The Mexican economy goes into self-cannibalization

by Carlos Cota Meza

Mexico spent 60% of its exports paying debt last year. Interest payments ate up 39% and amortization another 21%. The Miguel de la Madrid government's policy of paying debt at the cost of domestic austerity and recession, has, however, a price tag many times greater.

Mexico could not have even produced its exports had not the preceding Echeverría and López Portillo governments invested tens of billions of dollars in oil exploration, infrastructure building, and industrialization. They also improved the human resources which make all production possible by raising real family incomes and investing heavily in health, education, and urban development.

Since they took office Dec. 1, 1982, President Miguel de la Madrid and Planning and Budget Secretary Carlos Salinas—the hand-picked successor to de la Madrid—have bloodlet Mexico's existing potentials, while systematically destroying the country's future. The first effects of these policies can be quantified in terms of decreased living and health standards, and the abandonment, half-finished, of energy and agricultural development projects.

De la Madrid and Salinas admit they have caused a recession, but argue that it is healthy, on the absurd grounds that it would be "inflationary" not to cut living standards and investments. Inflation in Mexico really begins with exporting everything that can move to pay debts. That, obviously, results in a sharp reduction in goods available for consumption by Mexicans. The regime takes goods out of the population's reach by raising prices faster than wages, destroying the currency in order to diffuse the explosions which would happen if workers suddenly found fewer pesos in their pay envelopes.

Another big cause of inflation is converting debts, listed in dollars and which probably would never be paid, into piles of pesos which compete with the existing monetary supply to buy up parts of the domestic economy. The White House praises Mexico as a model for its inflationary "debt-for-equity" conversions.

De la Madrid and Salinas have devalued the peso like crazy in order to push non-oil products into the U.S. market at ever-cheaper dollar prices. They have "starved" the state sector by cutting budgets, especially investments for the future. And they have reduced credit to the private sector to discourage it from investing in production (which, in the short run, requires imports of some equipment).

The last year of de la Madrid's term has been made even more depressionary, under the terms of a corporatist agreement signed by labor, business, and government called the Economic Solidarity Pact. This pact is justified with the argument that Mexico would have "a gradual economic recovery" once "inflation" were ended. In the real world, only a radical change in policies would have a chance of resuscitating Mexico's corpse.

Pumping Mexico dry

The 1.35 million barrels of oil Pemex exports every day is what has provided most of the country's foreign currency income. Pemex's field development coordinator, Manuel Ortiz de María, complained to presidential candidate Salinas, "Due to budget restrictions, the well drilling to find new [oil] provinces to compensate for the abatement of those already known has been restricted."

Mexico has been sucking dry the achievements of the past, while reinvesting nothing in finding oil for the future. Pemex director Francisco Rojas admitted March 18, during the commemoration of the 50th anniversary of Gen. Lázaro Cárdenas's nationalization of the oil industry, that Mexico's proven reserves have fallen by 2.5 billion barrels from their 1983 levels. Practically none of the 200 billion in "probable reserves" located during the preceding López Portillo government have been explored and moved into the "proven" category.

Pemex's Ortiz recognizes that, instead of wildcatting, Pemex has opted for "the search for accumulations of hydrocarbons at ever-greater depths in the producing areas, which has resulted in the diminution of proven reserves." He concludes, "If exploration is not intensified, all efforts made in development drilling will not manage to compensate for the natural decline of the oilfields."

Brownout

Estimates made in 1986 project that today's proven reserves will be exhausted within 20 years, if present policies are continued. The biggest waste on the consumption side is from electrical generation. Mexico built up its oil-burning generators in the expectation they would be supplemented and replaced by dozens of nuclear power stations by the turn of the century. The one nuclear plant which was constructed still has not begun operation. Plans for all the others have been killed by the regime.

Therefore, 69% of all electricity comes from burning oil, with the remainder from hydroelectric, geothermal, and coal plants. Recent Federal Electric Commission studies found that electrical demand is growing 8% annually, while oil production is only growing 3%. The electrical engineers have had trouble even maintaining existing thermoelectric and hydroelectric capacity, because Mexican manufacturers of boilers and turbines have been forced out of business, while peso devaluations have put import costs beyond the reach of shrinking budgets.

Investments for expansion of capacity provided in the 1989 budget are less than half those of 1981, an internal study by the Electric Commission estimates. It anticipates that by 1991, there will not even be sufficient theoretical capacity to meet demand. There is no telling when the brownouts and blackouts will begin.

Public investment in the energy sector has already been cut by 37.5% from that of the previous administration. That may be seen in **Figure 1,** which compares federal investment during the López Portillo government (1977-82) to that of the de la Madrid government (1983-88). Note also the decline in rural investment (agricultural development, 55.3%), fishing (67.9%), and health investment (25.3%). Another government study, "Structural Change in Health Care," found that the overall health budget in 1987, was just a shade over half (52.1%) of what it had been in 1981.

Figure 2 shows the 34% fall in real wages since January of 1983.

Figure 3 shows how the drop in wages translates into a reduction of food consumption, especially of foods with a high protein content. Since the 1980 census, the buying power of wages has fallen 40%. Recent statistics from butchers and the other food sectors confirm a 40% reduction in the quantities sold to Mexicans. The 1980 census surveyed the number of homes who consume high-protein food 4-7 times per week, 1-3 times, or never. *EIR* has estimated 1987 consumption by shifting downward by 40% the number of times per week each family consumes each food. *EIR* is aware that the richest families still eat high protein foods daily; but this is balanced by the fact that almost all the 16.5% population increase has been among the poorer families.

