# Mexico, from 'newly industrialized' to the brink of economic depression

by Carlos Cota Meza

On Sept. 9, the Mexican stock market announced with great fanfare that in only six days, it had gained more than in the past four years. In the first half of 1987 alone, it had risen 243%, but then soared to a 625% increase over the first of the year by mid-September.

According to the media, this extraordinary gain occurred immediately following President de la Madrid's fifth State of the Nation address Sept. 1, during which it was expected he would be announcing measures to control the runaway speculation on the stock exchange. When he made no such announcement, the speculative wave took off.

While the stock exchange is celebrating its unprecedented gains with champagne, the population—at least in the major trade and production centers of the country—has become painfully aware that it is the national banking system that is being looted to buoy the stock market. Money has poured out of the banks and onto the stock exchange, where high interest rates and tax exemption are unbeatable lures.

Anecdotes about the illiquidity of the banks have reached the point that it is now common to hear producers asking one another when one is going to make a bank deposit, so the other can cash a check. Producers also describe how bank managers have grown so "friendly," that when one arrives at a bank branch to cash a check, the manager rushes to offer a cup of coffee and a lengthy chat in hope that a depositor will arrive in the interim.

In Mexico City, things are so bad that bank managers spend the bulk of their time trying to stall would-be check cashers, and bribing account holders into leaving their money on deposit even a few more days. Bank credit is virtually nonexistent, but managers are more than willing to direct their clients to the "parallel banks," in the hands of Mexico's "ex"-bankers.

Dollarization of the economy is so generalized, that it is standard procedure for the average Mexican to carry pesos in one pocket, and dollars in the other. The better-paid bureaucrat regularly deposits his salary in the stock market, where interest rates are astronomical, rather than in a savings account.

## Stocks soar, production collapses

Government claims that the stock market extravaganza is proof of a stunning economic recovery are belied by reality. The Mexico City daily *Unomásuno* of Sept. 10 grimly described it thus: "At the cost of deterioration of real wages, job creation and national production, the Mexican stock exchange has accumulated more profits in only six easy days than that generated between 1982 and 1986. . . . In the first semester of 1987, the GNP showed negative growth in real terms, productive investment fell 12%. . . . Similarly, industrial production fell 2.6%, and the employed labor force shrunk by 7%. . . . Between 1982 and 1986, the stock exchange operations amounted to 88.8% of the GNP, and in the first semester of 1987 it surpassed the GNP by 85%."

For five consecutive years, the rate of job generation in Mexico has been negative. Each year, more than 1 million youths entered the labor market in search of *new* jobs, while employment generated has not surpassed 250,000 a year. Adding this to the growing unemployment problem throughout this period, nearly 50% of Mexico's Economically Active Population (EAP)—estimated at 25 million Mexicans—is currently either unemployed or underemployed.

Inflation, of course, is shooting up as well. According to a Sept. 11 UPI wire, Mexican central bank reports indicate that between January and August of this year, inflation reached 81.2%, the highest in the history of the country. From August of 1986 through August of 1987, inflation rose 133.9% and, according to private sources, it is expected to surpass 120% by year's end.

Hardly a recovery. In fact, Mexico's stock market spectacle is nothing but a huge bubble, suspended in thin air. More than 80% of the resources being manipulated on the stock exchange are Treasury Certificates-CETES (financial documents issued by the federal government to finance its deficit), and Certificates of Contribution to the Patrimony-CAPS (the sale to private investors of 34% of the stocks of nationalized banks).

The process was well described by *Excélsior* columnist José Luis Mejías, who wrote on Aug. 12: "The CAPS entered the market and within a few hours had doubled or tripled in price. But 'entering the market' was just a formality, since they were first offered to a handful of privileged individuals, who were then able to easily obtain such enormous profits."

## 'Ex'-bankers pulling the strings

Those tempted to blame Mexico's bank nationalization for this disastrous state of affairs would do well to remember that officials under the de la Madrid administration, such as central banker Manuel Aguayo, have sabotaged and perverted the intent of López Portillo's 1982 measure, intended to recapture the reins of the national economy from the financial oligarchy, both domestic and foreign. Today, the nationalized banks have been turned into virtual accomplices of the financial oligarchy, represented by the "former" private bankers who now run the parallel banks and the exchange houses.

Drastic changes in the banking laws, such as exempting the stock market from paying taxes and granting it astronomically high interest rates, have had the deliberate effect of driving money out of the nationalized banking structure and into the black-market banking operations of the stock exchange. Managers of the nationalized banks have, in effect, been given the green light to speculate with the funds of their depositors, thanks to their connections to the stock exchange.

## U.S. dependency

Aggravating Mexico's problems is its tremendous dependency on the U.S. economy. The U.S. government must determine how to manage its trade deficit, which for the month of July reached $16.5 billion. Whatever direction the United States chooses will clearly have major repercussions for Mexico. Trade restrictions, or a downward manipulation of the prices of certain Mexican products could cause a disastrous collapse in export earnings for Mexico. Worse, a sudden increase in U.S. interest rates could relaunch capital flight out of Mexico.

That in turn would lead to a panic on the Mexican stock exchange, since most of the money circulated there is "refugee" dollars fleeing the crisis in the United States, and not "patriotic" dollars returning to Mexico out of confidence in its so-called recovery. A stock market panic, of course, would burst the bubble, with frightening consequences.

In his fifth national address, President de la Madrid unveiled all the elements that confirm Mexico will continue to advance toward a generalized economic depression. "The rise in the cost of money will make servicing the internal public debt more expensive, and will raise the financial deficit," said the President. Later, he added: "Regarding public finances, the January-June period was characterized, before payment of interest charges, by a surplus of 5.7 trillion pesos, which represents approximately 8% of the semester's GNP. We have never generated an operational surplus of that magnitude. Expenses for goods and non-financial services fell 6% in real terms."

However, if we subtract interest payments from de la Madrid's much-touted "operational surplus," we discover that during the budgetary period of 1987's first six months, a whopping 73.6% of federal expenses and 30.2% of state companies' expenses, were used to pay debts. Otherwise, the explanation for the "operational surplus" lies in the fact that investment expenditures by the federal government during the first semester of 1987 were only 39% of those originally planned.

As the President noted, "the cost of money" is primarily responsible for the failure to reduce the budget deficit. But this is hardly something new. The structure of the public finances of government and the budget deficit itself are due to exorbitant payments of interest on the *internal debt,* which in turn has stoked the inflation problem, despite the cutbacks in public investment.

In short, we can conclude that the Mexican government has subsidized the speculative bubble of a runaway stock exchange, which has now taken on a life of its own.