	**57,453**
Repayments	5,349	8,582	6,706	7,226	7,260	7,571	7,654	6,922	5,345	5,170	**67,785**
Net transfer	1.886	883	919	2,837	825	-2,287	-4,520	-5,044	-5,147	-684	**-10,332**

Source: World Bank, *Global Development Finance*, 2005

Table 2 shows the evolution of loans from foreign private banks that were guaranteed by the Mexican state. We note the increase in loans from 1978 to 1981. In 1982 loans decreased by 20% while repayments increased. Bank loans decreased sharply until 1986. By contrast repayments by the Mexican state continued at a very high level. Net transfer on the public debt to foreign banks contracted with a state guarantee, which had been positive from 1978 to 1982, became very seriously negative from 1983. All in all, the net negative transfer between 1978 and 1987 accounts for over 10 billions dollars in profits for the banks.

If we add up negative transfers in the two tables we reach a sum of over 20 billion dollars. Private banks in the North extracted juicy benefits from the Mexican people.

Table 3. WB loans to Mexico and repayments (in million dollars)

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	Total
WB loans	167	326	422	460	408	360	682	840	1,016	983	**5,664**
Repayments	184	220	255	283	328	399	485	597	819	1,072	**4,642**
Net transfer	-17	106	167	177	80	-39	197	243	197	-89	**1,022**

Source: World Bank, *Global Development Finance*, 2005

Table 3 shows the evolution of World Bank loans to Mexico. We note a sharp increase from 1978 to 1981. The WB was then frantically competing with private banks. In 1982 and 1983 we note a moderate decrease. Loans increased again from 1984 on. The Bank behaved as a last resort lender. Loans were conditioned on the Mexican state repaying private banks, a majority of which were North American. Net transfer remained positive because Mexico did use WB loans to repay private banks.

Table 4. IMF loans to Mexico and repayments (in million dollars)

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	Total
IMF loans	0	0	0	0	222	1,072	1,234	300	870	786	**4,484**
Repayments	261	178	138	70	0	26	115	202	413	650	**2,053**
Net transfer	-261	-178	-138	-70	222	1,046	1,119	98	457	136	**2,431**

Source: World Bank, *Global Development Finance*, 2005

Table 4 shows the evolution of IMF loans to Mexico. There were none between 1978 and 1981. Yet in those years Mexico repaid old loans. From 1982 on the IMF loaned massive amounts on two conditions: 1) the money had to be used to repay private banks; 2) Mexico had to implement a structural adjustment policy (reduction of social expenditure and of expenditure for infrastructures, privatization, rise in interest rates, increase in indirect taxation, etc.). Net transfer remained positive because Mexico did use IMF loans to repay private banks.

Table 5. Loans from countries of the North to Mexico and repayments (in million dollars)

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	Total
Loans from countries	156	229	439	578	673	539	540	446	848	700	**5,148**
Repayments	171	388	223	286	372	481	583	573	488	377	**3,942**
Net transfer	-15	-159	216	292	301	58	-43	-127	360	323	**1,206**

Source: World Bank, *Global Development Finance*, 2005

Table 5 shows the evolution of loans granted by the most industrialized countries. Like private banks and the World Bank, countries of the North sharply increased their loans to Mexico from 1978 to 1981. Then they did more or less what the WB and the IMF were doing. While private banks reduced their loans, they followed the IMF and the WB in loaning to Mexico in order to make sure that it could repay private banks and that it would implement the structural adjustment programme.

Table 6. Evolution of the Mexican external debt from 1978 to 1987 (in million dollars)

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	Total
Total debt stock	35,712	42,774	57,378	78,215	86,081	92,974	94,830	96,867	100,891	109,471	
Repayment	7,423	11,595	10,962	14,340	15,684	14,825	16,960	15,293	12,944	12,087	132,113
Net total transfer	1,512	3,623	8,757	11,483	-1,799	-15,804	-12,144	-10,932	-6,648	-4,227	-26,179

Source: World Bank, *Global Development Finance*, 2005

Table 6 shows the evolution of Mexico's total external debt. It multiplied by 3 from 1978 to 1987. During this period the amounts that were paid back were 3.5 times the amount owed in 1978. Total negative net transfer accounts for over 26 billion dollars.

