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EIR Feature

Mexico's ruin began with Miguel de la Madrid

by Carlos Cota Meza

"We lost a battle but not the war," said President Miguel de la Madrid at the end of 1987, implicitly recognizing the fiasco of his economic policy of the last five years. The assertion starts from the premise that his program is perfect, and that the Mexican economy is the ideal place to apply it. As to the mere detail that the program is a dismal failure, the President blames this on "exogenous elements" or faults in the implementation, but he insists that the program is right.

With the Economic Solidarity Pact, put into effect on Dec. 15, 1987 as a response to the trade unions' demands for wage increases, the government decided to dig even deeper into its erroneous ways, but now with a new and ominous twist. On Jan. 8, in his New Year's message to the nation, President De la Madrid stated: "It is illegitimate to incite the citizens to civil rebellion or to resistance against the laws and authority."

That warning takes on great relevance, given that there is in the country a sharp and growing process of opposition to the President's economic policy, in particular since the Economic Solidarity Pact. Most serious of all, this opposition is coming mainly from groupings which belong to the ruling Revolutionary Institutional Party (PRI), such as the powerful Mexican Confederation of Workers (CTM), the oil workers' union, STPRM, and rural organizations belonging to the National Peasant Confederation (CNC). The call for a general strike to demand an emergency wage increase in the face of the recent devaluation of the peso was put out by the Labor Congress, which has 10 million members, and whose institutional existence is written into the Constitution.

The fact is, that despite all the pious denials and euphemisms to the contrary, Miguel de la Madrid's government handed Mexico over to the dictates of the International Monetary Fund (IMF) from the day it took office.

In August 1982, the government of then-President José López Portillo declared the country in noncompliance on payments of its foreign debt. Months afterward, on Dec. 1, Miguel de la Madrid took office as the new President of Mexico. During the transition from August to December, the presidential palace of "Los Pinos" was descended upon by predatory delegations of David and Rodman Rockefeller,

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Juan Cedillo

Mexican trade unionists rally for "a Latin American debtors' front," during the March 1987 visit to Mexico City of Peruvian President Alan García. President de la Madrid rejected the García program, in favor of the IMF's austerity.

of Chase Manhattan Bank; Henry Kissinger, of Kissinger Associates and the Ditchley Group; and Walter Wriston, of Citibank. As time went by, the circling of these vultures became more and more frequent.

In short, what the supranational banking clique, the Ronald Reagan administration, and the IMF bureaucracy imposed on Mexico were the genocidal "conditionalities" of the IMF. They ordered Mexico to: a) devalue the peso drastically with the target of reducing vital imports for the internal economy, while increasing the cost of foreign debt service payments; b) pay this debt service by exporting manufactures, raw materials, and food at the expense of the domestic economy; c) eliminate productive investment, including wiping out entire industrial sectors, and earmark the "savings" obtained for foreign debt payments. This was exactly what the Miguel de la Madrid government started to do in December 1982.

As **Figure 1** shows, this model—in Mexico called the "de-petrolization of the economy," or the "structural change"—will culminate in total debacle in 1988, leaving Mexico on the edge of starvation.

How the economy was bled

Mexico became an oil-exporting power during the six-year presidential term of José López Portillo (1976-82), after his predecessor, President Luis Echeverría Alvarez (1970-76) had made the biggest investments in the sector since President Lázaro Cárdenas nationalized the petroleum industry in 1938.

From 1982 forward, despite the drop in the international oil price, and with the same level of exports, with "IMF recipes" Mexico maintained its hard currency reserves at a constant level. This was possible thanks to a savage 50% reduction in imports in 1983. From then on, with slight variations, imports have stayed at the level of 1975.

As Figure 1 shows, exports (as a percentage of Gross Domestic Product) have been declining throughout the Miguel de la Madrid government, but reserves have held steady. The way the government has accomplished this was explained by the director of the Bank of Mexico, Miguel Mancera Aguayo, in an interview with Dow Jones wire service last September: "We have been capable of servicing the debt without resorting to foreign credits in net terms, thanks to the fact that we have an enormous surplus of exports over imports." Such an exploit was possible, Mancera boasted, "thanks to the policy of devaluing the peso, which keeps it artificially undervalued by 25% with respect to the dollar. . . . We have to export twice as much [as in 1982] with the aim of importing half" as much as was imported in that year.

Aside from petroleum (whose share, in dollars, has diminished), Mexico, the new "exporting power," has added nothing in new exportable production. The exportable "surplus" has been pure national wealth which was formerly consumed internally and which was literally ripped out of the hands or the mouths of Mexicans, with the aim of "creating currency" to pay the debts.

The form in which the surplus was generated was by making wages disappear, as an "economic variable," in the planning of the looting spree. **Figure 2** shows the collapse of wages since 1982. Present-day purchasing power has been reduced to the level of 25 years ago.

