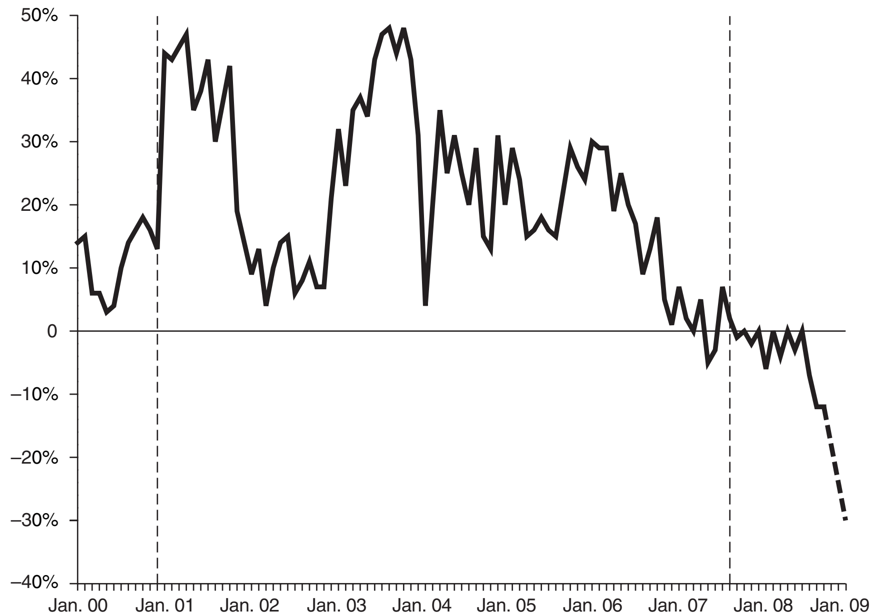
LYM Asks Fellow Mexicans: '*Now* Are You Ready To Listen to LaRouche?'

by Dennis Small

FIGURE 1
Mexico: Remittances
(% Monthly Change)



Sources: Banxico, *EIR*.

On Oct. 13, the LaRouche Youth Movement (LYM) in Mexico strode onto center stage of the panicked national economic debate under way in that country, in the face of the meltdown of the global financial system. The LYM issued a leaflet calling on the nation to finally "listen to and implement the solution which Lyndon LaRouche has been proposing to bring about an alliance among the four powers Russia, China, India, and the United States, to declare the international financial system in bankruptcy and create a New Bretton Woods system in the tradition of Franklin Delano Roosevelt." It also called for "eliminating financial derivatives and constructing the PLHINO," a reference to the Northwest Hydraulic Plan, which would open up over a million new hectares of irrigated land to cultivation.

The week before, over a 72-hour period, Mexico's central bank had burned through almost $9 billion in foreign exchange reserves (11% of its total of $84 billion), in a frantic effort to stop a run against the currency and halt the resulting free fall of the peso. Despite the huge intervention, the currency plunged by 17% in one week. Among the panic purchasers of dollars were a handful of major Mexican companies which were caught with enormous derivatives exposures that they couldn't cover. Retail giant Comercial Mexicana, for example, filed for bankruptcy on Oct. 9 after losing $4 billion on derivatives bets. It is believed that major international players also had to pull out of the Mexican market in a hurry, to try to cover their positions elsewhere, as world markets melted down.

A similar process occurred simultaneously in Brazil, in which some 200 companies lost $28 billion in derivatives bets, and which caused that country's currency to sink like a stone.

The sharp devaluation of the peso, for a country that imports a quarter of its basic grains and many other staples, was terrifying—but it's only part of the picture that Mexicans are now trying to grapple with. Mexico was also hit by the official announcement earlier this month that remittances sent home by Mexicans working in the United States had plunged a record 12% in August (**Figure 1**), because of the depression sweeping the U.S. economy. Remittances have been Mexico's second larg-

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The LaRouche Youth Movement in Mexico City earlier this year, warning of the financial collapse. The LYM's latest leaflet calls on the nation to do its part to bring about a New Bretton Woods system, in the tradition of FDR.

est source of foreign exchange, after oil exports, rising by about 20% per year over most of the last decade. There are entire states of Mexico, especially in the impoverished center of the country, where half or more of the working-age males have been forced to emigrate to the U.S. in search of jobs, and whose families are entirely dependent on the remittances they send home.

But it is worse still. Cruz López, the head of the country's largest peasant federation, the CNC, told the press that the official figure of a 12% drop in remittances vastly understates the reality. Many states, he reported, have already seen a 30% plunge in remittances, and the situation is rapidly deteriorating. Mexican migrants, he said, are no longer finding work in the collapsing U.S. economy, and over 350,000 people are expected to return to Mexico in short order—where they will have great difficulty finding employment. "We're in the middle of an extremely serious economic conflict," López warned.

