

FIRING LINE: For Central America: A Radical Prescription

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Guests: Manuel Ayau

Examiner: Howard Hunt

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MR. BUCKLEY: The idea of this hour is to probe a radical alternative to Central America's problems, about which very little is spoken. We will, deal primarily with Guatemala, the largest of the Central American republics, to use the licensed term, but on the understanding that we are talking about the entire inflamed region. And instead of presenting a Maryknoll priest who believes in liberation theology, or a Marxist professor who thinks in terms of nationalizing bananas, we have as our guest a most extraordinary figure who has served as president of the *Mont Pelerin Society*, the international brotherhood of highbrow believers in the free marketplace: **Manuel Ayau**, the founder and president of the *Francisco Marroquin University*, located in Guatemala City.

Mr. Ayau is a Guatemalan who holds dual U.S. citizenship. He was educated abroad, including at boarding schools in Canada, and he took a degree in mechanical engineering from *Louisiana State University*. He worked in Guatemala as a businessman, as a member of the legislature, but his great moment came when in 1972 he decided, no less, to found a university, which has been visited by such scholars as **Professor Milton Friedman**, who has dubbed that institution, which began with 125 students and now has 3,000 students, as a first-class university. You can go to *Marroquin U.* and become an engineer or a doctor or an accountant or a musician, but you can't go there without being exposed to the idea of the role that the free market plays in human liberty and national prosperity—so that what we have in the heart of Central America is a flourishing university addressing Latin American socialists and North American liberals, saying: Please give us a chance to advance prosperity by imitating the institutions that brought prosperity to you. Dr. Ayau has found many representatives of the United States State Department aghast at the notion that he should recommend distinctively American approaches to the problems of Central America.

But first, a little background: We do not intend this hour to become enmired in a discussion of Guatemala's tangled political history. We will move towards that in a moment.

Our examiner today is **Mr. Howard Hunt**. There is no reason to obscure that he is best known as the principal executive of the *Watergate* operation, but he has other formidable credentials. About Mr. Hunt, more in due course.

I should like therefore to begin by asking Mr. Ayau to tell us what the democratic victory of **President Cerezo** last year signified to Guatemala. Do you now have a stable democracy?

MR. AYAU: I think it's stable. Everybody wants to give them a chance, all of the opposition is quiet. I don't know how much things are going to change, because certainly we are not getting away from the intervene economy. We are still in the same situation with government enterprises and intromission on prices and banking and exchange rates and everything. So I don't think that there will be much change.

MR. BUCKLEY: Well, now explain that to us, because **President Cerezo** is, of course, a Christian Democrat, and one thinks in terms of the Christian Democrats in Italy and in West Germany tend to be very hospitable to free enterprise. But this would not be so in Latin America?

MR. AYAU: No. Christian Democrats in Latin America are much more to the left, very much so.

MR. BUCKLEY: And that would be true of Cerezo?

MR. AYAU: Of his party. I don't think he is as far left as his party, but he will probably become a victim of it.

MR. BUCKLEY: Now, from what did he rescue Guatemala, or more properly, his own predecessor? Guatemala was doing moderately well by regional standards up until about 1979 or 1980. Tell us quickly what happened.

MR. AYAU: Well, the government established a minimum wage in agriculture much higher than what the market price of the agricultural products could sustain. So immediately we had increased unemployment in agriculture, which is by far the most important activity in Guatemala, and with it came— —

MR. BUCKLEY: Are you talking about under **General Monet** or before that?

MR. AYAU: No, before General Monet. Just about the time that **Rios Monet** came in, just before that they had established this minimum wage. Now, this made our agricultural production uncompetitive at the current exchange rate that we had then, and the whole community was reluctant to change the exchange rate, and of course the minimum wage could not be adjusted downward. So what happened was a tremendous increase in unemployment, a decrease in production, a decrease in exports, a decrease in government revenue. The government continued to sell dollars at the one-to-one parity, and they ran out of foreign exchange reserves and the country borrowed money, gave them away at a bargain price, then they borrowed some more, gave them away at a bargain price, and so now we have a big debt and finally had to change the exchange rate in order to make our economy competitive again, given the world prices of our export products. So we are now, the whole economy, is operating around 50 percent capacity, people's per capita income is down to the level of 1970, and hopeful predictions from the Central Bank say that if we do things right, we will probably get back to the income per capita of the 1979-1980 years by the year 2000. If we do it right.

MR. BUCKLEY: You've given us a brief economic history of the last few years, but what about the political history? The viewers would like to be reminded of what it was that caused those cataclysmic crises in the political evolution of Guatemala.

MR. AYAU: Well, in Guatemala we had elected—a probably fraudulent election—in 1976 or '77. This was the government of **General Lucas**. As I said, it was a very corrupt government, and certainly they were doing some contracts that were not according to the rules and the law, and the people had just had enough. So a young group of military officers overthrew their superior.