Given the exhaustion of the real physical economy, 1988 will be the year in which this model touches bottom. With the Economic Solidarity Pact the government has "discovered" that the national market registers acute shortages. But

it does not blame this on the absence of production. This, the government says, is the fault of the shopkeepers' hoarding and speculation. And in order to combat this "voracity," the Mexican government has allocated $1.1 billion for emergency imports in a broad spectrum of consumer articles. With this figure, the government will raise imports to $13.2 million per year.

FIGURE 1
Imports and exports of goods and services
(% del GNP)

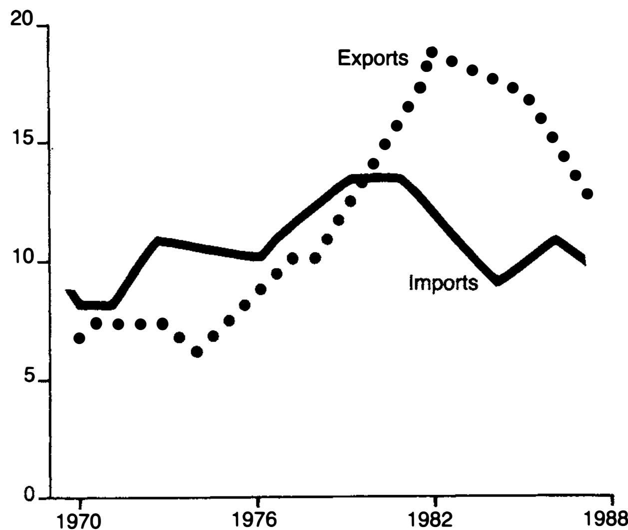
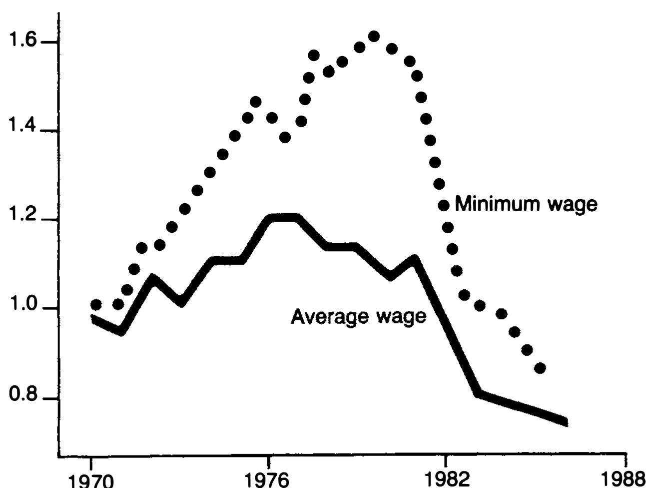


FIGURE 2
Wages
(Index 1970 = 1)



On the other hand, export prospects hardly look favorable, given the deep recession of the U.S. economy—Mexico's major customer—and forecasts of an abrupt fall in the world oil price. Thus, it will not be so much because of an increase in imports, but because of the drop in exports, that Mexico will again show a deficit in its balance of trade. Theoretically, one can say that when the two lines of Figure 1 cross, the moment of the economic and social explosion will have arrived. The reason for this is that, as a trade union leader recently put it, "We used to be a country with no money but with food, and now we will be without money and without food."

Whole industrial sectors vanish

For the sixth year in a row, the total expendable budget of the Mexican federal republic—56.08% of which goes straight to pay foreign debt—has been been cut in every non-debt category. With the new 1988 cutbacks, not only will public investment be affected in all the top-priority sectors, but entire sectors in food production and the construction of basic infrastructure will go up in smoke. For years, the construction sector had been thought of as the motor of expansion of the national economy.

In real terms, the amount of public investment to be allocated this year will be half that deployed in 1982. As a percentage, it will fall from 16.2% of the budget in 1982, to 9.6% in 1988.

- **Steel.** A halt will be called to SICARTSA II, the second part of Mexico's largest steel project, located in the south, as well as to bringing on line direct-reduction plants, steel processing, electric-arc furnaces, and continuous casting plants. At the same time, the Altos Hornos steel plant will reduce its production.

- **Communications and transport.** The budget will eliminate many projects and "reduce the rate of implementation" for others, such as the Querétaro-Guadalajara-San Luis Potosí highway and the Coatzalcoalcos-Villahermosa highway. Also to be set back are the transverse railway from Monterrey to Guadalajara and the double track Mexico-Veracruz rail line. All airport investments will be suspended.

- **Agriculture.** One of the hardest-hit sectors by the budget cuts, the Agriculture and Water Resources Secretariat, will give up 24 water projects, among the most outstanding of which is the promising Fuerte-Mayo Canal, in the state of Sonora, with a great potential for making new arable land available for food production. No agricultural machinery will be purchased at all, nor will any new firms be set up in this sector.

