MASSIVE IMMIGRATION FROM MEXICO – ITS CAUSE

Waves of immigrants are now pouring over the Mexican border into the United States in search of work, precipitating an illegal alien crisis for Americans. Vigilante border patrols view these immigrants as potential terrorists, but in fact they are refugees from an economic war that has deprived them of their own property and forced them into debt bondage to a private global banking cartel. When Mexico was conquered in 1520, the mighty Aztec empire was ruled by the unsuspecting, hospitable Montezuma. The Spanish General Cortes, propelled by the lure of gold, conquered by warfare, violence and genocide. When Mexico fell again in the twentieth century, it was to a more covert form of aggression, one involving a drastic devaluation of its national currency.

If Montezuma's curse was his copious store of gold, for Mexico in the twentieth century it was the country's copious store of oil. According to William Engdahl, who tells the story in *A Century of War*, the first Mexican national Constitution vested the government with "direct ownership of all minerals, petroleum and hydro-carbons" in 1917. When British and American oil interests persisted in an intense behind-the-scenes battle for these oil reserves, the Mexican government finally nationalized all its foreign oil holdings. The move led the British and American oil majors to boycott Mexico for the next forty years. When new oil reserves were discovered in Mexico in the 1970s, President Jose Lopez Portillo undertook an impressive modernization and industrialization program, and Mexico became the most rapidly growing economy in the developing world. But according to Engdahl, the prospect of a strong industrial Mexico on the southern border of the United States was intolerable to certain powerful Anglo-American interests, who determined to sabotage Mexico's industrialization by securing rigid repayment of its foreign debt. That was when interest rates were tripled. Third World loans were particularly vulnerable to this manipulation, because they were usually subject to floating or variable interest rates.[1]

Why did Mexico *need* to go into debt to foreign lenders? It had its own oil in abundance. It had accepted development loans earlier, but it had largely paid them off. The problem for Mexico was that it was one of those intrepid countries that had declined to let its national currency float. Mexico's dollar reserves were exhausted by speculative raids in the 1980s, forcing it to borrow *just to defend the value of the peso.*[2] According to Henry Liu, writing in *The Asia Times*, Mexico's mistake was in keeping its currency freely convertible into dollars, requiring it to keep enough dollar reserves to buy back the pesos of anyone wanting to sell. When those reserves ran out, it had to borrow dollars on the international market just to maintain its currency peg.[3]

In 1982, President Portillo warned of "hidden foreign interests" that were trying to destabilize Mexico through panic rumors, causing capital flight out of the country. Speculators were cashing in their pesos for dollars and depleting the government's dollar reserves in anticipation that the peso would have to be devalued. In an attempt to stem the capital flight, the government cracked under the pressure and did devalue the peso; but while the currency immediately lost 30 percent of its value, the devastating wave of speculation continued. Mexico was characterized as a "high-risk country," leading international lenders to decline to roll over their loans. Caught by peso devaluation, capital flight, and lender refusal to roll over its debt, the country faced economic chaos. At the General Assembly of the United Nations, President Portillo called on the nations of the world to prevent a "regression into the Dark Ages" precipitated by the unbearably high interest rates of the global bankers.

In an attempt to stabilize the situation, the President took the bold move of taking charge of the banks. The Bank of Mexico and the country's private banks were taken over by the government, with compensation to their private owners. It was the sort of move calculated to set off alarm bells for the international banking cartel. A global movement to nationalize the banks could destroy their whole economic empire. They wanted the banks privatized and under their control. The U.S. Secretary of State was then George Shultz, a major player in the 1971 unpegging of the dollar from gold. He responded with a plan to save the Wall Street banking empire by having the IMF act as debt policeman. Henry Kissinger's consultancy firm was called in to design the program. The result, says Engdahl, was "the most concerted organized looting operation in modern history," carrying "the most onerous debt collection terms since the Versailles reparations process of the early 1920s," the debt repayment plan blamed for propelling Germany into World War II.[4]

Mexico's state-owned banks were returned to private ownership, but they were sold strictly to domestic Mexican purchasers. Not until the North American Free Trade Agreement (NAFTA) was foreign competition even partially allowed. Signed by Canada, Mexico and the United States, NAFTA established a "free-trade" zone in North America to take effect on January 1, 1994. In entering the agreement, Carlos Salinas, the outgoing Mexican President, broke with decades of Mexican policy of high tariffs to protect state-owned industry from competition by U.S. corporations.

