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Two strategies

There are two ways to look at a situation in which foreign debt is manifestly out of proportion to the immediate repayment capabilities of the underlying productive economy. The International Monetary Fund and rentier banking circles call for maintaining the debt at the expense of the real economy. The Mexican government, after a period of acquiescence to an "IMF without the IMF" program, is now fighting for the contrary policy: keep production going and freeze the debt.

Mexico could not have waited much longer before deciding to stand and fight. The standard banker line is that Mexico made only half-hearted efforts at austerity in the first half of the year and now has to really take the plunge. The truth is that the Mexican economy has already gone through a hideous depressive shock. Any IMF program of the traditional variety now would create a virtually irreversible collapse, with grave economic and security implications for the United States.

As early as mid-May, after just two months of government austerity programs, Finance Minister Silva Herzog announced that growth rates would be zero percent for the April 1982 to April 1983 period. The possibility is strong that Mexico will in fact face zero growth for the 1982 calendar year—negative growth in the second half counterbalancing the positive 5 percent growth of the first quarter, a carry-forward from 1981's dynamism.

The sharpest index of the austerity is the foreign trade account (see Figure 3). Over the January-July period, imports were down 29 percent, $4.2 billion in absolute terms. The programmed reduction in imports announced in an April 20 austerity package was 25 percent, or $6 billion shaved from 1981's $24 billion. As of the first seven months of the year, this draconian goal was being met ahead of schedule.

With this tremendous deceleration of the economy, unemployment is now cutting deeply into skilled layers of the work force as well as masses of the unskilled. Total figures are unavailable, but the picture can be pieced together from scattered reports. In late July, the state-owned truck and bus manufacturer, DINA, announced a one-third cutback in production and similar levels of layoffs. In late August GM

A lever which could restart the U.S. economy

Seventy cents of every dollar of lending or other income to Mexico that Mexico puts to productive use—mainly in high-technology imports—rather than for debt payment, comes back to the United States as its share of those orders. That is the principle of how a healthy Mexican economy helps restore the health of the U.S. economy.

In 1981, this arrangement meant $18 billion in orders for the United States. For the previous three years, growth in this market averaged over 30 percent per year. With debt moratorium, return of flight capital, and a dose of new, long-term credit, Mexico could rapidly resume that rate of growth in imports.

This is good news for U.S. factory owners, and for U.S. farmers looking for a reopening of a Mexican market now shut off. It is good news for the banks, too, who would find their domestic loans suddenly moving off the "sour" list and back into the "performing" category.

What is the U.S.A. now losing due to the bankers' policy of chopping up Mexico's productive economy in order to pay the debt? In first-approximation, it is roughly $4 billion, the two-thirds U.S. share of the $6 billion in imports Mexico is axing this year. Of course, if Mexico's economy were healthy, it's foreign orders would quickly surpass last year's $24 billion in imports. The U.S. is losing even more because a number of U.S. firms, hit by the U.S. depression, have been relying on direct exports to Mexico or remittances of new investment in Mexico to offset losses elsewhere. The loss of the Mexican "margin" can mean the collapse of the firm as a whole.

Among the hardest hit industries:

- *Oil equipment, centered in Texas.* As of March 1982, the Pemex purchasing office in Houston, the largest in the world outside Mexico, had cut orders 50 percent. A June Pemex announcement of six cancelled petrochemical plants translated into $66 million in cuts of previously contracted equipment and services.
- *Nuclear.* The contract for Mexico's next nuclear plants, cancelled in early June, could have meant some $2 billion in orders for any of the three U.S. companies included among the seven bidders, General Electric, Westinghouse, and Combustion Engineering.
- *Auto.* Mexico imports over $2 billion in auto parts per year from the U.S.A. Typical of the casualties here: the VAM company in Mexico, which had been importing 120 jeep components units every week from an Ohio-based supplier. Zero imports are planned for the rest of the year.
- *Agribusiness.* U.S. farmers who had cashed in during the bonanza years of 1979-1981, when Mexican imports soared to 8 million tons of grain a year, are eagerly looking for reopened markets. Black bean producers in Nebraska report prices per hundredweight are half what they were two years ago before the shrinking of the Mexican market. Good crops have been a major factor cutting U.S. sales—but as 1982 has progressed, it's been increasingly Mexico's financial pinch.

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