WORLD BANK/IMF 50 YEARS IS ENOUGH US CAMPAIGN

NEWS RELEASE

NOTE TO JOURNALISTS: This release is offered to those preparing news stories on the World Debt Tables 1994-1995 that the World Bank has embargoed until 22 January 3pm EST. For further comment, please contact John Cavanagh at 202 234 9382 or Steve Hellinger at 202 898 1566.

WORLD BANK DEBT ANALYSIS UNDONE BY MEXICAN CRISIS

The World Bank faces the embarrassing prospect of releasing its major annual analysis of the world's debt situation when the successes it trumpets in the report have been undone by the Mexican crisis, the U.S. 50 Years Is Enough Campaign observed today.

The main theme of the World Bank's *World Debt Tables 1994-1995* is that the record surge in private capital flows into poorer countries in 1993 and 1994 should continue as these nations follow World Bank policy advice.

"What has happened in Mexico has put the lie to that theory," said John Cavanagh of the Institute for Policy Studies, a member of the U.S. 50 Years Is Enough Campaign. "The World Bank report contains no cautions about the extreme dangers of developing countries depending on short-term speculative investment that can leave with the touch of a computer key, as we saw played out in Mexico."

In the report, the World Bank predicts a continuing flood of private capital into the South due to "the sea change in developing countries' policies that make them more creditworthy and more attractive to international investors, the integration of global financial markets, and the fall of international interest rates . . . "(page 4). Over the past few years, investors have taken advantage of the surging stock exchanges of the world's so-called "emerging markets." Private capital inflows jumped to $159 billion in 1993, and the World Bank projects them to reach a record $173 billion in 1994.

Yet, one month before the release of *World Debt Tables 1994-1995*, the party ended. Touched off by the rise in U.S. interest rates and renewed challenges to the political and economic order in Chiapas, Mexico's peso plummeted, losing close to 40 percent of its value. In the last ten days of 1994, more than $10 billion in investments fled Mexico, and stock markets throughout the Third World felt the tremors into the new year. On January 10th alone, the value of Argentina's stock market fell 10 percent, Brazil's 10 percent and Chile's 5 percent.

Clearly, Latin America is the region where the Bank most seriously miscalculated. Touted as the World Bank's model for growth and reform, Mexico had been a leader in attracting funds, and Americans lent and invested as much as $100 billion in that country alone. In just three weeks, the value of those investments has dropped 25 percent.

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"That the World Bank would release a report that so completely misses the boat in terms of the disaster that its policies have unleashed demonstrates that Bank management no longer has any threshold of embarrassment," said Cavanagh. "The Bank's view that all money is good money and that record private investment is good for the long-term future of developing countries is simplistic, at best. The Bank's policies that encourage mercurial, speculative investment show once again that it is most concerned with financial markets and not the well being of the middle-class and poor of these countries."

Wealthy Mexicans, who benefitted so much from Mexico's privatizations and increased business from NAFTA, have been shifting their money out of Mexico for close to a year. It is poor and middle-class Mexicans who will suffer as jobs are cut, real wages fall, and prices rise.

Nor are funds likely to flow back into Mexico soon. In the words of the *Wall Street Journal*, "as stock markets in 'emerging markets' around the world stagger on the bad news from Mexico . . . mutual fund managers are rushing for the exits."

"Both the Mexican people and U.S. investors have been badly served by the international financial institutions, the major investment houses, the mainstream media, Washington think tanks and the other cheerleaders for the failed economic adjustment policies," said Steve Hellinger of The Development GAP, another U.S. 50 Years Is Enough Campaign member. "The World Bank, in particular, should, as chief architect of these policies, be held accountable for its disastrous advice and its faulty predictions."

Another major blunder in the *World Debt Tables 1994-1995* is the Bank's declaration that we have entered the "twilight of the commercial debt crisis." Mexico, whose 1993 external debt exceeded $118 billion according to the World Bank report, watched that debt grow close to $140 billion in 1994 and faces an explosion of foreign debt as it scrambles to borrow to prop up the peso. Other debtor nations, facing outflows of short-term private investment by nervous speculators, will also be forced to turn to commercial banks for new loans and will face growing problems servicing their existing debts.

"Just as Mexico precipitated the debt crisis of the 1980's with its August 1982 declaration of bankruptcy, so it could well have touched off a new debt crisis in the 1990's with its peso collapse of 1994," said Hellinger.

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