# Behind the 'Mexican miracle': faked statistics, austerity, and new debt

by Carlos Cota Meza

It has become commonplace to hear that the Mexican economic model revealed certain deficiencies in the course of 1992 that have led to modifications and redefinitions of its goals. Even the government now admits it; but behind the admissions, is the fact that illusions are fast disappearing, and the truth behind the "Mexican miracle" is now beginning to emerge.

This has revived the Manichean interpretation of reality so characteristic of the Mexican political system: that there is always a "good" and "bad" side to every coin. Thus, the advocates of "modernization" are now asking themselves whether something bad might possibly be coming out of all the "good" that Mexico's "modernization" has produced. And for the left opposition, particularly the PRD party, it is the opposite: that the evils of the Salinas government have now yielded something good. According to this interpretation, the best thing that could have happened to Mexico is Bill Clinton's victory against George Bush in the United States.

But reality is not Manichean. What is in crisis is not the Mexican model *per se*, but rather the economic model applied by the international financial institutions to enable Mexico to continue to pay its foreign debt (both the so-called "historic debt" and the new debt) based on looting of Mexico's natural wealth. A brief review of the past four years of government under Carlos Salinas de Gortari will reveal how all the so-called "achievements" and "memorable events" of the Mexican miracle were nothing but political pacts which translated into cooked economic statistics.

## A 'miracle' is born

In his Dec. 1, 1988 inaugural speech as President, Salinas declared that "1989 will be a year of transition." He defined as his priorities the reduction of the historic foreign debt, reduction of the net transfer of capital abroad, and the achievement of "growth with price stability." To achieve this, he stressed that the "economic pacts" of wage-price freezes and increases in public service rates would be continued, along with another brutal reduction in the federal budget on top of the 20% imposed by his predecessor Miguel de la Madrid.

The "year of transition" would take the form of living off foreign loans—thereby generating an immense new foreign debt. By May 26, 1989, the government had already signed a new letter of intent with the International Monetary Fund, in which it pledged to continue the austerity. The Mexican government would receive $4.135 billion over the next three years from the IMF, to "eliminate uncertainty."

On May 30, an agreement was struck with the Club of Paris to restructure $2.6 billion in expired loans, in addition to another credit of $2 billion for "financing of Mexican imports." With the World Bank, the Salinas government won $1.96 billion worth of credit for "development financing," and a further annual disbursement of $2 billion a year for the period 1990-92. Then there were "financial supports for debt-reduction operations."

It was the birth of the Mexican economic "miracle." By the end of the transition year, Mexico's per capita Gross National Product was $2,600, the highest since 1982. The GNP grew by 3.3%, surpassing the rate of population growth for the first time since 1985.

## The 'memorable effects' of the Brady Plan

The announcements for 1990 overflowed with optimism. The debt renegotiation agreement begun in June 1989 was concretized in the Brady Plan of U.S. Treasury Secretary Nicholas Brady on Feb. 4, 1990. Some $48.5 billion of debt was renegotiated, and its total repayment put back 30 years, at which time the investments made with zero coupon bonds would be redeemed.

In June 1990, the privatization of Teléfonos de México was begun, and, by September, the "de-incorporation" of the nationalized banks was begun. "The banks will be sold not because they are bad, but because the government does not accept immobilized resources," said Salinas.

Foreign capital arrived in Mexico in floods. Such was the "confidence" in the miracle that the amount of currency and banking instruments circulating in the national economy in 1990 reached the highest volume in Mexican history. Because of the easy availability of dollars in the economy, the peso was revalued.

The year ended with a GNP of 4.4%, the highest registered since 1981. Inflation was 29.9%, as opposed to 19.7% in the previous year, but the Salinas government appealed for understanding. According to the Bank of Mexico, inflation was being imported, since "the increase in prices in countries with which Mexico trades is being transferred to the domestic economy" via imports.

But nothing could block out the "memorable effects" of the foreign debt renegotiation, nor the unprecedented improvement in public sector income due to more efficient tax collection, privatization of state companies, and reduced budget expenditures.

