Mexico Facing Social Upheaval

MEXICO

The Mexican political situation appears to be heading toward an early showdown in which the country's institutional order itself may be in jeopardy.

The center of disturbances is the southern state of Oaxaca. Nine months of increasing conflict between student and peasant groups and the state apparatus of rightwing governor Manuel Zarate Aquino, has culminated in a series of shootings and massacres unprecedented in recent Mexican history. In at least three separate incidents over the last 10 days the death toll has climbed to over 40. Army and police patrols have virtually militarized the zone. Right wing shopkeepers in the state capital began a "strike" Feb. 28 in support of the governor, in an action reminiscent of the stage-managed truckers "strike" in Chile preceding the fall of Allende.

Setting the stage for more bloodshed, provocateurs allied with the Mexican Communist Party have reportedly begun distribution of arms to certain peasant groups. Peasant organizations who understand the PCM's anarchist provocations play into the hands of the right wing have publicly labelled such actions "irresponsible."

In the past this level of conflict would have been speedily dealt with through presidential intervention. The Mexican Constitution provides for executive replacement of governors when a "dissolution" of local powers is determined. But President Jose Lopez Portillo, under pressure from recalcitrant layers in the ruling Institutional Revolutionary Party (PRI) and the official trade union structure, has not been able to move. Conflicts are now sharpening in at least four other states. The assassination of the leader of the powerful oil workers union Feb. 28 has deepened the crisis.

Normally the U.S. would be expected to view these threats to the institutional stability of its southern neighbor with alarm and use its enormous influence to back-up the generally pro-U.S. Lopez. The opposite seems to be the case.

Lopez returned from his much-touted state visit to Washington in the middle of February, empty-handed. The Carter Administration refused financial and commercial aid until Mexico allowed U.S. oil multinationals to take charge of exploiting Mexico's enormous oil reserves and instituted greater austerity measures. The International Monetary Fund (IMF) which took a direct role in advising Mexican financial policy for the first time only last fall, now has a mission in Mexico reportedly working out the details of a 10 percent cut-back in Mexico's already-pared budget. Wall Street sources confirm a complete freeze of credit to Mexico, except for Petroleos Mexicanos (PEMEX) issues, until IMF "guidelines" are met and until U.S. companies gain control over the oil. Restive Wall Street sources have further speculated, not idly, that there still remains some $1 billion in "flight capital" which can be removed from Mexico on short notice to precipitate renewed currency troubles for the wobbly peso.

The conclusion which a number of observers have reached is that the Carter Administration and the New York banks aren't interested in Mexican stability, but rather take it for granted that some sort of "social explosion" is inevitable and want it soon.

The New York Times correspondent in Mexico, Alan Riding, reflecting banker opinion has repeatedly suggested that the Mexican army will be necessary to crush popular resistence to IMF policies. But since there are recognized limits to what the relatively small army can do in the face of real social ferment, U.S. contingency planning has begun which outlines a role for U.S. troops. The sociologist Daniel Bell, advisor to several Carter cabinet members, declared to the French weekly L'Express in mid-December that because of population and related pressures, "An explosion can appear on our southern border which would force Carter to pull back certain units from Europe." James W. Wilkie, top Latin American expert at UCLA, revealed to Joint Economic Committee hearings in Washington Jan. 17 that he had been sounded out by U.S. military intelligence officers on the feasibility of U.S. intervention into Mexico during the last month of Echeverria's term.

With this in mind, the real U.S. policy toward Mexico — far from posturings on "human rights" — was most accurately reflected in the visit of Chicago economist Milton Friedman to Monterrey this past week. The architect of Chile's policies under Pinochet called for "restraining" Mexican democratic development and matching government expenditures to direct income — a 30-40 percent slash in government spending. The major national daily Excelsior immediately drew the lesson of Friedman's visit in the midst of the Oaxaca crisis: We are looking "into the mirror of Chile or Argentina" it warned March 2. It has also not gone unnoticed that Henry Kissinger, veteran of the Chile coup operations and now honorary chairman of Carter's Alliance for Energy Conservation, flew into Oaxaca last weekend on a sudden side-trip from a vacation in Acapulco.

In the Crossfire

The Oaxaca squeeze play mounted by Mexican Communist Party (PCM) linked provocateurs on one side and the fanatic rightwing on the other clearly has more than Lopez Portillo as an intended victim. In fact all the nationalist state-sector oriented forces who backed the policies of former President Luis Echeverria are finding themselves dangerously exposed in the crossfire. They have begun to rally support for Lopez Portillo and are emerging into greater public prominence.

