A truth about financial markets and relations that is especially relevant for our times was stated by Heraclitus some 500 years before the beginning of the common era: "You could not step twice into the same river; for other waters are ever flowing on to you." Though change is the dominant characteristic of economies, there are some analytic devices that can be applied to modern economies that seem to retain their power even as the world enters into exotic environments. One of these is to treat the international economies as giving forth a set of interrelated balance sheets. The second is to integrate the international flows of funds that are due to the balance sheet commitments with the flows that are due to current trade. This approach enables us to differentiate between the economy in which profits are earned from where profits earned in an economy are distributed.
BALANCE SHEET RELATIONS AMONG ECONOMIES---THE TIERS APPROACH

PORTFOLIO DIVERSIFICATION AMONG THE RICH COUNTRIES WOULD NOT SET UP A
SUBSTANTIAL SET OF FLOWS--

THE MEANING OF BEGGER MY NEIGHBOR AND THE CONCEPT I IMPUTE TO PER
JACOBSEN OF FISCAL INDEPENDENCE. THE PARASITIC NATURE OF THE GERMAN
AND THE JAPANESE PROSPERITY

ACCUMULATION FOR THE SAKE OF ACCUMULATION IS IRRATIONAL

p. 103 104 of The Rampunner Conspiracy a novel by Michael

Thomas that deals with the evolution of the financial structure since
World War 2 as if it was the result of some Communist Conspiracy deals
with the nth restructuring of the Mexican debt as follows:

"Holl Expired: he Recovery of the terms of the new Mexican credit
agreement. The revised agreed debt balance was $420 billion,
including accrued interest. The creditors had agreed to reschedule as
follows: half the principal repayments would be deferred for ten
years, as would be some portion of interest, which would now run at 12
percent or two points over LIBOR, the London Interbank Offered Rate,
the linchpin for pricing international dollar transactions. The IMF
would make an additional loan of $5 billion, half of which would be
paid against accrued interest, half of which would be held in escrow
against future interest payments.

The Republic of Mexico had agreed to certain concessions Holl Expired
stated. These were: nationwide ceiling on wages; immediate cessation
of agricultural subsidies; the unrestricted opening of the Mexican
economy to imports and foreign investment; a three year moratorium on
land reform and related social programs; a trust fund in which the
revenues of the Mexican national oil companies would be sequestered
and applied to debt repayments."

The financial relations that will emerge as the present third world
debt crisis is handled will be quite different than what went earlier.

.......................................There were a couple of other points ....that
represented interesting innovative departures ....

..........................................................
The main ideas:

1. Globalization
The main idea under globalization is that the new technology and the vast proliferation of financial assets without a national home, means that the current practice as to instruments available and services rendered in New York, London, and Tokyo will soon if not already be available in markets such as Brazil and Mexico. In particular the menu of assets available for portfolios in the various countries will be similar and the authorities will be essentially powerless to prevent asset diversification by nationals. Globalization therefore means that each country will have to generate instruments that are attractive for non-national portfolios.

The limitations of international portfolio diversification is a question of information: the importance of local and specialized knowledge. Economic autonomy may rest upon the ability to sustain a small holding traditional economy in the midst of a global financial structure.

2. Securitization

Securitization involves the creation of a marketable and therefore anonymous instrument on the basis of underlying instruments each of which has a very specific information content. (How do you know the land on which you have a mortgage is not 10 feet under water. "Should cite William Janeway's first law—"Entrepreneurs lie" and Minsky's corollary, "Bankers lie".)

3. Liability Management

The combination of globalization and securitization means that the liability alternatives available to firms and other private
borrowers has increased. The possibility of designing liability structures to conform to a units business strategy has increased enormously. Questions as to whether these changes will increase fragility or whether it will increase resilience needs to be addressed. Wallecha piece about resilience needs to be cited.

4. Economic vs. Sovereign Risk.

The prior greater acceptance of sovereign risk and a new awareness of the weaknesses of relying on sovereigns. The alternative is a cash flow based financing, with a fallback to the capture of specified assets - collateral. All kinds of legal problems need to be settled before the full international financing market can be in place.

5. Homogenization of Practice.

It is evident that a new stage of the world economy is about to emerge. Computation, communication, and data retrieval make it possible for a pension fund for Japanese workers to hold mortgages on New York commercial property; there is no reason that this type of activity could not be extended to Mexico, except for legal and stability problems.

5. Conclusion

"For one thing, said Mallory, the Mexican government has agreed to submit its future budgets to this Committee, which has been granted line item veto powers."

"The other is that, for the first time, the Federal Reserve Board, appreciating the gravity of the situation, has become a party to the agreement."
This fictional account parallels what was done to New York city and applies it to Mexico. Creditors consortia taking over a country would not be an altogether innovative solution, I am sure that our historians will be able to find precedents. The fictional solution parallels history in a second respect in that the architects of the disaster are called upon to resolve the disaster, furthermore these architects profit first from creating the disaster and then again and again from the restructuring. The need is for a structure of international finance in which the financial institutions have a well defined fiduciary responsibility and where losses accompany poorly structured deals and profits are only available from successful structuring.

M. M. Knight's book on Santo Domingo.