LaRouche's Forecast

Lyndon LaRouche, and this magazine, have been warning for years that Mexico was going to run into a brick wall, at the point of "the demise of the importer of last resort"—i.e., the U.S. economy, which was absorbing vast amounts of exported products *and labor* from Mexico, as from many countries around the world, so long as the speculative real estate and other financial bubbles were still growing. In January 2001, *EIR* published a feature on this subject, in which LaRouche wrote:

"What is collapsing today, is not an economy, but a vast financial bubble, a bubble whose chief economic expression is the U.S. financial system's role as 'The Importer of Last Resort' for the world at large."

At the time that LaRouche issued that forecast (indicated in Figure 1 by the broken vertical line at January 2001), Mexico's remittances were still growing at a rapid clip. Most people in Mexico chose to not see beyond their own noses, and dismissed LaRouche's warnings as alarmist. Over the following seven years, LaRouche and *EIR* issued repeated warnings about the impending collapse of the dollar speculative bubble and its impact on the Mexican economy, warnings which most Mexicans continued to brush aside, as remittances seemed to continue growing.

Then in August 2007 (indicated in Figure 1 by the second broken vertical line), *EIR* issued a Special Report called "The International Financial Collapse: Implications for Mexico," which again sounded the alarm about the impending crisis. In the introductory article to that report, "U.S. Mortgage Crisis: Demise of an 'Importer of Last Resort,'" we wrote that there were clear indications that the remittance heyday had reached its end, and that "the worst is yet to come."

Wishful, delusional thinking continued to prevail in Mexico. But from that moment, more than a year ago, until today, remittances have steadily plummeted, as we warned would happen, and they are heading towards a national 30% rate of collapse in the next couple of months.

Hence, the Mexico LYM's polemical question to their countrymen: "*Now* are you ready to listen to Lyndon LaRouche?"

Some in Mexico are.

Under the leadership of the LaRouche movement, institutions in the northwestern state of Sonora are stepping up the fight for a change from national policies which have failed, to those reiterated by LaRouche in his April 2008 visit to Monterrey, Mexico. The latest salvo came from Sonoran Governor Eduardo Bours, who warned on Oct. 7 that it would be the "gravest error" for the Mexican government to respond to the crisis by cutting its investment in infrastructure. The federal government should instead finance projects such as the PLHINO, whose construction would help by generating almost a million jobs and opening up a million hectares of irrigated land for farming.

President Felipe Calderón, however, is thinking along different lines ... deadly ones.

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"Housing" along the U.S.-Mexican border. With jobs in the United States vanishing, hundreds of thousands of Mexicans are returning home—where they face a dire situation, unless global policies change rapidly.

Pemex Offered to the Speculators

On Oct. 8, Calderón delivered an emergency address to the nation, in the middle of the run on the peso, in which he was forced to admit, after months of public denial, that the world crisis will, indeed, affect Mexico, and gravely so. He presented five "anti-crisis" measures, which pivot on one central act: setting up the state oil company, Pemex, for sell-off to the financier vultures, by bankrupting it.

Calderón announced that the government would off-load some 1.6 trillion pesos (US$125 billion) in so-called Pidiregas contingent debt (off-balance-sheet obligations) onto Pemex's account, which Pemex will now have to pay from its resources. The President also announced that the transformation of Pemex into an "autonomous" entity, financially and technically separate from the state, must begin immediately.

LaRouche immediately denounced this scheme as a move to turn Pemex into a PPP (public-private partnership), which means the de facto privatization of the company, which is expressly prohibited by the Mexican Constitution.

Because Calderón packaged the whole swindle as a way to free up money through accounting hand-waving, so that the government could spend money here and there, including promising to build the country's first new oil refinery in 30 years, even the opposition Democratic Revolution Party (PRD), including its 2006 Presidential candidate, Andrés Manuel López Obrador, welcomed Calderón's gambit, only complaining that it hadn't been done earlier. Likewise, the national president of the PRD, Guadalupe Acosta Naranjo, stated that President Calderón's five-point plan "is a change in course" and that Calderón is now "on the right path."