Lopez Portillo, weakened and desperately searching for support, appears to be entering into an implicit return alliance. Still smarting from his treatment in Washington, last week he publicly defended his predecessor from New York Times-conduited charges of collaboration with the CIA and issued a joint declaration of support for a "new world economic order" with the president of Costa Rica, Daniel Oduber.

Though White House strategy apparently counts on a controllable bloodletting, it may find it has unleashed more than it bargained for. The Echeverrista nationalists, no small contingent in their own right and with strong roots particularly in the peasant sector, can expect support from a number of international sources. Virtually inviting Mexico to join OPEC. Venezuelan President Carlos Andres Perez directly addressed the Mexican population in a front page interview in the daily El Sol last week and expressed his confidence that Mexico would use its oil "in solidarity with the Third World."

There are insistent reports that the Arabs are interested in extending long-term credits for Mexican industrialization if Mexico joins OPEC. In Europe, vanguard countries breaking with the dollar — most notably Italy — have maintained close ties with Mexico. Perhaps most important, Mexico signed agreements with Comecon in 1975 and 1976 which established closer potential ties with the socialist trade bloc than those of any country except Iraq. It is rumored in European capitals that Mexico may be the vanguard Third World country to be included in expanded use of the Comecon's transfer ruble as a gold-backed replacement for the dollar.

Before such policy considerations come to the fore, saner banking and business layers in the U.S. are already showing concern over the near term effects of the social explosion courted by Friedmanite policies. They fear the devastation of Mexico's productive apparatus to result from an upheaval and are rightly suspicious of the pure monetarists' vision of Mexico as simply one large oil well. A major New York investment bank is recommending continued loan roll-overs for Mexico to keep a minimum of stability in the country, and this attitude is sufficiently widespread for the hardline *Journal of Commerce* to warn yesterday that the banker freeze on loans to Mexico must not be broken until the IMF consolidates unquestioned control of Mexico's economic policies.

Brazilian Economy: The Continental Confidence Game

BRAZIL

The Brazilian economy is in peril of breaking down following the consolidation of political power in Brazil by the monetarists and allied military Neanderthals during the past month. The monetarist policies designed to meet the estimated $6.2 billion in debt service due this year will rapidly collapse the internal market, and prevent Brazil from meeting export goals and due dates on the even larger scheduled 1978 debt service.

The real productive economy of Brazil has been subjected to progressive destruction by government policies strangling internal credit, cutting off needed imports, and further reducing the consumption of the population. All that remains is a confidence game designed to preserve the belief that the paper economy can survive. Up to the end of last year, the considerable quantities of foreign investments and loans needed to pay debt service could still be conned into Brazil in the expectation of continuous high yields. But during the next few months, as is worriedly conceded by American bankers, the worsening of the situation reflected in the January "stagflation" figures is likely to burst the fantasies of "economic stabilization." The mere release of statistics showing continued inflation or a drop in foreign exchange reserves could trigger a classic panic and bring the breakdown of the national economy.

Monetarist Coup Against Industry

The key event in the monetarist subjugation of Brazilian industrialist interests was the Feb. 8 ouster of Industry and Commerce Minister Severo Gomes, the only spokesman for national industry in the cabinet. Severo had fought the monetarist policies of Finance Minister Henrique Simonsen and openly advocated the expansion of the internal market through adequate supplies of industrial credit. Severo articulated the premonitions of the local industrialists that a continuation of the consumption-cutting, tight-credit policies of the monetarists would bankrupt Brazilian-owned industry and leave it vulnerable to being bought up for a song by better-financed multinational scavengers.

Brazilian political observers are now waiting on tenterhooks for an expected Institutional Act from President Ernesto Geisel which would abrogate constitutional provisions for direct popular election of state governors in 1978. The dictatorial elimination of even Brazil's currently limited electoral process would gut the fragile two-party system, which otherwise would have served as a vehicle for the universal popular opposition to monetarist follies. New York bankers confirmed that they felt the total concentration of power in the hands of the Simonsen "team" was required for it to have the strength to overcome resistance to its triage policies.

Restraint on Real Economy

The government's obsession with improving balance of trade statistics and reversing the inflationary spiral — at all costs — is rapidly undermining the real economy. The regime has pledged to hold down the money supply to a 25 percent annual growth rate, which in the context of a 47 p means that it is severely reducing credit. Brazilian and even foreign industrialists moan that the only factor that's free to charge any price in the