By 1994, Mexico had restored its standing with investors. It had a balanced budget, a growth rate of over three percent, and a stock market that was up fivefold. In February 1995, Jane Ingraham wrote in *The New American* that Mexico's fiscal policy was in some respects "superior and saner than our own wildly spendthrift Washington circus." Mexico received enormous amounts of foreign investment, after being singled out as the most promising and safest of Latin American markets. Investors were therefore shocked and surprised when newly-elected President Ernesto Zedillo suddenly announced a 13 percent devaluation of the peso, since there seemed no valid reason for the move. The following day, Zedillo allowed the formerly managed peso to float freely against the dollar. The peso immediately plunged by 39 percent.[5]

What was going on? In 1994, the U.S. Congressional Budget Office Report on NAFTA had diagnosed the peso as "overvalued" by 20 percent. The Mexican government was advised to unpeg the currency and let it float, allowing it to fall naturally to its "true" level. The theory was that it would fall by only 20 percent; but that is not what happened. *The peso eventually dropped by 300 percent – 15 times the predicted fall.*[6] Its collapse was blamed on the lack of "investor confidence" due to Mexico's negative trade balance; but as Ingraham observes, investor confidence was quite high immediately before the collapse. If a negative trade balance is what sends a currency into massive devaluation and hyperinflation, the U.S. dollar itself should have been driven there long ago. By 2001, U.S. public and private debt totaled ten times the debt of all Third World countries combined.[7]

Although the peso's collapse was supposedly unanticipated, over 4 billion U.S. dollars suddenly and mysteriously left Mexico in the 20 days before it occurred. Six months later, this money had twice the Mexican purchasing power it had earlier. Later commentators maintained that lead investors with inside information precipitated the stampede out of the peso.[8] These investors were evidently the same parties who profited from the Mexican bailout that followed. When Mexico's banks ran out of dollars to pay off its creditors (which were largely U.S. banks), the U.S. government stepped in with U.S. tax dollars. The Mexican bailout was engineered by Robert Rubin, who headed the investment bank Goldman Sachs before he became U.S. Treasury Secretary. Goldman Sachs was then heavily invested in short-term dollar-denominated Mexican bonds. The bailout was arranged the very day of Rubin's appointment. Needless to say, the money provided by U.S. taxpayers never made it to Mexico. It went straight into the vaults of Goldman Sachs, Morgan Stanley, and other big American lenders whose risky loans were on the line.[9]

The late Jude Wanniski was a conservative economist who was at one time a Wall Street Journal editor and adviser to President Reagan. He cynically observed of this banker coup:

There was a big party at Morgan Stanley after the Mexican peso devaluation, people from all over Wall Street came, they drank champagne and smoked cigars and congratulated themselves on how they pulled it off and they made a fortune. *These people are pirates, international pirates.*[10]

The loot was more than just the profits of gamblers who had bet the right way. The pirates actually got control of Mexico's banks. NAFTA rules had already opened the nationalized Mexican banking system to a number of U.S. banks, with Mexican licenses being granted to 18 big foreign banks and 16 brokers including Goldman Sachs. But these banks could bring in no more than 20 percent of the system's total capital, limiting their market share in loans and securities holdings.[11] They wanted the whole enchilada. By 2004, all but one of Mexico's major banks had been sold to foreign banks, which gained total access to the formerly closed Mexican banking market.[12]

The value of Mexican pesos and Mexican stocks collapsed together, supposedly because there was a stampede to sell and no one around to buy; but buyers with ample funds were sitting on the sidelines, waiting to pick over the devalued stock at bargain basement prices. The result was a direct transfer of wealth from the local economy to international money manipulators. The devaluation also precipitated a wave of privatizations (sales of public assets to private corporations), as the Mexican government tried to meet its spiraling debt crisis. In a February 1996 article called "Militant Capitalism," David Peterson blamed the rout on an assault on the peso by short-sellers. He wrote:

The austerity measures that the U.S. government and the IMF forced on Mexicans in the aftermath of last winter's assault on the peso by short-sellers in the foreign exchange markets have been something to behold. Almost overnight, the Mexican people have had to endure dramatic cuts in government spending; a sharp hike in regressive sales taxes; at least one million layoffs (a conservative estimate); a spike in interest rates so pronounced as to render their debts unserviceable (hence El Barzon, a nation-wide movement of small debtors to resist property seizures and to seek a rescheduling of their debts); a collapse in consumer spending on the order of 25 percent by mid-year; and, in brief, a 10.5 percent contraction in overall economic activity during the second quarter, with more of the same sure to follow.[13]

By 1995, Mexico's foreign debt was more than twice the country's total debt payment for the previous century and a half. Per-capita income had fallen by almost a third from a year earlier, and Mexican purchasing power had fallen by well over 50 percent.[14] Mexico was propelled into a crippling national depression that has lasted for over a decade. As in the U.S. depression of the 1930s, the actual value of Mexican businesses and assets did not change during this speculator-induced crisis. What changed was simply that currency had been sucked out of the economy by investors stampeding to get out of the Mexican stock market, leaving insufficient money in circulation to pay workers, buy raw materials, finance loans, and operate the country. It was further evidence that when short-selling is allowed, currencies are driven into hyperinflation not by the market mechanism of "supply and demand" but by the concerted action of currency speculators. The flipside of this also appears to be true: the U.S. dollar remains strong despite its plunging trade balance, because it has been artificially manipulated up by the Fed. (More on this in Chapter 33.) Market manipulators, not free market forces, are in control.

International Pirates Prowling in a Sea of Floating Currencies

Countries around the world have been caught in the same trap that captured Mexico. Henry C K Liu calls it the "Tequila Trap." He also calls it "a suicidal policy masked by the giddy expansion typical of the early phase of a Ponzi scheme." The lure in the trap is the promise of massive dollar investment. At first, returns are spectacular. But as with every Ponzi scheme, the returns eventually collapse, leaving the people massively in debt to a foreign banking cartel that will become their new economic masters.[15] The former Soviet states, the Tiger economies of Southeast Asia, and the Latin American banana republics all succumbed to these rapacious tactics. Local ineptitude and corrupt politicians are blamed, when the real culprits are international banking speculators armed with tsunami-sized walls of "credit" created on computer screens. Targeted countries are advised that to attract foreign investment, they must make their currencies freely convertible into dollars at prevailing or "floating" exchange rates, and they must keep adequate dollars in reserve for anyone who wants to change from one currency to another. After the trap is set, the speculators move in. Speculation has been known to bring down currencies and national economics in a single day. Michel Chossudovsky, Professor of Economics at the University of Ottawa, writes:

The media tends to identify these currency crises as being the product of some internal mechanism, internal political weaknesses or corruption. The linkages to international finance are downplayed. *The fact of the matter is that currency speculation, using speculative instruments, was ultimately the means whereby these central bank reserves were literally confiscated by private speculators.*[16]

While economists debate the fiscal pros and cons of "floating" exchange rates, from a legal standpoint they represent a blatant fraud on the people who depend on a stable medium of exchange. They are as much a fraud as a grocer's scales with a rock on it. If a farmer's peso was worth thirty cents yesterday and is worth only five cents today, his dozen eggs have suddenly shrunk to two eggs, his dozen apples to two apples. The very notion that a country has to "defend" its currency shows that there is something wrong with the system. Inches don't have to defend themselves against millimeters. They peacefully co-exist side by side on the same yardstick. A sovereign government has both the right and the duty to calibrate its medium of exchange so that it is a stable measure of purchasing power for its people. How a stable international currency yardstick might be devised is explored in Section VI.

The Tequila Trap and "Free Trade"

The "Tequila Trap" is the contemporary version of what Henry Carey and the American nationalists warned against in the nineteenth century when they spoke of the dangers of opening a country's borders to "free trade." Carey said sovereign nations should pay their debts in their own currencies, issued Greenback-style by their own govern-ments. Professor Liu also advocates this approach, which he calls "sovereign credit." Carey called it "national credit," something he defined as "a national system based entirely on the credit of the government with the people, not liable to interference from abroad." Carey also called it the "American system" to distinguish it from the "British system" of free trade.

Abraham Lincoln was forging ahead with that revolutionary model when he was assassinated. Carey and his faction, realizing the country was facing the very real threat that the banking interests that had captured England would also capture America, then moved to form a bulwark against this encroaching menace by planting the seeds of the American system abroad. In the twentieth century, the British system did prevail in America; but the American system was quietly taking root overseas . . . .