The president was a general, but he had gone through the political process to legitimize his presidency. So the youngsters in the army overthrew the whole hierarchy and then called for **General Rios Monet**, who was not in office, who was a preacher, to come and take over the presidency, which he did. This disrupted the whole military political establishment, and in an effort to restructure the military, the army overthrew him two years later and another general came into power and then he announced that we would have elections in a couple of years or so and we did. They made a constitution before we had the presidential elections. It was a democratically convened constitution, and that's what we have now: a civilian government and a constitution that was done democratically.

MR. BUCKLEY: Well, the incredibly bloody history of those two or three years in Guatemala, where people were being killed at a hideous rate involving the Indians and the Latinos and the guerillas and so on and so forth. Is this behind you, or are there still evidences of that tension?

MR. AYAU: Well, I think most people think that this is behind us, except if Nicaragua wants to liven things up again and start subverting the order in Guatemala. Nicaragua is supporting the guerilla movements in Guatemala, also a little bit through Mexico, all coming from Cuba, of course. So really it's up to them when they want to leave us alone and live in peace. The army, of course, went after the guerillas when the guerillas had taken a good part of the country three or four years ago, and the poor people were invaded by the guerillas and by the army, and once in a while the army would come in and do things to them and the guerillas would come back in, and finally a lot of them left. But it was a very bloody affair.

MR. BUCKLEY: Well, to speak a moment now in terms of the regional problems: Most of the attention to which the Americans have been invited has been involving El Salvador and Nicaragua. Now, during the same period that you are speaking of, we had a civil war in Nicaragua, and we had the consolidation of the *Sandinista* victory in Nicaragua. Question: To what extent does the success or the lack of success of the *Sandinista* movement affect the prospects of liberty and economic progress in Guatemala?

MR. AYAU: Well, the failure of the *Sandinista* government within Nicaragua certainly awakened everybody else in Central America. The left has lost popularity—I mean the extreme left, the *Marxists* and all that—have lost popularity because of the failure in Nicaragua. Everybody is aware that Nicaragua is a jail that people can't get out. They can't get their children out, they can't get their things out. So it has been an example that has hurt the *Marxist* movement in Central America, definitely.

MR. BUCKLEY: Well, by the same token, one would think that the Soviet failures of the last 67 years would have hurt the cause of communism in the world. The answer is that unhappily these nice *Socratic* lessons don't travel very well, and there are still an awful lot of people in your part of the world and there are a certain number of people in my part of the world, who feel that the way that you ought to go is to the left. So therefore they have to be combatted not only with ideas but with things like *Contras*, right? Now, what is the position of the Guatemalan government towards the *Contras*?

MR. AYAU: Well, this government, like the one previous, has announced what they call the active neutrality policy. In other words, they don't want to take sides. Now, this has irked many of us, because we see the danger. But on the other hand, I think we understand the politicians' point of view. They are trying to run a government. The United States has been a very unreliable ally. It has pulled the rug out of many allies before, and I think that the government finds justification in this neutrality because they might take a stand against Nicaragua. Now, our army is not a match for the *Sandinista* army, and so if the belligerence of the Nicaraguans increased as a reaction to our government's stance against them, our government could have a lot of trouble. Our whole

country could have a lot of trouble. So I think that they are just afraid to take a stand to back up the United States.

MR. BUCKLEY: Given that you have dual citizenship, is there anything that you feel that you are inhibited from saying, given the fact that you are the president of a university in Guatemala?

MR. AYAU: No, I have been known to be totally irresponsible.

MR. BUCKLEY: Well, I hope you exercise your irresponsibility on this program. (Laughter] Then tell me, do you then actively hope that the *Contras* succeed in toppling the *Sandinistas*?

MR. AYAU: Yes. I don't think that they themselves can do it, but they can create the conditions for somebody to topple the *Sandinistas*.

MR. BUCKLEY: And to what extent would you encourage a movement within Guatemala that would give covert assistance to the *Contras*?

MR. AYAU: Well, as much as possible if it could be kept covert.

Mr. Buckley: Which means we shouldn't mention it.

MR. AYAU: Yes.

MR. BUCKLEY: Then let me ask you this—

MR. AYAU: I don't know of any movement, covert movement. If our government is doing it, it is certainly doing it very well.

MR. BUCKLEY: The *Marroquin University* has as one of its missions, as I understand it, to advertise that some of the cliches that are associated with the idea of social justice are very hard to defend empirically. I know that you have written in *The Wall Street Journal*, for instance, you wrote attacking the notion that land reform is something towards which we should all gravitate as an economic nostrum. Can you tell us why it is that you think land reform failed in El Salvador?

MR. AYAU: Yes. This is one of the reasons we established the University. When I went to school, and I think still today to a great extent, we are not really taught what comparative advantage is. A lot of people talk about it. But this is why we teach market. I think that the people that propose land reform have the obligation to explain why the distribution of land, the ownership pattern of land that is brought about by comparative advantage, which is the natural thing, is not as good as what they propose.