Mexico once had the objective of feeding all its people. No longer. The agricultural sector has disintegrated thanks to conscious policies formulated by Planning and Budget Secretary Carlos Salinas in his 1983 National Food Program (Pronal). As can be seen in Figure 1, the de la Madrid-Salinas administration more than halved rural (agricultural) investment from the preceding López Portillo government, cutting it by 55.3%.

FIGURE 1
Public investment reductions
(percentage cut by De la Madrid administration [1983-88] from López Portillo administration [1977-82])

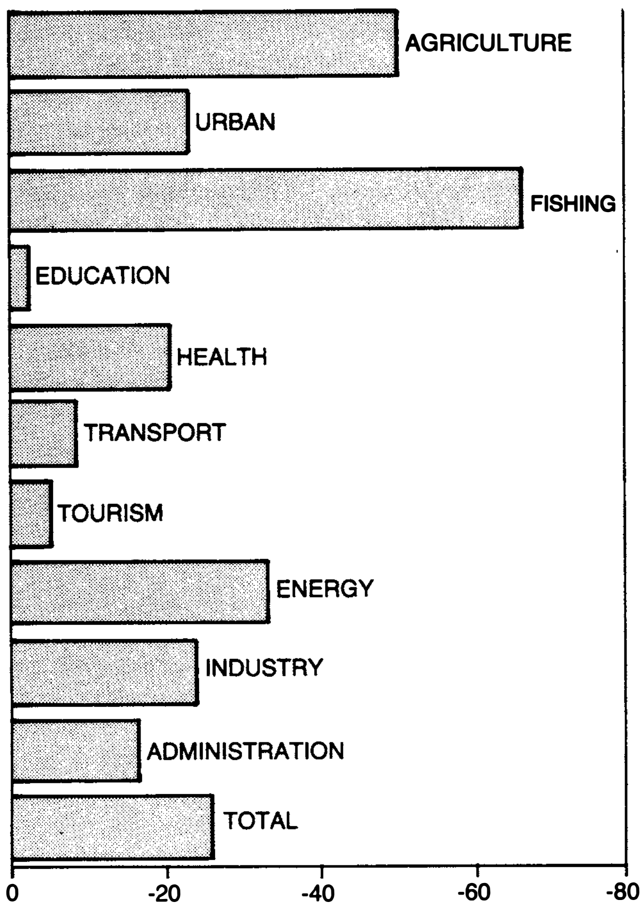
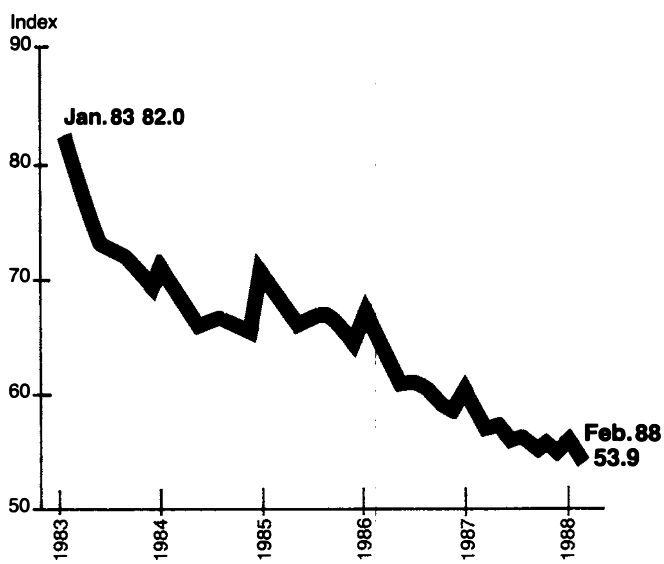


FIGURE 2
Real wages fall between 1983 and 1988



Pronal's premises were that due to the "economic crisis," and the "lack of resources," Mexico could not produce necessary ("non-priority") foods such as meat, eggs, milk, food grains, etc. for 40% of the Mexican population. From that perspective, they decided to eliminate parity price guarantees to agricultural producers, to rip apart the state food wholesaling company, make fertilizers and hybrid seeds more expensive, etc. Credits for planting were cut by another 40% last fall.

De la Madrid's government cut out the budget the irrigation works needed to bring more lands under cultivation and funds for maintaining existing systems, so that they are now working at only 60% of capacity. More than 5,000 small irrigation projects have been postponed, the government admits. More than 2,000 repair jobs have not been made and the great Fuerte-Mayo canal project, to move water that flows into the sea north to the fertile deserts of Sonora, has been abandoned.

Of the 36 million hectares of arable land, only 67% (24 million hectares) are being used. Almost all the nation's production comes from 5.6 million irrigated hectares and 12 million non-irrigated hectares. The remainder is crudely farmed by peasants who are called "self-sufficient," but who can't even grow enough for their families. The government estimates that to feed Mexico in the year 2000, all existing lands, plus 2.9 million hectares of new irrigation projects would have to be under modern cultivation.

The wheat harvest reached a record 5 million tons in 1985, giving Mexico self-sufficiency. In 1987, Mexico lost self-sufficiency, with a crop of only 4 million tons. It is expected to fall to 3.5 million tons this year, since 19% less area was planted.

The slaughter of the milk herds in the La Laguna "milk valley" shows how Mexico is taking giant steps toward generalized hunger. In that valley alone, 250,000 cows were slaughtered in 1987, reducing the herd to only 80,000. Even imported hybrids were sacrificed for McDonald's. National milk production fell from 12.5 to 7.4 million liters per day from 1985 to 1987.

Malnutrition damages more than 80% of the infant population. Each year, badly fed workers are the victims of 22,000 on-the-job accidents which cause lifetime disabilities, according to the official figures of the Mexican Social Security Institute.

FIGURE 3

Mexican families eat high-protein foods much less often than they did in 1980

(Proportion of families eating item indicated times per week)