
Mexico

Vicente Fox Government Has Begun To Collapse

by Rubén Cota Meza

Mexico's currency has depreciated by 20% in recent months, since the U.S. dollar and economy is bringing the peso down as it falls. Before the economic, and even physical, disintegration of Argentina began, President Vicente Fox had insisted Mexico was immune to the "contagion" from the South, because Mexico "belongs more to North America." Cementos Mexicanos president Lorenzo Zambrano recently complained grumpily in an interview with the newspaper *El Norte de Monterrey* that, indeed, "We are North America."

It is precisely by virtue of "being North America" that the next wave of the global systemic crisis, whose epicenter is the United States, is now beginning ominously to surface in the Mexican economy. On Jan. 13, Merrill Lynch urged its clients to reduce their investments in Mexico because of, among other reasons, "the high dependency of the Mexican economy on the U.S. economy" which "will not grow on a large scale" this year.

Merrill Lynch's and Bear Stearns' recommendations to their clients who operate in the Latin American markets, to pull back their Mexican investments "in the short term" (from four to six months), is in itself a symptom that "the markets perceive" problems in the country's economic future. Merrill Lynch warns that "there is a weak peso, a restrictive monetary policy coming at a bad time, as well as deterioration in consumer purchases in the first half of the year." Bear Stearns says outright that "Mexico is experiencing political paralysis and industrial deceleration."

"Those nations which have not already plunged into an accelerating process of disintegration, will begin to do so very soon," Lyndon LaRouche forecast, in his Jan. 1 evaluation entitled, "The Weeks of Crisis Before Us." He went on: "The recent official collapse of the value of the U.S. dollar by nearly 20%, was not a reflection of competition between Europe and the U.S.A.; it was a reflection of the presently accelerating collapse of the . . . dollar-denominated world monetary-financial system. One need only consider the scale of financial claims, from around the world, which are denominated in the dollar-system, to see the connections. If the dollar goes, the world monetary-financial system goes."

Capital Flight Points Toward Panic

In the days that followed those recommendations, capital flight began which has forced a constant devaluation of the

peso, at times breaking the "psychological barrier" of 11 pesos to the dollar. The devaluation of the currency has brought out the first symptoms of panic. Jorge Espina Reyes, president of the Coparmex business association, said that "as long as [the exchange rate] doesn't break 11 pesos," the devaluation "is not worrisome"; Espina Reyes called for "an emerging strategy to halt speculative attacks."

Voices from the Congress have echoed the same sentiment. The Finance Committee of the Senate issued a call to investors "not to bet on a greater devaluation" of the peso. Héctor Larios, Committee secretary, said that "there is no reason for concern, given that the floating system has allowed our currency to "reach its own level;" and while the exchange rate may have already reached 11 pesos to the dollar, one must remember that "two years ago, it did the same and then came down to 9 pesos 10 centavos." PRD Senator Demetrio Sodi wrote in the Jan. 17 edition of *El Universal* that "NAFTA is the supreme law of the whole Union, and therefore, government and Mexicans alike have the obligation to comply." PRI Senator Alejandro Gutiérrez, a supporter of electricity privatization and also Secretary of the Senate Finance Committee, declared that, given the peso's undervaluation, this is an "adjustment" that carries the risk of devaluation for the country.

At the same time, analysts and directors of Spanish banks in Mexico, who have a great deal to lose, are also resorting to outlandish acrobatics to come up with optimistic forecasts, to head off an all-out speculative run against the Mexican peso. From the President's offices at Los Pinos, the propagandists of the Fox Presidency are taking advantage of the President's frivolities to distract people's attention with absurdities, as in the recent ridiculous display of an ultrasound image of "Litte Vicente III."

"Given that the central bank will have difficulty controlling the behavior of the exchange rate, the only alternative it has for avoiding the appearance of the inflationary effects of exchange depreciation will be to still further weaken demand by major increases in the interest rate, unless it at some point decides to directly intervene through the sale of foreign exchange," declared analyst Rodolfo Navarrete of the Vector Exchange Agency. The Bank of Mexico should drastically increase the practices of "shorting" [curtailing the overnight lending market] to serve as a "clean and unequivocal signal" to the markets that the objective of a 3% inflation rate this year will be met, urges the Scotia Inverlat Exchange Agency. Banamex, in its turn, suggests that "the peso-dollar and dollar-euro correlation has no long-term conceptual or statistical solidity, but the market has given that correlation solidity in the short term. . . . A statement from the financial authorities would help."