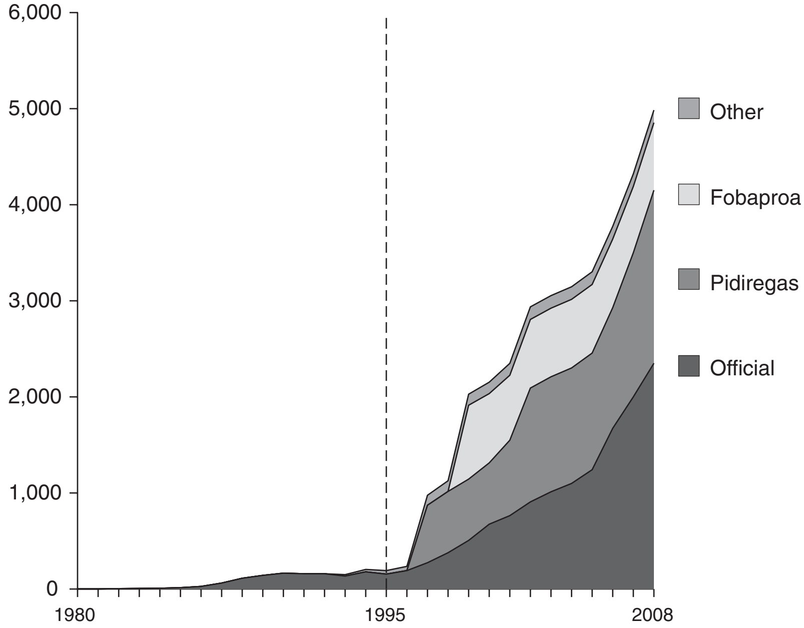
The International Monetary Fund (IMF) was also very happy with the Calderón package. David Robinson, deputy director of the IMF's Western Hemisphere Department, said: "As for the Mexican government program, the IMF firmly supports the announcements," adding that the country also has to reach a "consensus on how to strenghten the oil sector"—i.e., how to violate the Mexican Constitution and go ahead and privatize Pemex.

The director of the IMF's Western Hemisphere Department, Robinson's boss Anoop Singh, preferred to drool publicly over Calderón's included announcement that Mexico would use its foreign exchange reserves to immediately pay off chunks of the Pidiregas debt. "Countries have high foreign exchange reserves, and it's natural that they should now start using them," Singh slobbered.

The Pidiregas Scam

The "creative accounting" with the so-called Pidiregas debt is a particularly scandalous part of the Calderón package. Pidiregas (the Spanish acronym for Projects with Deferred Impact on Expenditures) were launched by the government of President Ernesto Zedillo in 1997 as a way of creating de facto debt obligations for Pemex and other state sector

FIGURE 2
Mexico: Real Public Debt
(Pesos, Billions)



Sources: Banxico, *EIR*.

Calderón plans to dump this entire mountain of debt on Pemex, while at the same time excluding Pemex expenditures—including servicing of the Pidiregas debt—from general public sector spending limits. With this accounting hand-waving, the government now proclaims that it has a new-found ability to spend some money on "infrastructure"—spending which will never actually happen, but which has been used as a public relations ruse to gain support domestically.

companies, by contracting private companies for various projects and handing them IOUs which would begin to paid a few years later, when the projects began to come on line. This was a way to get around the Constitutional provision prohibiting the privatization of Pemex, and it also allowed Mexico to engage in the sophistry of claiming that the Pidiregas were not actually part of the public debt, but just a "deferred expenditure."

Under this fraud, the Pidiregas off-balance-sheet debt grew to 1.6 trillion pesos in April 2008 (some US$125 billion, at today's exchange rate), and are expected to reach 1.8 trillion by the end of 2008. This is almost as large as the *official* public debt of Mexico (2.35 trillion pesos), as can be seen in **Figure 2**. In fact, the Pidiregas debt has been growing at about 20% per year in the recent period. The other major off-balance-sheet component of the real public debt is the so-called Fobaproa debt, which comes from the mid-1990s government bail-out of the Mexican banking system, Paulson style.

It should be noted that *EIR* has also been denouncing this Pidiregas fraud for years, and warning Mexico that it would sooner or later blow up in their face. Now it has happened.

A Free Trade 'Success' Story

The reality is that Mexico—the posterboy of free trade and globalization advocates worldwide—is now being consumed by the very folly which it previously bragged of. Ever since the international financial community in 1982 smashed Mexican President José López Portillo's effort to industrialize the country, Mexico's terrified governments opted to:

1. Shrink domestic manufacturing and agriculture, in favor of cheaper foreign imports. They succeeded: Since 1982, employment in manufacturing declined by about 25%, and per-capita production of food staples such as corn, beans, and rice plummeted by 15%, 51%, and 71% respectively.

2. Promote border-area *maquiladora* slave labor assembly plants, as the spearhead of an overall strategy of orienting production for exports, mainly to the United States. Again, they succeeded: *Maquiladoras* grew like mushrooms, and nearly 90% of Mexico's trade is now with the United States.

3. Induce desperate Mexicans to go to the United States to find jobs, and send remittances back home to their families as the main source of livelihood in many states. Another success: There are now some 13 million Mexicans working in the U.S., and remittances grew by about 20% per year for most of the last decade.

4. Maintain Mexico as an international bankers' paradise, by piling up a government debt that pays a tidy 8% interest. A raging success: Mexico's real public debt more than *quadrupled* over the last decade, largely due to the off-balance-sheet Pidiregas.

In fact, Mexico has been so "successful" in its policy of free trade and globalization, that its very existence as a sovereign nation-state is now threatened.