MR. BUCKLEY: Well, what if it wasn't brought about by comparative advantage?

MR. AYAU: Well, then we've got to start from where we are and say, "Well, we'll respect everybody's rights from now on."

MR. BUCKLEY: Suppose **Ferdinand** and **Isabella** liked some bastard son and gave him three quarters of Guatemala, is it your position that his great-great-great-great-whatever grandchild should continue to own three quarters of Guatemala?

MR. AYAU: Well, if he has legal title to it, yes. He will lose it. Remember, everybody has got to bid for his own property every day if there is really a market economy. So if they have been able to keep it that long because they have done something about it—

MR. BUCKLEY: Only under the principles of *Henry George*. There isn't much upkeep in owning three quarters of Guatemala, is there? You just own it.

MR. AYAU: No, that's a consequence of the redistributionist tax system. If we had a land tax, I am sure people would not be able to hold it without—

MR. BUCKLEY: So you are in favor of a land tax.

MR. AYAU: Absolutely.

MR. BUCKLEY: Aha!

MR. AYAU: I am in favor of a land tax. Not a property tax, a land tax.

MR. BUCKLEY: Is the *Henry George* land tax idea one that is taught in your university and are there a lot of disciples of it?

MR. AYAU: Well, we don't teach it as a particular theory, but it's mentioned. I used to make— In my examinations I would draw a profile of a city, one low and one high. I would ask the students, 'Which one has the land tax and which one has the property tax?' to make them think of the consequences of the land tax. Now, I don't agree with what I think *Henry George* said that this would be the only tax. I also believe in other taxes.

MR. BUCKLEY: Well, he thought that no other taxes would be necessary if you took 100 percent of the rental value of land, but that, of course, depends upon how heavy is the public sector obligation.

MR. AYAU: That's right.

MR. BUCKLEY: Okay, let me ask you this. All right now, in Taiwan it is generally accepted, isn't it, that land reform worked, but that land reform was effectuated by reimbursing the title holders in government bonds, which were very fastidiously repaid, and then forbidding the land buyer to own more than I think it was seven hectares or whatever it is—*i.e.*, he could sell it to anybody else he wanted to, but not to somebody who already owned seven hectares. You would not approve of that, and tell us why.

MR. AYAU: No. Well, first of all, the biggest landholder in Guatemala is the government. So there is no reason to use taxpayers' money to go around buying land to change the owner. If Joe owns the land it must be for some good reason that Peter hasn't bought it from him or outbid him. So the governments own most of the land in Latin America. Or they are the biggest landowners. They don't own most of the land, I'm not sure about that. But they are the biggest. So there is no reason for the government to use taxpayers' money to go out and buy land to then give it to somebody else.

MR. BUCKLEY: Well, how is somebody who is bidding for land going to accumulate the capital to buy it? Let's take a situation in which there is an idle stretch of land right near you and you are a 22-year-old trying to look after a wife and a child and the selling price of the property is beyond your reach. Who is supposed to give you credit to buy it?

MR. AYAU: You would probably have to work a few years to get enough money to become a farmer if you are not a farmer already, if you don't own anything. My own experience—

MR. BUCKLEY: Is it possible to save in Guatemala?

MR. AYAU: Of course.

MR. BUCKLEY: Even given what you talk about the level of income— It's what, four or five hundred dollars a year?

MR. AYAU: No, it's more than that, but it's very low, I don't question that. But what I think of land reform, and this is an important point, is that those people that propose it should give the land to beneficiaries without any strings and this they will never do. They always claim to be paternalistic. They know that if they give the recipients of land clear titles, the pattern will revert to a market pattern, and this is what they are really against. They're more against that than anything else. To them, land reform is an end in itself.

MR. BUCKLEY: Well now, what is it that you have specific reference to? That once you acquire title to a land and elect to sell your parcel of land to a larger land owner, the dogmatists object to that transaction. Why?

MR. AYAU: Because what they want is a different pattern of ownership. What they want is more equal distribution of land—not a better distribution, not a more productive distribution, but a more equal distribution. That's what they're after. They think that's better.

MR. BUCKLEY: Well, do you object to the old American tradition of 40 acres and a mule, which was free land given to Americans who were prepared to settle on our western frontiers?

MR. AYAU: Sure, that was government land. That's all right, but they could sell it afterwards.

MR. BUCKLEY: Right.

Mr. Ayau: There was no covenant there.

MR. BUCKLEY: Right.

MR. AYAU: So eventually it would revert to a market pattern of ownership. Now, the market works, and there are reasons why land is divided in such a way and such a way and such a way in the market. I think that the burden of proof that a different system is better is on those that oppose the natural, normal way of resource distribution.....not only land, everything else, too.

