



Interview: Rep. John McCain

## Mexican earthquake stirs opposition to IMF 'conditionalities'

*Representative John McCain, a conservative Republican from Arizona who sits on the House Foreign Affairs Committee, made some caustic remarks about the International Monetary Fund for cutting off credit to Mexico on the day of the earthquake. The IMF's action, he said on Sept. 20, "reminds one of the banker who waits until it's snowing before evicting the man, the wife, and the children from their home." The former Navy captain, who spent six years in a North Vietnam prisoner-of-war camp, elaborated his views on IMF policy in an interview with EIR's Kathleen Klenetsky Sept. 25.*

**EIR:** Congressman McCain, you issued a rather withering attack on the IMF's cutoff of credit to Mexico on the day of the Mexican earthquake. Could you elaborate?

**McCain:** In fairness to the IMF, they had cut off on the day of the earthquake, and I believe that as soon as it happened, they probably should have either not issued their press release, or if they had already—I don't think they had—they should immediately have said they would reconsider, in light of the tragic events that took place, at least reevaluate the whole situation. They did not do so until some time later.

**EIR:** Do you think that the IMF should offer Mexico some kind of debt relief?

**McCain:** I think in light of the present circumstances, they certainly need more time. That begs the question as to whether the IMF's conditions, which are laid on the Mexican government and other debtor nations, are appropriate or not. I don't happen to believe they are. But the fact that [Mexico] is in the situation they are in, I think must dictate that some relaxation or further funding is necessary at this time.

**EIR:** There have been some reports that President Reagan was furious about the IMF's cutoff of aid to Mexico, and attacked the IMF in private conversations last week.

**McCain:** If he did that, that would be good news.

**EIR:** Could you comment on what you think the overall effect of IMF conditionalities is on the economic life of debtor c

**McCain:** I believe IMF conditionalities are such that they are not conducive to economic growth. It appears to me that the IMF conditions have increased unemployment; they have

not generated the economy necessary for many of them to be able to pay any interest on their debt, much less the principal; and have been largely unproductive overall. It's interesting to me that this nation, which is enjoying the longest economic recovery in years, has pursued policies almost directly opposite to those that the IMF has imposed on debtor nations. It's also interesting to me that the U.S. should be devoting such large amounts of money to an organization whose policies and philosophy towards economic recovery seems to me is the direct opposite of the Reagan administration.

**EIR:** Some critics of the IMF contend that its austerity policies are actually pushing certain debtor countries that would normally be pro-American, into the hands of the Soviets. Would you agree?

**McCain:** . . . I don't believe that the IMF is deliberately trying to play into the Soviets' hands, but unfortunately the results of some of their policies has been to do so.

**EIR:** President García of Peru has been attacking the IMF and calling for a "10% solution" to Peru's debt problem. What do think you of what he's doing?

**McCain:** It is easy for me to understand why President García's proposal has such support in Latin America, and why, on the other hand, Castro's proposals lack credibility, since Cuba has such a large debt to the Soviet Union. It's not difficult to see why President García's proposal would be extremely attractive to South American and Latin American nations. These countries feel that they are on an endless treadmill. It's not motivating to economic activity to have to pour all your resources into paying off your debt.

Let me stress that the problem with the IMF has been that it deals strictly with dollars and cents—in other words, the bottom line that drives the bankers. That's why I think the U.S. should work out bilateral arrangements with these debtor nations that take into account the unique economic, political, and, in some cases, military situations in these countries. The U.S. could be more flexible than the IMF in these cases. Such arrangements would also enhance our chances of getting repaid. There is no doubt that most of these countries are worse off now than on the day they assumed these debts.

**EIR:** Would you endorse President García's 10% solution?

**McCain:** I reluctantly wouldn't endorse this approach, because it would cause a severe dislocation in the international financial markets, but I would hope that the IMF would take García's proposals as a signal of things to come, and dramatically revise the way they do business. If the IMF doesn't do that, there will be many more García proposals throughout Latin America and elsewhere. . . .

**EIR:** Some Congressmen have said that the debt burden incurred by Latin American countries has prevented them from devoting the necessary resources into dealing with their drug problem. What do you think?

**McCain:** There are two levels to this question. First, we stand ready to provide assistance to these countries to root out drugs. The larger problem is the dependence these countries have on the drug trade for revenues. I think Americans would prefer that this debt be rescheduled or canceled, rather than have these countries repay it with drug money, given the enormous toll that takes on our own country.

**EIR:** Are you aware that some people associated with the IMF have in fact suggested that these countries legalize drugs, in order to collect taxes with which to repay their debt?

**McCain:** No, I wasn't aware of that. But if it's true, that would be another reason I condemn the activities of the IMF.

**EIR:** According to a State Department spokesman, Secretary of State George Shultz was quite critical of García's attacks on the IMF when the two men met at the U.N. Sept. 24. Do you think that was an appropriate way for a representative of the U.S. government to treat the Peruvian President?

**McCain:** It certainly won't improve the chances of García abandoning his 10% solution. . . .

**EIR:** There are efforts now to put the U.S. under IMF surveillance. The recent IMF Interim Committee meeting formally announced that the U.S. and other advanced economies would be subject to IMF monitoring, with the full concurrence of Treasury Secretary James Baker. If that is implemented, would you consider it an affront to U.S. national sovereignty?

**McCain:** Not only would it be an affront to U.S. national sovereignty, but it would be rejected out of hand by this country. I wouldn't want anybody but our leadership to decide what's best for ourselves. It's not clear to me why Secretary Baker would recommend such measures.

## IMF bankers say Mexico was 'helped' by earthquake

*The attitude of the International Monetary Fund and the world financial oligarchy toward nations of the Third World was starkly conveyed in a Sept. 24 commentary from the British wire service Reuters. The article excerpted here, "Mexican Quake Seen Having Possible Advantages for Economy," was written by Stephen Addison.*

The quakes which killed thousands last week may have done Mexico's debt-ridden economy more good than harm in the long term, bankers and economists say.

Although damage was severe, it was concentrated mostly in a small area of residences and government office buildings in the capital of 18 million. Mexico's productive capacity, and in particular its all-important oil industry, were virtually untouched. "If anything, it's a golden opportunity to get rid of a few hundred bureaucrats and a lot of dead wood by simply not rebuilding their offices," one European banker said.

Independent economists, describing Mexico's bureaucracy as bloated and corrupt, say paying wages to people who do little or nothing is inflationary and diverts

badly needed funds from more productive areas like public investment.

Two months ago, some 23,000 civil servants were fired in a bid to cut wage bills and streamline government. Economists agreed it was a step toward curbing chronically excessive state spending, but most said it had not gone nearly far enough in trimming the budget deficit. Bankers dismissed suggestions that the earthquake damage, as yet unassessed but likely to amount to tens of millions of dollars, would affect Mexico's ability to continue paying the average \$11 billion a year interest on its \$97 billion debt. Neither did they think it would soften the attitude of foreign banks toward the country.

"There are no balance of payments or debt service repercussions in this," a British banker said. "To say that the banks are going to somehow feel sorry for Mexico is . . . rather unrealistic."

The earthquake destroyed or damaged up to 700 buildings, including important sections of the central bank and the headquarters of the foreign trade secretariat, but residents say the extent of the material damage had been exaggerated abroad. . . .

The only major industrial casualty was the partly built Lazaro Cardenas steel complex on the west coast. But one economist said the complex had long been a white elephant and the quake might give the government an excuse to scrap it.