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Federal Reserve and IMF incite a stampede against Mexico

by Robyn Quijano

The U.S. Federal Reserve, the IMF, and top New York and London banks have set the agenda for the destruction of Mexico's economy, the violation of her national sovereignty, and the imposition of conditions designed to lead to Iran-style upheavals. The method is to destroy confidence in the economy, scare off foreign and domestic investors, impose drastic austerity, slash imports, and enforce a top-down clamp on credit.

The IMF plan

While the IMF has no legal capability as in the past to impose its conditionalities on Mexico, it has determined that the wage increase legislated by the government after the devaluation will "undermine their austerity program" and must go. How will the IMF impose this? "We are telling the banks to try to get the levels of imports down," said IMF official Julio Gonzáles March 25. "If imports and wages are not cut, then there will be absolute chaos in Mexico by the end of the year, because they will need to borrow so much money abroad that the banks will refuse to lend. So they must begin the austerity program now," said Gonzáles, the IMF Mexico/Caribbean division chief.

"The Mexicans say they want to cut, but we think this tremendous pay raise runs at cross purposes to the austerity program. The pay raise means workers will have a tremendous increase in demand for goods, so if they cut imports now, inflation will go through the roof. The wage program must go, or else it will be impossible to cut imports," stated Gonzáles. The internal fight on the pay hikes, rejected by large parts of the private sector, is still not settled. The average 24 percent increase was meant to make up some of the buying power lost by the 40 percent devaluation.

Claudio Loser, of the IMF exchange and trade relations bureau, who headed the IMF fact-finding mission to Mexico in January before the devaluation, expressed confidence that the new economic team, Jesús Silva Herzog in the Finance Ministry and Miguel Mancera at the central bank, are convinced that they must cut the budget. Loser went on: "Mexico has already put into place the basis for a real austerity program with the peso devaluation. By devaluing the peso they have already set the conditions for a reduction in their imports by 30 percent, which is what they must do. That will mean cutting about $8 billion in imports, compared to a $24 billion import bill in 1981. To handle this, they will have to make a similar-sized cut in domestic budget expenditures, to account for the reduction in imports. If they follow this program, which we support, that will be a quite severe program of austerity, especially since we think inflation could rise from 30 percent at present to 60 percent or more, which will mean real expenditures are down another 30 percent."

The U.S. Federal Reserve, seen in Mexico for over a year as the chief source of economic warfare for its imposition of credit-strangling interest rates, has taken the lead with the IMF in assuring a credit cut-off for Mexico. David Willey, an official of the New York Federal Reserve, told *EIR*, "Our message to the banks is, 'If you're a creditor to Mexico, you certainly should be putting some pressure on them to reduce their borrowing needs. You should at least go down there and ask some questions about their budget and how fast they're cutting it. That's a form of pressure. Either they implement austerity measures, or they face borrowing trouble. Mexico is far too dependent on foreign credit. They will have to knuckle under."

Fed, IMF, and banking circles are demanding that Mexico "knuckle under" to a minimum 20 percent cut in budget and 30 percent cut in imports or face a total credit cut-off by May or June.

"Unpopular programs" will have to be carried out, a political risk analyst at Bankers Trust, told *EIR*. Susan Purcell, the Mexico expert for the New York Council on Foreign Relations, is presenting the same total-austerity-or-else scenario for Mexico in closed-door sessions with bankers and top business executives, *EIR* has learned. The risk analyst put it this way: "What they have to do now is cut down growth as fast as possible. By this I don't mean a 3 percent cut in budget outlays [the government's present target—RQ]. I mean 20 percent in budget outlays and soon. The banks simply won't lend them money. . . . There will have to be another big devaluation unless they start indexing the peso downward to the difference between U.S. and

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Mexican inflation rates. They will have to devalue at an annual rate of 40 percent or almost 3.3 percent a month. They will be a lot better off if they start this now. . . . By the middle of 1982 the banks are going to start cutting off loans to them. Then there will be a huge panic in Mexico City because no one will be willing to buy Mexican paper, and they will be forced to make large, sudden cuts in the budget. . . . This will be possible as early as May or June. To this sort of thing there will certainly be a social reaction of bus riots, labor unrest, heavy criticism from the left of the PRI, and more political repression and more austerity."