MR. BUCKLEY: Now, what is it that went wrong, in your judgment, in El Salvador, because you have publicly criticized the land reform policy there, which not only was that of the current president of Salvador, but that which was most enthusiastically backed by the State Department? What was its flaw?

MR. AYAU: They just went in and broke up productive units which had been built up over the years. Now, I admit that the tax system favors land concentration in a non-market way.

MR. BUCKLEY: How?

MR. AYAU: Because of the low tax, because of the property tax. If you have a property tax, the rate has to be very high. Wait a minute. No, if you have a property tax the rate has to be very low, because you tax all of the property: what's on top of the land and the value of the land. So if you don't have anything on top of the land, you get away with paying very little tax and you can hold

onto the land for a long time. Now, if they only tax the land, then the rate of taxation could be higher and then people would have to either produce or sell it.

MR. BUCKLEY: And in El Salvador what happened?

MR. AYAU: Well, they broke up all of the best farms there, just because they were big. And of course, the standard—

MR. BUCKLEY: Who—

MR. AYAU: —of living of the laborers, of the beneficiaries of the land reform, went down. It didn't go up. Many of them will privately admit that they wish their landholders were back. They'd like the security of the employment, they'd like somebody else to do the speculating and they would be happy with their contractual remuneration. Low as it was, it was higher than what they get now.

MR. BUCKLEY: Now, are you permitted under the constitution in Salvador to re-sell land to the unit from which it was detached to give it to you in the first instance?

MR. AYAU: I don't think so. I don't think so. No, this is something that the land reformers don't like.

MR. BUCKLEY: So you don't have the mobility of capital, you're saying, that is necessary.

MR. AYAU: That's right. Land reformers say people have a strong urging to own land. To satisfy this tremendous desire, we must therefore distribute this land. Well, if that was true, they would have no reason not to give them clear titles. The reason that they don't believe what they themselves say is proven by the fact that they don't give them clear titles.

MR. BUCKLEY: But you surely agree with the generality that those countries are most productive in which people till their own soil, right?

MR. AYAU: Well, that's not true of the United States' agricultural—

MR. BUCKLEY: Oh, it most certainly is. We have very little government-owned land.

MR. AYAU: Oh, in that sense, yes. Yes, yes. But what I thought you were referring to was changes in pattern of ownership and land. There is more concentration of land ownership in the United States than anywhere else in the world.

MR. BUCKLEY: You recited those figures in a recent essay. Do you remember them?

MR. AYAU: No, I don't.

MR. BUCKLEY: Well, you said that three percent of the American people own 50 percent of the land.

MR. AYAU: It was something like that.

MR. BUCKLEY: Now, presumably you are talking about tillable land, right?

MR. AYAU: Yes.

MR. BUCKLEY: So that the prodigality of American agriculture is due to the efficiency that acknowledges the role of the large landholder. That would follow, would it not?

MR. AYAU: Yes.

MR. BUCKLEY: If simultaneously we are very productive and we have a relatively small percentage of landowners owning the land, then it must be the most productive way of proceeding. Is that correct?

MR. AYAU: Well, it depends on other factors, too, because for instance in Guatemala or Salvador, if you give someone a large tract of land, he can't handle it, because he doesn't have the capital. So you've got to have the complementary resources in order to handle a large tract of land, and if you give them more land than they can till, it will just go to waste.

MR. BUCKLEY: Well—

MR. AYAU: And you can see this where we have had the land reform.

MR. BUCKLEY: Well, let me just turn around and say: Is owning your own land or is it not a popular political imperative in Central America? Does the man running for political office who says, "I'll give you your own land" earn that man's enthusiasm?

MR. AYAU: Not very much. They don't believe it any more.

MR. BUCKLEY: Why?

MR. AYAU: Well, it has been said in all the complaints for the last 30 years, people don't believe politicians much anyway any more.

MR. BUCKLEY: Well, a lot of people voted for **Duarte**, did they not? Why did they vote for him?

MR. AYAU: I don't know. I forget who the opposition was.

MR. BUCKLEY: Well, **D'Aubuisson** was the principal one.

MR. AYAU: Oh, well, there was big complaint against **D'Aubuisson**. Big complaint against him. I don't remember by what majority **Duarte** won. But he is a good candidate, he is a good demagogue, he is a good vote-getter. I don't know if he would win now, because everybody's expectations are raised by campaign rhetoric and then everybody therefore fails, because they can't meet those expectations.

MR. BUCKLEY: Well, is that an invitation—that kind of skepticism—to back simply the left candidate on the grounds that the left-wing candidate brings a certain order and ideological discipline to the whole mess? Is that a reason why there is some—and rather considerable—support for **Ortega** in Nicaragua?

MR. AYAU: I don't really understand what your question is.

MR. BUCKLEY: Well, you say nobody believes politicians—

MR. AYAU: That's right.

