It is no secret that the Mexican "export boom" during recent years was clearly linked to: big devaluations of the peso; exports from the 1,200 sweatshops on the U.S. border, which employ 412,000 workers; and export-oriented investments coming on line in the automobile sector and in the privatized state companies.

Export expansion is limited by three principal factors: 1) there have been no big devaluations since December 1987; 2) the last round of industrial investments (which began in 1984-85) is already in full use; and 3) the slowdown of the U.S. economy, which buys 75% of Mexico's exports.

Capital flight and corruption

The barons of industry are only interested in saving their finances, not in solving the real problems of the national economy, nor even of their companies. Some of them are encouraging capital flight in order to force the government to make a major devaluation. That would rescue their export-oriented investments, at the expense of the rest of the economy. They blame inflation for the capital flight. Some charge that the current policy of freezing the exchange rate (along with wages and prices) is foolishly pegged to "an inflation rate which is false, unreal and which sooner or later will bring a bigger devaluation."

Mexican interest rates are set at 33%, while inflation is projected at above 30%. Thus, according to the sacred "laws of the market," it would be bad business to leave one's money in Mexican banks.

On top of everything, the inefficiency and corruption of some top officials have been "privatized." The classic case of this kind of corruption was the famous bankruptcy of the Monterrey Group, which was rescued in 1982 by the José López Portillo administration, with a gift "loan" from the National Public Works Bank. More recently, the government took possession of the La Caridad copper mine in payment for a $1.3 billion debt, and then returned it to its owner, Jorge Larrea, in dubious fashion.

Banker Eduardo Legorreta Chauvet went to jail—briefly—under pressure from the hundreds of investors he defrauded during the October 1987 stock market crash. He is now out on probation and barred from acting as a broker. But, the investors never got their money back.

In what could be the harbinger of the future of state companies, the state airline Aeroméxico was privatized in April 1988, after going bankrupt. The Icaro Group bought 55% of the shares and won control; Bancomer bank got 20%. The pilots' association, which owns 25% of the stock, is charging that the company's 1989 annual report covered up misuse of funds and inefficiency. Two years after privatization, Aeroméxico could go under at any moment.

And while this is going on, business and government remain in agreement that wages should remain frozen, ignoring warnings that this could cause social conflicts from a work force that is plunging deeper and deeper into poverty.

Brazil's Collor nears impasse

by Lorenzo Carrasco Bazúa

As of mid-May when inflation threatened to break out of bounds, the government of Fernando Collor de Mello in Brazil stood at a crossroads, its choices twofold. On the one hand, it could extend its monetary reform, which at that point implied the direct intervention of the central bank into the financial and banking system, forcing a restoration of credit flows. On the other hand, it could cede to the powerful Brazilian financial oligarchy—with which President Collor has strong family ties—and use the tremendous powers acquired by the Central Bank to direct all the weight of the "economic adjustment" against wages, employment, and industrial activity in the country.

President Collor and his economic team commanded by Finance Minister Zelia Cardoso de Mello opted for the second, and elected to lead the country into the abyss of an economic depression, based on wage reduction, liberalization of prices, high interest rates, a cutback of public investments by some 39%, and a "trade opening" that will redound against the productive sectors of the economy. The government fed the illusion that these measures would provoke merely a "temporary recession" in the economy. But reality is otherwise.

A decade of stagnation

Brazil has been living through economic stagnation for the past decade, starting in 1981 when then Planning Minister Antônio Delfim Netto took measures virtually identical to those adopted by the economic czarina Cardoso de Mello today. There is a significant difference between the two economic "shocks," though: That of 1981 was carried out after a decade of impressive economic growth, with 10% rates based on gigantic physical infrastructure projects. Today's "adjustments" are preceded by a decade in which such works have been largely abandoned, and the economy has been losing productivity.

The electricity grid is on the brink of collapse, communications and transport networks are growing less efficient by the day, public services in the major cities are crumbling. To set off a "temporary recession" under such conditions would trigger an economic collapse from which it would take years to recover.

The bulletin of the Economic and Social Planning Institute (IPEA), under the Economics Ministry, projects at least a 4.7% fall in economic growth during 1990—larger than 1981's 3.1% drop. The National Industrial Confederation

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(CNI), the leading industrialists' organization, sees a 10% drop in industrial production for the year, while capital goods production is expected to fall a whopping 19.5% under the impact of a 39% cutback in public investments. To this can be added a 16.3% fall in farm production. Statistics in the social arena are even worse. Since March, real wages have fallen nearly 30% across the board. In São Paulo alone, in 1990 thus far there have been 170,000 industrial layoffs. The national government fired 100,000 public employees in its first four months.