In 1991, the economic miracle appeared unstoppable. The government acknowledged that growth was not reaching all Mexicans, but that the healthy budget situation would permit a 15.7% increase in social expenditures and would allow an allocation of 6 trillion pesos to the National Solidarity Program (Pronasol) for fighting extreme poverty. This, despite budget cutbacks elsewhere.

On June 12, negotiations on the North American Free Trade Agreement (NAFTA) were formally begun with the United States and, later, with Canada. This is the agreement that would supposedly bring Mexico into the "first world," converting it into an export power by modernizing its productive plant.

In the course of 1991, the privatization of Teléfonos de México was concluded, bringing nearly $5 billion into government coffers. From the bank privatizations, which were about to conclude, another $13 billion would be forthcoming. All of this was on top of the nearly $5 billion in "extra" dollars that the Persian Gulf war in late 1990 meant for Mexico, in terms of higher oil export revenues.

This money would pass to the Contingency Fund, whose resources to this date have been spent *exclusively* on debt repayment.

"On July 1, we paid off debts of nearly $7.2 billion with the foreign exchange reserves of the Contingency Fund, such that the balance of the foreign debt reached only 16.6% of the GNP," said Salinas in his State of the Union address. "Extraordinary income from the sale of banks and other entities . . . has been channeled primarily into reducing the internal debt. . . . In the first six months of 1992, this was reduced by 26 trillion pesos, such that in the first half of that year the internal debt represented only 11.8% of GNP."

This account, which could be called "reduction of the historic debt," "reduction of net transfers of capital abroad," or what have you, effectively summarizes the first three years of the Salinas de Gortari administration.

## The 'miracle' sours

In 1992, the government was obliged to reformulate its economic strategy. In mid-May, President Salinas acknowledged that the Mexican economy "will not grow as much as previously thought." Since then, the Mexican government has been involved in a frenetic display of contradictory explanations as to why the good suddenly turned bad.

For the National Institute of Statistics (INEGI), lower domestic growth rates should mean lower imports. Nonetheless, this category continued to grow. The trade deficit in 1989 was $2.6 billion (this served to justify the "financial support" of the Club of Paris); it was $11 billion in 1991; and by 1992, the government was cooking the statistics to keep the trade deficit at $18.5 billion, an amount equal to international reserves.

According to President Salinas in his State of the Union address, the trade deficit is but an effect of "productive reconversion . . . for the future expansion of our productive capacity." However, "the dynamism of the internal economy will not be equal to that of last year," he said. Mexicans must understand that "we should import more in a first stage . . . to be able thus to raise still further our future exports" to international markets where "the stagnation of the greatest economies of the world is prolonged" and where "we will face the greatest pressure of imports of foreign products that cannot find buyers in their markets."

The Free Trade Agreement is also turning sour. According to the Interamerican Development Bank, the countries involved in the negotiations are showing "broad disparities in terms of living standards and structures of production. The degree of economic maladjustment caused by the process of integration will probably be marginal in the United States and Canada, but could be much more important for Mexican producers who are starting from much lower levels of efficiency."

The Mexican treasury secretary revealed that the foreign debt as of August 1992 was $96 billion, an increase of nearly 100% over what the balance was said to have been in March 1990. According to the World Bank, it will be more than $100 billion by the end of this year. This is largely new debt, since the government has been making non-stop payments on the so-called historic foreign debt. According to INEGI, $44 billion "historic" dollars have been paid between 1989 and the first half of 1992. The new debt, on top of the huge trade deficit, will demand interest payments greater than those agreed upon in the debt renegotiation.

The difficulties the Mexican "miracle" is facing are undeniable. The government is desperately trying to blame these difficulties on the state of the world economy, as if the Mexican model would continue to be "miraculous" if the world economy were not in total crisis. This is, however, an absurdity. If the Mexican economy was presented to the world during 1988-89 as the model for those nations wishing to escape insolvency, the crisis of the Mexican economy today can only be seen as the *prelude* to what is happening to the entire international financial system which spawned the so-called Mexican miracle in the first place.