MR. BUCKLEY: —because they tend not to perform. People vote for them and nothing quite happens that they wanted. Does this conceivably mean that those politicians from the extreme left, the *Marxists*, who hold out almost transcendental promises become more appealing given the disillusion with the more moderate candidates?

MR. AYAU: No, I don't think so, because the left has really gained many votes in any free election. I don't think that they are popular at all. They are strictly a minority.

MR. BUCKLEY: What percentage in a free election of Nicaraguans would you say tomorrow would vote for the *Sandinistas*?

MR. AYAU: Well, I would just have to guess because I have no idea, but I would say the *Sandinistas* might get less than 10 percent of the vote if there was a free election. Judging from what I hear, it is a terrible situation that the people are suffering in Nicaragua.

MR. BUCKLEY: And what is your principal brief against State Department policy in Central America during the past year or two or three years?

MR. AYAU: Well, you know the State Department has been fostering government intervention throughout Latin America, throughout the world, for many years. In Latin America they have helped the left and they have gone against private enterprise and market economy, free trade, et cetera. They did away with **Somoza**. They overthrew the government— It was the State Department really that told the president of Salvador to get out. Now, this is— They actually ordered him. I don't see why he didn't just tell them, "Get the heck out of here," you know. I would have declared the ambassador non grato if he attempted to intervene to that extent. Even to a lesser extent I would have declared him non grato. But the State Department's intromission throughout Latin America has been very harmful. They really don't like capitalism. They blame Latin America's backwardness on capitalism and we haven't really tried it. We have always had some model imposed upon the people. So they have not been a good influence for the continent. Foreign economic assistance has also been very detrimental. I think it has increased the size of government, encouraged a lot of government bureaus, regulation, enterprises, that have reduced the competitiveness of our countries. So while at the same time that we were incurring a large debt, we were reducing our capacity to pay the debt. So the State Department has been very bad.

MR. BUCKLEY: Well now, let me see if I understand you. You began by saying that the State Department has not encouraged a free trade, has not encouraged capitalism and went so far as to oppose **Somoza**. In what sense was the opposition to **Somoza** an affirmation of socialist economics?

MR. AYAU: In his case I think it wasn't an affirmation of socialist economics. I think that they were just helping to get the country rid of a 30- or 40-year dictatorship. But the Nicaraguan people had a lot more freedom under that so-called dictatorship than they do today. And this is the case many times in Latin America, that the people are freer under a non-elected government than they are under an elected government. And we were forewarned about that since the last century. **Alberdi** in an article I read recently, I was surprised to see his farsightedness. He said independence does not guarantee the freedom of the people. You might end up with a more dictatorial type of government elected democratically than you have your imperial government from Spain or—

MR. BUCKLEY: Well, when you use the term democratic, you mean democratic in the first instance, right? Nobody would seriously say that Nicaragua is now a democracy.

MR. AYAU: No, that's right.

MR. BUCKLEY: So therefore, what they overthrew, which was a tyranny, has been replaced simply by another tyranny. So all your point is that the replacement tyranny is more stringent than the tyranny that was replaced. That has nothing to do with democracy, does it?

MR. AYAU: No. Well, I heard a person say the other day democracy in Latin America means that you can elect your dictator every five years.

MR. BUCKLEY: Yes, one-man/one-vote/once kind of business. But the forms of these plebiscites, do they fool Latin Americans in general, or are they strictly done for the benefit of State Department liberals?

MR. AYAU: Well, you know, it's a funny thing. There is no freedom to vote in any of these so-called democratic countries. We are not free to vote in Guatemala. We have the obligation to vote. And that is very different from having the freedom to vote. Because people will go and vote so as not to incur a fine or something like that, and therefore the response of the people to democracy is really not measured by the volume of the vote, because we don't know how many people there vote just because they don't want to be fined.

MR. BUCKLEY: Well, let's submit to our examiner. **Mr. Howard Hunt**, a retired official of the *Central Intelligence Agency*, has spent much of his professional life studying the problems of Latin America. Howard Hunt is a graduate of Brown University, a former war correspondent for *Life* magazine. When he joined the government he was stationed in Paris, in Vienna, in Mexico, in Tokyo, in Montevideo, and later in Washington. He is the author of 56 books and lives in Guadalajara in Mexico. Mr. Hunt.

MR. HUNT: Mr. Ayau, you have dilated, I think, quite reasonably on the negative if not crippling role of the U.S. Department of State throughout Latin America with a special reference to Central America. [coughs] Excuse me. How much if any political and/or economic advice or intervention do you feel is advisable in the case of modern-day Guatemala?

MR. AYAU: I don't think that the government of the United States should get involved in that. You know, the United States citizens resent very much when some foreigner intervenes in internal affairs, and I think that this should be the case, that there should be absolute respect and no involvement.

MR. BUCKLEY: But he didn't ask you that. He said what advice did you think that was given was useful. And you said there shouldn't be any advice.