Social Darwinism

Worried about social stability in Brazil is José Carlos de Assis, an economic adviser to the National Industrial Confederation. In *O Globo* of July 24, de Assis writes that "the economic team doesn't appear to be concerned with activating mechanisms to reverse the recessionary process and the march of unemployment: On the contrary, up to a certain point, it relies on the recession to inhibit the continued rise in prices. . . . Employment is for the majority the only guarantee of income. To deliberately undermine this guarantee is to play with collective insecurity, and to compromise social stability. . . . The combination of salary reduction and unemployment, under the pretext of containing aggregate demand, implies cutting below the line of survival for those who are at the bottom of the wage scale. This is not anti-inflationary policy. This is Social Darwinism."

The hand behind this economic policy is identified by economist Jayme Magrassi de Sa, a professor at Brazil's Superior War College, in a July 18 article in the daily *Folha de São Paulo* headlined "The Final Decision." Magrassi de Sa wrote: "All this has been mounted to captivate the IMF, at the cost of something ephemeral: There will be no real budget surplus this year; inflation will be artificially curbed and the people's rage will reach a dangerous intensity; finally, the deregulation of various sectors of the economy will make us pay onerous capital costs. . . . Further, when inflation does return, it will bring in its wake a whirlwind of economic, social, and political pressures. The IMF and foreign bankers would sit back and watch a potentially extremely rich nation go through contortions from a brutal increase in the already cruel poverty suffered by two-thirds of the population."

Magrassi de Sa also warned: "One can imagine that the recession provoked will significantly help to reach a favorable decision regarding the Bush proposal. The weakening of the country could then be turned into an argument for tying ourselves to the Giant of the North. We could end up letting go of large chunks of our industrial infrastructure, and accommodating to an economic condition which henceforth would be dictated by the directors of the association, not by us."

Finally, the War College professor predicted social violence due to "the compression of general living standards for an illusory arrangement with foreign creditors via the IMF. . . . The maladies of Brazilian society will worsen, with internecine revolts in every layer of society. The October elections could be the first escape valve of this disillusionment . . . of rage, of reaction, of revolt. After that, the unknowable."

Opposition to government policy is growing in every organized sector. Collor's wage policy, for example, is triggering a storm of labor protests. The Ford plant in São Paulo has been paralyzed for the past 50 days, while the Volta Redonda steel plant one hour outside of Río de Janeiro—the largest steel plant in Brazil—has been on strike for more than two weeks. The entire public and state sector which is fighting a combination of wage-gouging *and* privatization, will soon be paralyzed as strategic sectors of the national economy are struck.

Within the Armed Forces, disgust with Collor's economic measures is visceral. As the July 26 editorial of *O Estado de São Paulo* observes, "The government is subjecting the Armed Forces to bread and water. . . . The budgets of the military ministries . . . are so niggardly that the military organizations are forced to end their work days at noon at least once a week, because there isn't enough money for food. The operational capacity of the three forces has fallen to unheard-of levels: there is no money for food; there is no fuel for deployment of vehicles; budget allotments do not allow for training exercises; there are no spare parts."

The monthly *Ombro a Ombro,* considered the official voice of the Brazilian Armed Forces, dedicated an editorial in its July edition to protesting "the hand of the United States and International Monetary Fund" behind ongoing efforts to "cut down" the Brazilian—and Argentine—Armed Forces, and to limit those nations' sovereignties: "The IMF has shown itself to be the hangman, just like the American banks. The cartels pressure us to open our ports. Our heavy industry and our state-of-the-art industry are threatened. . . . They want to keep us as exporters of cheap raw materials and eternal buyers of capital goods. . . . The time has come to meditate on what is happening in the south of our continent. We should take precautions. Let pretended friendship and fallacious economic liberalism not keep us in underdevelopment."

When it took office on March 15, the Collor de Mello government promised that it would make the weight of the so-called "economic adjustment" fall upon the speculative sectors. During the first weeks of the "economic package," the Central Bank had some $80 billion in its vaults, which could well have been used to relaunch genuine economic growth, giving substance to a truly anti-inflationary policy. That golden opportunity was thrown away.

If the government keeps on its present economic course, more eager to win a seal of approval from the Establishment and the Anglo-American banking elites than to defend national interests, President Collor will soon find himself in a dead-end, and Brazil thrust into an institutional crisis whose outcome cannot be foreseen.