Since 1982 the Mexican people have been bled dry to assuage their various creditors. Indeed the IMF and the World Bank have exacted the last cent back from what they loaned to the country so that it could pay private banks. Mexico has been forcefully subjected to the logic of structural adjustment. The shock of 1982 first led to a steep recession, massive layoffs and a dramatic drop in purchasing power. Next structural measures resulted in hundreds of publicly owned companies being privatized. The concentration of wealth and of a large part of the national assets in the hands of a few Mexican and foreign industrial and financial corporations is staggering. [9]

In a historical perspective it is evident that the road to overindebtedness in the 1960s and 1970s, the explosion of the debt crisis in 1982 and the way it was managed in the following years marked a radical break with the progressive policies implemented from the start of the Mexican revolution in 1910 to the 1940s with Lazaro Cardenas as president. From the revolution to the 1940s, living standards notably improved, Mexico made great strides in economic terms and adopted an independent foreign policy. From 1914 to 1946 Mexico did not pay back any debt and eventually won a resounding victory over its creditors when the latter agreed to give up 90% of the amount owed in 1914 without claiming any interest either. Since the 1982 crisis Mexico has lost control of its destiny. Historically, this has been the US's objective since the 19th century.

In 1970, Mexico's public external debt amounted to USD 3.1 billion. 33 years later, in 2003, it had multiplied by 25, reaching 77.4 billion (public and private external debts together amounted to 140 billion). Meanwhile the Mexican government paid back 368 billion (120 times the amount owed in 1970). Net negative transfer from 1970 to 2003 amounts to USD 109 billion. From 1983 to 2003, i.e. over a period of 21 years, net transfer on the public external debt was positive only in 1990 and 1995.

We trust the day is approaching when the Mexican people will be able to win back their freedom to decide their own future.

*

Note to readers: please click the share buttons above or below. Forward this article to your email lists. Crosspost on your blog site, internet forums. etc.

This article was originally published on CADTM.

Eric Toussaint *is a historian and political scientist who completed his Ph.D. at the universities of Paris VIII and Liège, is the spokesperson of the CADTM International, and sits on the Scientific Council of ATTAC France.*

Notes

[1] D. Kapur, J. Lewis, R. Webb, 1997, vol. 1. p. 499

[2] Idem, p. 499

[3] Memorandum to files, "Mexico: Present Economic Situation – Problems and Policies", August 14, 1981.

[4] Carlos Salinas de Gortari became president of Mexico in 1988 as a result of a massive fraud to rob the progressive candidate Cuauthémoc Cardenas of his victory. He left the presidency in 1994, shortly after ratifying the North American Free Trade Agreement (NAFTA). See next chapter.

[5] Here is what historians of the World Bank write: *"The economist (at time of writing still with the Bank) had taken a much more alarmed view of Mexico's macro prospects in 1981 and wrote up his dissenting economic analysis in the form of a memo to the files. His subsequent career at the Bank was jeopardized: after an embattled few years, he was reinstated after a legal battle. Pieter Bottelier, interview with the authors, January 19, 1993* in D. Kapur, J. Lewis, R. Webb, 1997, vol. 1., p. 603.

[6] José Lopez Portillo was president from 1977 to 1982.

[7] Letter, A. W. Clausen to His Excellency Jose Lopez Portillo, president, United Mexican States, March 19, 1982, in D. Kapur, J. Lewis, R. Webb, 1997, vol. 1, p. 603

[8] Morgan Guaranty Trust Co. of New York, *World Financial Markets*, March 1986, p. 15.

[9] The consequences of structural adjustment policies in Mexico are analysed in the first edition of *Your Money or Your Life, The Tyranny of Global Finance*, Chapter 15, Case study # 2.

Articles by: **Eric Toussaint**