 by Carlos Cota Meza

Economy in hyperinflation

Unions are protesting failure of the "Economic Stability Pact" to stop runaway inflation.

Mexico's Labor Congress, the country's trade union umbrella organization, is charging that businessmen participating in the fifth extension of the Economic Stability Pact are systematically violating the pact by unleashing a flood of price hikes which in just two weeks' time has annulled the 18% minimum wage increase granted Nov. 16.

Leading businessmen who are signers of the pact respond that they are not in a position to control "greedy merchants," and that, anyway, since the pact is a gentlemen's agreement, it does not have the force of law behind it.

The Mexican Labor Federation (CTM) is demanding that prices return to the levels they were at before Nov. 15. At the same time, it is proposing to the CTM rank and file a program of minimum action to defend wages containing five points:

1) leave business and labor free to negotiate wage increases and other conditions beyond those permitted by the pact;

2) prepare strikes against those businesses which violate the pact's price restrictions;

3) demand that price levels return to those that existed before the pact was extended the last time;

4) organize mass demonstrations in the streets to show that labor is discontented;

5) demand a new minimum wage increase for January, in case the high cost of living is not satisfactorily resolved.

The economic reality in Mexico is that inflation is going through the ceiling, and nobody knows what the prices of controlled products are, much less the prices of those not included in the pact.

The Economic Stability Pact was established on Dec. 15, 1987, with the express recognition by both labor and business signers, and especially by the government, that the economy was in a hyperinflationary spiral. In 1983, inflation of 50% was predicted, and it hit 80%; in 1984, it was to have been reduced to 30%, but closed out the year at 59.2%. In 1985, it was to have fallen between 40-45%, and was 63.7%. In 1986, everyone was asked to face "reality" in admitting to an 80% inflation rate, and it turned out to be 105.7%. In 1987, inflation was to have been held to between 80-90%, and it was 159.7%.

In 1988, the pact was considered a huge success when inflation was reduced to an annual 50%, and in 1989 to 19.8%, the lowest rate in two decades.

The key to the pact, from the very beginning, was a complete suppression of wages via the so-called "freeze," and a brutal punishment of national productive activity by setting prices well below the cost of production, but, in many cases, above the cost of comparable import products. In this way, neither wages nor productive activity recovered. Inflation was "eliminated" by eliminating consumers. Simple!

During the two years of "controlled inflation," there was also a disproportionate growth in imports. In 1988, they grew by 54.7%, and the trade surplus achieved during the previous three years fell by 80%. In 1989, it was officially reported that imports "moderated their growth rate" (24%), but their rate was still "substantially greater" than non-oil exports, whose rate of increase fell from 23.8% in 1987, to 16.5% in 1988 and to 5.2% in 1989. The trade surplus in 1989 was zero.

Inflation of 15% is being forecast for 1990, and yet everyone is expecting the figure to exceed 30%. To justify its failure, the government is pointing to greater external inflation, to the peso's devaluation against the dollar, and to the peso's devaluation against the Japanese yen and European currencies. Internally, inflation is due to the artificial ceilings on public sector prices and tariffs, which in November were raised to increase the flow into government coffers.

The inflationary surge appears to be an "imported" phenomena, since freely imported foreign merchandise is not filling in gaps in domestic production, but is rather *substituting* for domestic production, and to the extent these foreign products are capturing the market, they are imposing their own international prices. The imported element of Mexico's inflation is, in fact, more serious than official information is admitting.

And things are bound to get worse. Government projections for the 1989-91 period are for imports of $23.4 billion for the first year, $28.5 billion for this year. In 1991, the projected import bill is $31.8 billion.

With the government's total failure to control inflation, and with unprecedented growth in imports, which have already decimated the economy's external sector, Mexico finds itself on the same hyperinflationary course it was on before the December 1987 pact for "economic stability" was launched. The most striking proof of this can be heard in the death rattles emanating from the trade unions, which are meekly submitting to the pact.