MR. AYAU: Oh, I see. I thought you were asking me— You mean what advice has been—

MR. BUCKLEY: That's what he asked you, yes.

MR. AYAU: I really can't think of one.

MR. HUNT: In other words, as far as you're concerned, a hands-off policy would be— —

MR. AYAU: More constructive.

MR. HUNT: —more productive and constructive for modern-day Guatemala.

MR. AYAU: Yes.

MR. HUNT: Even though some 32 years ago our assistance was required to overthrow the communist—at least **Marxist**—government of **Jacobo Arbenz**.

MR. AYAU: Well, when I refer to intervention of the State Department, I am most of the time talking about politics—run-of-the-mill politics, everyday politics or economic development assistance. Now, if the United States feels threatened by the incursion through Central America of the *Communist* powers, then I think it's justified for the United States to help stop them wherever they can.

MR. HUNT: Prefacing my next question, which I want to direct to Mr. Buckley, I recall in wartime China the great plaudits that were accorded the concept of agrarian reform, which has since become known as land reform in Central America, and of course we were able to see within a few years after World War II what happened to that concept of agrarian reform. We have seen it also, I believe, in Mexico ever since, oh, I would say, the very early '30s. Mr. Buckley, as a famous free marketer, what economic program would you prescribe for Central America? A sort of common market effort or hands-off on the part of the United States or intense competition among the various countries of that region?

MR. BUCKLEY: Well, I understand Dr. Ayau's point that you can't simply stare at 100 million acres and say, "There are 100 million people and 100 million acres, so everybody should have one acre," and that's the way to proceed. That's making logic-making politics as the crow flies, to quote **Michael Oakeshott**. There is every reason in the world to suppose that in 10 years one person is going to own 30,000 acres and 30,000 people are going to be better off than if they had their individual acre. So number one, I would reject the abstraction. But number two, it seems to me plain that in a part of the world in which people who want to work their own and have no capital and no prospect for accumulating capital, there is a legitimate role for some unit to try to make that possible. Now, I very much like Mr. Ayau's suggestion that a land tax would cause the huge landholders who don't make profitable use of their land to get rid of it little by little because they simply can't stand the tax bill. The tax of unused, under-utilized land is, I think, a beneficent idea which **Henry George** bequeathed on us which is under-utilized. Therefore, I would like to see some instrument by which people who yearn to own their own stretch of land might succeed in acquiring it.

MR. HUNT: I'd like to address this question to both of you gentlemen after a couple of comments of my own. Having seen at first hand the rather massive failure of Mexican land reform, which is to say plots were given to the *paisanos*, who were either unable or unwilling to work them simply sold their plots of land that had been given to them by the government from a confiscatory process so that very soon the *ejidos* were being built up again. Large plots of land were being accumulated, and as today, Mexico, of course, should be a very rich land in agricultural terms, exporting everywhere, but it is simply not and it is importing from the United States and other countries vast amounts of cereals and grains. Now, we have that experiential period going back let's say 50 years or more in Mexico, the largest country in the isthmus. Do you feel that in the face of the Mexican land reform or land re-distribution effort—and I'll ask Mr. Buckley first—do you feel that the concept of re-distribution of land by a government, beneficent or not—probably beneficent—would be at all advantageous in any of the neighboring countries in Central America?

MR. BUCKLEY: I think a lot depends on the means by which it's done. For instance, the difference between the way it was done in Taiwan and the way it was done in mainland China is, I think, almost archetypal. In China it was simply confiscation, a collective, and the idea was that you owned a part of the whole of China. Well, that's a very abstract piece of ownership. In Taiwan, you actually were given a bond to which you affixed your signature and you had to pay

back over a period of 10 years with very little, low interest rate, bonds which in turn were payable because the Japanese industry was confiscated. Now, you've got to have— What I am trying to say is that you've got to have some kind of pressure that eases the situation up, and the best kind of pressure is to make it painfully expensive for people to hang onto more land than they are profitably using. And this was not, in my impression, if my memory is correct, the way it was done in Mexico.

MR. HUNT: Definitely not. Mr. Ayau, would you have a comment on that?

MR. AYAU: Well, I would have a question to that thesis. How often would you re-do it? Because if you leave things alone, as you prosper, land will tend to be concentrated to optimum sizes according to the capital investment of the country, et cetera, et cetera. Eventually you would have concentration again. So what would you do then? Start all over again and divide up what's been concentrated? And when do we stop? Now, I think that there are many other solutions to this problem of poverty down there. If we freed our economies and respected private property and did away with the mercantilism, the problem of land reform would also disappear because there would be no pressure of people to find that type of solution.

MR. HUNT: Well, I tend to agree with you, Mr. Ayau. We have in Mexico a situation where one party has been in power now in excess of 50 years. And it's a party that is a revolutionary institutional party drawing its philosophy, generally speaking, from the socialist world. To what extent do you feel that Mexico's so-called mixed economy is competitive with Guatemala and is it any sort of a lesson or role model for Central America itself?

