Dateline Mexico by Hugo López Ochoa

Stooping lower to the banks

President de la Madrid launched his shock plan to please the banks, but they still refuse to lessen the debt.

The government of President Miguel de la Madrid continues to obey the oligarchy's demands to the letter, but they still spit in his face. Even with the Feb. 28 announcement of the second phase of a brutal economic shock program, the majority of Mexico's creditors have refused to discount the country's foreign debt, currently at $105 billion.

Under the touted "Morgan plan," Mexico would allocate $2 billion of its international reserves to the U.S. Treasury, with interest payments by Mexico amounting to another $10 billion over 20 years. This would in turn win the purchase, by the creditor banks, of $20 billion of its foreign debt at a 50% discount, as it is currently valued on the stock market. But the majority of Mexico's creditors saw through Morgan Guaranty's trick, invented to try to bail out the most seriously exposed banks, and rejected it.

Only 139 of the more than 600 creditors made offers, and the total amount of those offers came out to $3.665 billion of old debt to exchange for $2.557 billion worth of new bonds. Not a single bank offered to buy at discounts greater than 30%.

Thus, the net reduction of the foreign debt came down to $1.1 billion, and the interest savings over the next 20 years a miserable $1.5 billion. This means that, of the $10 billion annually paid on debt service, Mexico would "save" a mere $73 million. Worse yet, Mexico will have to disburse this month $532 million of its international reserves to buy "zero coupon" bonds from the U.S. Treasury, meaning that it will take seven years to "recover" that initial investment with the so-called saved interest costs. What a deal!

Despite the fact that the mad director of credit of Mexico's finance ministry, José Angel Gurria, declared March 3 that the bond-debt operation had been "fully satisfactory," President de la Madrid was forced to admit March 4, in a speech to the National College of Economists, that the imaginative formulas his government has been promoting to avoid facing up to its responsibility of confronting its creditors, have failed. "The need for new schemes to relieve the enormous weight of the foreign debt for debtor nations has not been sufficiently recognized," he said. "The high foreign debt service is a brake on the economic recovery and, above all, a psychological burden with regard to our future."

The second phase of the shock plan, so euphemistically named the Economic Solidarity Pact, will freeze prices, wages, and the peso devaluation during March, but this comes only *after* allowing hyperinflation to run wild since Oct. 19 of last year. The key to the pact is that the labor movement agrees not to attempt to recover its buying power before the July elections.

After this period of "price alignment," the minimum wage stands at approximately 30% of 1982 levels, or 8,000 pesos a day—the current price of a kilo of meat! The 240,000 peso ($150.40) monthly minimum wage will scarcely permit one person to survive. It would take a minimum of 1 million pesos a month ($442.50) for a worker's family of five to just subsist in Mexico. The idea is to freeze this situation until after the elections, before the next unimaginable level of genocide is imposed in the name of "adjustment." The minimum wage will be revised at the start of each month on the basis of the inflation rate anticipated for that month, estimated at an average of 3% monthly.

Meanwhile, bank interest rates, now at 159% yearly—will be reduced up to 40 points, with the aim of reducing the pressure of the internal debt. However, they will stay high enough to keep producers prostrate, given the pitiful, and declining, levels of demand. The nearly $1.5 billion not used in "Operation Zero Coupon," plus another $500 million of the reserves, will be used to stave off pressures against the peso from flight capital, expected with the announcement of lowered interest rates. It is hoped that the parity level will be kept at 2,260 pesos to the dollar.

The government is currently financing a multimillion-peso press, radio, and television campaign based on the argument that the "pact against inflation" can only work if all elements—workers, industrialists, and government—keep believing that their sacrifice will "make the difference." On March 4, President de la Madrid said that "Mexico is experiencing a recovery, of confidence and even euphoria."

In reality, the shock program could be digging the grave of the ruling PRI party, which seeks reelection in July. At a campaign meeting held March 6 in the state of Veracruz, PRI presidential candidate Carlos Salinas de Gortari was forced to hear a state leader of the national oil workers' union say, "Your announcements that there will be an economic recovery are in vain, because in reality everything is rising," and the PRI's victory could prove "an arduous task."