Fox: We Won't Do Anything,

In the face of growing panic, and devaluation pressures, the Fox government has decided to do nothing. Despite expectations, the Bank of Mexico on January 24 left both the "mone-

tary short” and interest rates unchanged. In Davos, Switzerland, Fox and his Finance Minister Francisco Gil Díaz announced there would be no intervention in the markets to sustain parity, nor would the budget be cut; and the objective of 3% inflation, a fiscal deficit of .5% and a GDP growth rate of 3% would be maintained. That is, no change of any sort. “There is no change,” Fox announced, since that system “is a guarantee” to deal with “moments of turbulence or speculation,” and the currency will “attain its real value in that system, competing clearly with other currencies.” Moreover, “currency values are being changed in a very balanced way,” but the status of the Mexican peso “has been much more favorable and has conserved a greater value than the rest of Latin American, and many other world currencies.”

The reality is that the Mexican government thinks it can do nothing to change the current course toward the economic precipice, due to its blind submission to liberal economic dogma. In his speech to the World Economic Forum at Davos, Vicente Fox said that “market-based development policies are currently the target of strong criticism, but this is a time to build, not to destroy. . . . This is not a time to change principles. It is not a time to abandon our commitment to opening the economy, deregulating the markets,” or to abandon “our commitment to the so-called second generation of reforms.”

As for Bank of Mexico Governor Guillermo Ortíz, he prefers to let the course of the Mexican economy be determined by four external variables over which Mexico has no control, with the exception of its marginal position on the UN Security Council, and its also marginal position as an oil exporter. Those four variables are an eventual war with Iraq, the political situation in the Middle East, the future oil price, and the “lack of clarity” in the recovery of the U.S. economy. “It is a complicated panorama, with a high degree of uncertainty. These four factors will determine the behavior of Mexico’s economy,” Ortíz says.

While the Banco de México Governor speaks of a “high degree of uncertainty,” President Fox asserts there will be “no change” in policy because “in some way, we had already considered that this year would be one of uncertainty.” Mexico has the confidence to confront “any turbulence that might present itself.” So, according to Fox’s odd reasoning, “certainty” derives from the fact that “uncertainty” had already been foreseen!

The way to understand Guillermo Ortíz, is that the behavior of the Mexican economy will not obey the goals of the economy itself, but will instead be determined by whatever happens with these four variables. Since there is so far no indication that the United States economy will alter the current path toward economic depression—without the necessary policy changes indicated by Presidential pre-candidate Lyndon LaRouche—the Mexican economy, and consequently the government of Vicente Fox, will continue to be dragged toward disintegration by the United States.

Congress: An Ominous Omnibus Spending Bill

by Carl Osgood

The Congressional debate on an omnibus spending bill, finally to complete a budget for a Fiscal Year 2003 (Oct. 1, 2002-Sept. 30, 2003) which is nearly half over, is doomed to irrelevance. House and Senate are trying to ignore an ominous collapse of Federal tax revenue—caused by collapsing economic activity—which is going on, month by month, under the ground on which they are standing and debating. The tolling bell was heard on Jan. 29 from the Office of Management and Budget (OMB).

OMB director Mitch Daniels, in news interviews reported on Jan. 29, said that President Bush’s Fiscal Year 2004 budget submission would project a budget deficit of \$300-\$400 billion, a gigantic rise from the \$14 billion deficit for 2004 that was projected only a year ago—and this despite the White House’s caps on discretionary spending.

Also on Jan. 29, the Congressional Budget Office (CBO) projected that the Fiscal 2003 budget would be in \$199 billion in deficit. But the CBO had earlier reported that the deficit for the first quarter of Fiscal 2003 alone—from October to December 2002—was \$109 billion, foreshadowing a much higher yearly deficit. The reality is, of course, much worse, when the Social Security and other trust funds, which have their own separate revenue streams, are subtracted from the budget figures. Without arrogating money from the trust funds, the CBO projection is for a \$361 billion deficit for the current Fiscal Year 2003. And Mr. Daniels’ estimated deficit for Fiscal 2004 can likewise be lifted well above the \$500 billion mark, if the trust funds are not to be looted again.

The tax revenue collapse which has been disintegrating state budgets is now beginning to hit the Federal budget in a dramatic way, and to make the deficits as “incalculable” for Congressmen as they have become for governors; until they wake up and used Federal credit-creation powers to create jobs and infrastructure.

Unreal Debates

Daniels downplayed the growing deficits, telling the *Washington Post* that a \$300 billion deficit is manageable and the budget could be balanced if the Congress and the White House made it a priority. “We can do it in a year or two,” he claimed. But the skyrocketing deficits are, in fact, a reflection of the collapse of the tax revenue base, not of runaway spending, as conservative ideologues always claim; and studies show that no more than 30% of that collapse reflects tax-rate