MR. AYAU: Well, it's certainly a lesson of how not to do it. And I think it's the worst failure in all of Latin America and it's widely recognized as so. Now we certainly don't feel that we should follow Mexico's example.

MR. BUCKLEY: You mean because of the events of the last few years—

MR. AYAU: Oh, no.

MR. BUCKLEY: —or even of the last 20 years?

MR. AYAU: This has been foreseen for many years. Mexico is really not a very popular model in Latin America.

MR. BUCKLEY: What were Mexico's critical mistakes?

MR. AYAU: Well, the fact that the Mexican economy has been so intervened for so many years. They have never allowed free trade, free prices, it's a mess. The Mexican economy has been a mess for many, many years. I don't know what the situation would be if the United States were not helping them and if they weren't next door. I think that is a great help to the United States, which they never acknowledge, of course. But it's a great help to Mexico. You know, all of Latin America is a very rich area. The people are good, they could prosper tremendously if somebody was not trying to impose his own idea of a model of society on everybody. If they just left us alone to solve our problems and got the government out of the way, we wouldn't have those underground economies, all those black markets, all the corruption and all of that. We could get on and create prosperity.

MR. HUNT: Financially these past few weeks have been very active in terms of Latin America: the debtor nations asking for further loans, injections of funds and so forth. As a resident of Mexico, of course, I would like to see Mexico do well, because I don't want to see that great

country fall apart. Nevertheless, the question that I would like to address to each of you—and you first, Mr. Buckley—is whether you think we are really doing Mexico or the Central American nations or these debtor nations a favor in the long run by continuing to support and fund their deficits.

MR. BUCKLEY: Well, the correct answer, I suppose, is no. I entered that little cavil for one reason alone, and that is that one has to take into account the national mood before one proceeds with textbook rectitude in the right direction. You live in Mexico and I don't. Let me ask you the question: If one were to impose, beginning tomorrow, stringent requirements on the repayment of that debt, would it bring a revolution to Latin America of the kind that would leave us as its neighbors worse off than we are now?

MR. HUNT: Are you referring just to Mexico—

MR. BUCKLEY: Yes.

MR. HUNT: —or to Latin America in general?

MR. BUCKLEY: Mexico.

MR. HUNT: I am often asked that question, as a matter of fact, by people I fly with and deal with in the course of daily events. My feeling is that Mexico is probably the last country in this hemisphere that is ready for revolution. I think you have an inert subculture of *paisanos*, people who are remote from modern-day reality, who are not touched really by pure water, by much electricity, certainly not with medical facilities. What they get, they owe to the government, or they think they owe to the government. They're by no means ready for agitation of the kind that we have seen in some of the neighboring Latin American countries. Nevertheless, among the middle class, the laboring class of Mexico, the results of further inflation—and in Mexico now it's about 100 percent a year—this would be terribly, terribly detrimental to people with any kind of an interest in a productive society. The people out in the hills, the people out in the *barracas*, though, would really be indifferent to social or political change of any kind. Again, we would be the first—we and I say the United States by that—would be the first to be accused of having brought these terrible things about. And yet as **General Vernon Walters** said the other day in an interview with a Mexican correspondent that I read in a Mexico City newspaper, he said, "Why should the United States be brought into the docket and accused of high crimes when all that we did was to lend money in good faith?" And I think that that is an excellent rhetorical question on the part of General Walters, Ambassador Walters really. But it is something that is simply not understood in Latin America, where the love-hate relationship, I am sorry to say, still prevails. They admire us in many ways, envy us, wish they could be like us, realize that there are political limitations and they simply can't do it.

MR. BUCKLEY: Do you have a comment on that, Mr. Ayau?

MR. AYAU: I don't think that the solution to our problems is lending more money, because our problem is lack of production, and any loans right now are going to postpone the day when we have to change the system to get going. This has been going on now for many years, this business of lending more money, lending more money, and it hasn't really brought about a reversal of the tendency.

MR. HUNT: It seems to me, at least in the case of Mexico, that it is an encouragement to the governors of that nation to continue these failed and faulty policies that they have been pursuing for so many years.

MR. BUCKLEY: Well, let me ask you a question, if I may. Was that money lent in good faith? [Laughter] That was really the operative phrase of the rhetorical question that you used. American bankers are pretty shrewd hombres. A lot of people who go in there to borrow money to buy an automobile or a house, know what kind of a vetting they get. Now, when they proceed to lend \$85 billion to Mexico, is that really a good faith investment, or do they really cannily believe that they are mooching on a political situation which makes inconceivable a denial or repudiation of that debt?

MR. HUNT: I would have an ultimate response to that. My feeling is that the loans were made somewhat in good faith, but with the absolute certainty on the part of the American private bankers that they are going to be bailed out by the United States government which will not let them fail because Mexico would repudiate a debt or—

MR. BUCKLEY: So they didn't apply the criteria that they would normally apply in deciding whether it was a good debt or not.