Twenty-eight thousand hectares of unirrigated land had been slated to become cropland, a figure which will not be reached, and in the irrigated zones it had been expected that 60,700 new hectares would come under cultivation (this figure itself is less than 40% of the land recovered in 1981). Meanwhile, Banrural—the Mexican government's rural credit institution—will only channel loans to upgrade 7.2 million

hectares, the same as in 1987. This will have repercussions in the form of a drastic shortage in domestic production and need for further imports, which in the basic cereals sector already makes up 40% of national consumption.

- **Energy.** This is the sector most affected by the budget cuts. Petroléos Mexicanos, the national oil company, will slow down construction of the second phase of its Tula refinery, and has eliminated the Reynosa Profundo project, the which will lead to a drastic reduction in the supply of fuel to the economy. The designers of the new budget argue cynically that this reduction will be compensated by a lower demand, because of the increases in the selling price of fuels.

In the electrical sector, the elimination of projects has not been spelled out; the only announcement has been that the Federal Electricity Commission "will decrease the commercialization of electrical energy from 85,092 megawatts to 83,022 megawatts." The Central Light and Power Company will impose "greater slowness" on the implementation of its projects.

The explanation of the drastic cuts is that the company "has a cushion of four years" to supply the demand, but according to labor leaders in the electrical sector, "blackouts will be inevitable," principally because of the budget cuts in maintenance.

Together with the agricultural sector, the cuts in the electricity sector pose the greatest dangers of cannibalizing of the national economy. A study by the Federal Electricity Commission's construction department, established that to meet demand between now and the year 2000, Mexico needs a diversification of power sources. They have to build, and bring on line, coal-powered plants, nuclear plants, geothermal plants, and hydroelectric plants. These projects were drawn up with a view toward expectations of increased demand, which in 1983 were at 6.9% per year for the period 1982-2000. In 1987, that projection was reduced to 5.5% per year, and for 1988 it was set at 4%. With the minimal projection of 4% for the next 20 years, the National Energy Program is eight years behind where it needs to be to meet demand.

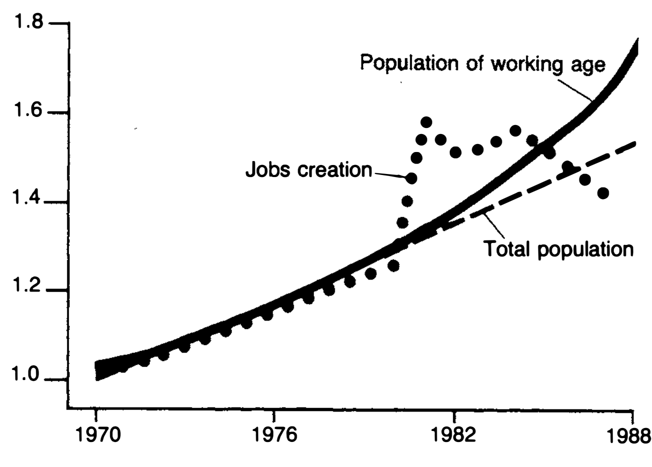
Social time bomb

In the short term, the worst danger is the potential for an imminent social upheaval. The state and semi-state sectors of the economy have not only been historically the motor for Mexican economic expansion, but they are also the most important generator of potentially well-paying jobs, jobs which, according to the Labor Congress, now number 2.5 million. With the cuts in public investment for 1988, most of these 2.5 million workers will be laid off.

But unemployment in Mexico is already a ticking time bomb. In **Figure 3,** we see that before the Miguel de la Madrid administration, the government was making an effort to create jobs faster than the rate of growth of the population. Today, the relative demographic growth rate is higher than the creation of new jobs.

With the Economic Solidarity Pact (which in reality forms part of the new accord for restructuring the foreign debt, controlled by Morgan Guaranty Trust bank), unemployment will increase by leaps and bounds. The layoffs from the public sector, provoked by the cuts in the investment budget, will be made worse by layoffs in the private sector, as private businesses are forced to shrink operations because of runaway interest rates and the higher banking reserve requirements, which have already provoked a 90-day ban on commercial loans. Another large number of people will be jobless because their employers went bankrupt after the government lifted import barriers in the name of "fighting inflation."

FIGURE 3
Jobs creation
(Index 1970 = 1)



The rumor that 150,000-250,000 public employees will be soon be out on the streets, is becoming more persistent. Most municipal workers in the country have not even finished getting their Christmas bonuses. The leader of the state and municipalities public workers union stated that "the specter of unemployment is upon us."

The presidential elections are only months away, in July, and the group of those who warn of the threat of a "great social explosion," of "authoritarianism," "militarization," and "perhaps even a coup d'état" is becoming larger by the day. These fears are growing because of the warning, already alluded to above, by President Miguel de la Madrid in his New Year's message.

For Mexico, 1988 will be the year it defines itself. Either the sentence of the entire country to submission to IMF "conditionalities" will be executed, after five years of progressively making its economy and institutions fascist; or, a moratorium will be declared on the foreign debt. It was the failure to declare such a moratorium in 1982 that doomed the country to all these sufferings, which were neither necessary nor inevitable.