More austerity hits Mexico's labor force

by Peter Rush

After suffering a brutal cut in real wages over the previous three months, the Mexican population was hit on Feb. 29 with Phase II of the "Economic Solidarity Pact" promulgated by the Miguel de la Madrid administration. Inflation rose 15.5% in January, and official estimates put it at a further 8% in February, representing a combined drop in real income of 20%, while wages were frozen. Against this, the government granted a negligible 3% wage increase in March. With the population having already suffered a more than 50% cut in real income from 1982 to December 1987, the standard of living for most Mexicans is by now well under 40% of its level in 1982. Hunger is becoming the order of the day for more and more Mexicans, as more and more foods join meat and milk as unaffordable "luxuries."

As happened last December, the de la Madrid government has compelled the leader of the Confederation of Mexican Workers (CTM) to "reluctantly" sign his name to this phase of the pact. He merely whimpered that if business doesn't keep to its promise to hold down prices, "it will have to pay the consequences" in higher wages later.

However, wages have been cut so deeply that the population, especially the organized working class, is very close to the explosion point. While the CTM has so far prevented an outbreak of wildcat strikes and other labor actions against the pact, the disgust of workers with labor officialdom's compliance with it, has manifest itself in mass defections of workers from support of the presidential candidate of Mexico's traditional ruling PRI party. It is to try desperately to show an improvement in the inflation level before the elections—no matter what disasters will hit just after—that Phase II is directed, in hopes to bring workers back behind the PRI candidate.

Accompanying the virtual wage freeze, is a freeze on the prices of goods and commodities controlled by the government, including water and electricity rates, airfares, gasoline, and sugar. In addition, the business sector is supposed to "voluntarily" honor the freeze as well, and not pass on the 3% wage increase by higher prices. Given the multitude of means business has to effectively increase prices, the latter portion of the pact is a foreordained farce.

Further, the government announced a reduction in the interest rate by 50 points, from over 150% a year to just over 100%, and a freezing of the peso-dollar exchange rate at its present level. Finance Secretary Gustavo Petricioli announced that the Central Bank would be setting aside $2 billion of its dollar reserves of $13.5 billion, to support these policies. The immediate response to these measures in Mexico was a rush by depositors to take their money out of banks, and to exchange them for dollars. And the lowering of the interest rate is a purely financial measure, with no economic significance—there was no money allocated for investment at 150%, and there is no more available now at 100%. Most investment has ground to a halt.

The government's program is a hybrid of the Bolivian shock program designed by Harvard economist Jeffrey Sachs, and the Israeli anti-inflation program applied several years ago. Michael Bruno, director of the Central Bank of Israel, is now in Mexico, invited by Miguel Mancera, Mexican central bank head, where he met with de la Madrid. In Bolivia, the anti-inflation program was "successful," in that inflation did fall sharply—but at the expense of the virtual elimination of industry.

The intention of the Mexican program is to sharply reduce inflation just long enough to ensure the election of PRI presidential candidate Carlos Salinas de Gortari in July. It is highly doubtful that this corrupt attempt can succeed. This is because the response to government policies has been the "dollarization" of the economy, in which more and more transactions are conducted in dollars, or where prices are calculated based on the peso-dollar exchange rate. It is expected that by some time in April, there will either have to be a very sharp devaluation—which would cause an instant jump of dollarized prices by the same amount—or the peso will virtually cease to exist as a medium of exchange. Dollarization will become universal. The English-language magazine *The Journal* headlined an article on this question, "Dollar Pricing: Is the Peso Vanishing?"

Labor's response

Labor dissent is not likely to wait for the election to explode. While PRI candidate Salinas de Gortari's campaign so far has been a disaster, PARM candidate Cauhtemoc Cardenas's campaign is drawing huge, enthusiastic crowds, mainly from workers and peasants. His program calls for a debt moratorium, a return to high levels of domestic investment in the economy, and an end to kowtowing to International Monetary Fund austerity programs. Worker pressure was sufficient to force the National Assembly of the CTM, meeting in the last week of February, to call for a radical version of Peru's "10% solution," in a resolution that said Mexico must pay no more than 10% of its non-oil receipts in debt service, and reserve the totality of its oil receipts for investment in development.

The failure of the "zero coupon bonds" scheme cooked up by Morgan bank, which will cost Mexico a net outflow of cash until long after the present crisis is past, is expected to amplify the popular outcry.

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