MR. HUNT: No. Obviously not.

MR. BUCKLEY: In the absence of regulations—as I understand it, there are none—that regulate a bank's loans to a country that is not formally in default of other loans, correct?

MR. HUNT: That is correct.

Mr. Buckley: So therefore to what extent do you say that American bankers are to blame? Because after all, we are not talking about the American government now, we are talking about American bankers. Your criticism is of state intervention, but Mr. Hunt is talking about private sector intervention.

MR. HUNT: Private sector intervention, the culpability for which, the laws for which, are going to be underwritten eventually by the United States taxpayer, and I must say that I am very, very hostile to that, yet I am not an economist, I have no particular recommendation except for what I see historically taking place in Latin America *vis-a-vis* the funding and financing by the United States of various projects. I think it's very disheartening.

MR. BUCKLEY: I think we have reached one of those wonderful triangular dialectical traffic jams in which one of us has anything to say. [Laughter] He laid forward a proposition, he agreed with my enhancement of it, and you agreed with it, and then he agreed with you, and so we are all agreeing with each other, right?

MR. HUNT: Is that bad? [Laughter]

MR. BUCKLEY: Well, it's bad in the sense that it doesn't tell us what it is we should proceed now to do.

MR. HUNT: Well, let's ask the expert, Mr. Ayau.

MR. BUCKLEY: Okay, should the government pull out of whatever tacit guarantees are being used to finance these loans?

MR. AYAU: You are referring strictly to the loans.

MR. BUCKLEY: Yes.

MR. AYAU: And the U.S. government, should it pull out?

MR. BUCKLEY: Yes.

MR. AYAU: Oh, yes, I think so. I think it should pull out. People took their risks. I don't see why the U.S. government should tax taxpayers to pay for that.

Mr. Buckley: What would be the consequences of doing so? What would we do to Mexico if they said, solong, you are —

MR. AYAU: I don't know how much of this debt has already been discounted.

MR. BUCKLEY: Well, the answer is, very little has been discounted. Because if so, it would trigger a panic among American banks. You can't with any insouciance lend—well, let's use a correct figure—\$96 billion to Mexico, say it's not going to be paid, without it having a convulsive effect on American banking.

MR. AYAU: Well, bankers would have to reach some sort of long-term agreement or take some losses, because if you leave the problem up to them, then it's their problem.

MR. BUCKLEY: And that's what you would do.

MR. AYAU: Yes, that's what I would do.

MR. BUCKLEY: Is that what you would do, Mr. Hunt?

MR. HUNT: Well, I think that there is a third aspect we haven't even touched on, and it is this: that about three years ago, Mexico, which had maintained a very fine reputation of never having repudiated a debt, suddenly nationalized all of the banks. All the banks became government-owned, just overnight, as **Lopez Portillo** left office. And of course, this left people, Americans and foreigners and Mexicans who had dollar accounts in their banks with frozen dollar—

MR. BUCKLEY: Did he nationalize it or did the country nationalize it?

MR. HUNT: Well, at his suggestion. [Laughter] His money was already out of the country.

MR. BUCKLEY: I see, right.

MR. HUNT: So it was a safe thing to do. And the Mexican government then arbitrarily assigned an exchange rate to the dollars, which was about 50 percent of what was obtainable on the street, and this placed many entrepreneurs in very difficult straits. So also, talking about the credibility of the Mexican government and its nationalized banking system over the long haul, if arbitrarily overnight they can nationalize this tremendous, at least previously quasi-private system and to throw fear and consternation into the hearts of all the depositors, well, what are they likely to do again in terms of financial relations with the United States, the *World Bank*, and the *International Monetary Fund*?

MR. BUCKLEY: What does *Marroquin University* teach is the answer to that question?

MR. AYAU: I don't know exactly what the question is. What would we recommend for the U.S. government to do?

MR. HUNT: No, I was really commenting more on a fear that I think is engendered on the part of lending institutions because of the nationalization several years ago of the Mexican banking system, and I think that that is a negative factor now in terms of any credibility that the Mexican government financially might be trying to restore on the international financial scene. It's a detriment.

MR. AYAU: Oh, absolutely it's a detriment. And Mexico is getting more and more loans. They got some recently.

MR. HUNT: Apparently so. They asked for a 24-year suspension of interest payments and the bankers said, "We'll give you 24 months," which is a little more realistic.

MR. AYAU: Well, I think that the bankers will, if they are left alone to deal with Mexico, they will find that the best, the least bad solution. There are no good solutions—

MR. BUCKLEY: Thank you very much, Dr. Manuel Ayau, the president of *Marroquin University*; thank you, Mr. Howard Hunt; thank you, ladies and gentlemen of the Anglo-American School.

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