One particularly loudmouthed foreign currency trader said directly what the Fed and the Fed's buddies in the international banking community have clearly implied. Robert Boston of Thomson McKinnon described the inflation spiral kicked off by the devaluation as out of control. "The new President of Mexico will make no difference. What difference does a president make? What you need is a Paul Volcker in your central bank, that's what you need. That would throw Mexico into a depression."

The real economy

The international financier community running the stage-managed depression in the advanced sector is hell-bent on assuring that the Third World goes down first. A Paul Volcker for every country is the goal. The imposition of financial strangulation on basically sound economies can indeed destroy the real economy. Mexico, however, is still at a crossroads, a battle pitting the strength of its real economy and potential against the financial wreckers.

Despite the fact that the major outside pressure had begun long before, through the end of 1981 Mexico's overall real economic picture was far healthier than the U.S. economy in basic categories of increase in tangible goods production, fixed investment, and new-job creation.

The economic policy that made Mexico into a potential development giant was one of using oil revenues to bring new production on line. To fight inflation, the country would "produce, produce, produce," in the words of José López Portillo. The creation of new cities, the building of ports and other crucial infrastructure, and the development of capital-goods industries were the goals of the administration. A large number of these projects are now coming on stream.

One of the ways that the policy of expanded production was carried out was by confidence-building—both among Mexico's private sector investors and foreign investors. Mexico's long-stable political system, its oil revenues, and its determination to become an advanced sector economy by the turn of the century meant that U.S. investors as well as high-technology exporters throughout the world looked to competing for the Mexican market until the oil glut began to shake confidence and the international operations picked up steam against Mexico last summer.

One senior official of a London bank candidly remarked: "Nobody on the market doubts the long-term viability of Mexico. We have a foreign-exchange crisis due to failure to tailor their development to their foreign exchange earnings. . . . Now they must cut government spending and projects. . . . They need to restore internal financial discipline."

The dose of "discipline" being recommended would mean not only unrest in a population being hit by austerity, but the dismantling of the very idea of making Mexico into a developed country with all the obvious benefits that strategy has for the United States. Roughly two-thirds of Mexico's trade is with the United States. "Internal financial discipline" means the obliteration of America's fastest-growing export market, the only bright spot in the entire U.S. trade picture.

A leading think-tanker from the New York Council on Foreign Relations circles gave *EIR* a hit-list of the longer-term capital projects that "will have to go": nuclear power, petrochemical, steel, the ports program, and even maintenance on roads and highways.

Whether the incoming administration will take such recommendations for getting its "house in order," for the prize of an eventual, possible loosening of credits on the international markets, is not yet resolved.

While PRI candidate and future President Miguel de la Madrid has voiced disagreements with López Portillo's wage increase and hinted at other concessions to the international banking community, his willingness to give up Mexico's development prospects is far from assured. One should recall that candidate López Portillo made many similar verbal concessions when Mexico was under the IMF gun the last time around.

Countervailing options

While voices from London may quietly admit the long-term viability of Mexico, it is clear that that nation's capability to withstand the present pressure depends largely on the ability of nations like West Germany and Japan to buck the U.S. high interest regime and continue an anti-depression economic strategy.

Japan, which thinks in terms of long-term development investment, knows the viability of Mexico very well (see article, page 9). The $2 billion Pemex credit signed on April 1 after six weeks of difficult negotiations was saved when four Japanese banks stepped in to enter the syndication after four Arab banks pulled out, despite the no-confidence game played by the international financial press against the loan. The Fed's capability to control upcoming loans will define the next round.